

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

0-9781  
(Commission File Number)

CONTINENTAL AIRLINES, INC.  
(Exact name of registrant as specified in its charter)

Delaware 74-2099724  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

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

Registrant's telephone number, including area code: 713-324-2950

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value \$.01 per share	New York Stock Exchange
Class B Common Stock, par value \$.01 per share	New York Stock Exchange
Series A Junior Participating Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates (including shares held in a voting trust) of the registrant was \$2.2 billion as of January 21, 2000.

As of January 21, 2000, 11,265,349 shares of Class A Common Stock and 52,996,832 shares of Class B Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE  
Proxy Statement for Annual Meeting  
of Stockholders to be held on May 23, 2000: PART III

PART I

ITEM 1. BUSINESS.

Continental Airlines, Inc. (the "Company" or "Continental") is a major United States air carrier engaged in the business of transporting passengers, cargo and mail. Continental is the fifth largest United States airline (as measured by 1999 revenue passenger miles) and, together with its wholly owned subsidiaries, Continental Express, Inc. ("Express") and Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, serves 219 airports worldwide at February 1, 2000. As of February 1, 2000, Continental flies to 132 domestic and 87 international destinations and offers additional connecting service through alliances with domestic and

foreign carriers. Continental directly serves 16 European cities, eight South American cities, Tel Aviv and Tokyo and is one of the leading airlines providing service to Mexico and Central America, serving more destinations there than any other United States airline. Through its Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

As used in this Form 10-K, the terms "Continental" and "Company" refer to Continental Airlines, Inc. and its subsidiaries, unless the context indicates otherwise. This Form 10-K may contain forward-looking statements. In connection therewith, please see the cautionary statements contained in Item 1. "Business - Risk Factors Relating to the Company" and "Business - Risk Factors Relating to the Airline Industry" which identify important factors that could cause actual results to differ materially from those in the forward-looking statements.

## Business Strategy

In 1995, Continental implemented the "Go Forward Plan", a "back to basics" strategic plan focused on improving profitability and financial condition, delivering a consistent, reliable, quality product to customers and improving employee morale and working conditions. The Company's 2000 strategic plan, as discussed below, retains the four basic components of the Go Forward Plan: Fly to Win, Fund the Future, Make Reliability a Reality and Working Together, with initiatives intended to build upon Continental's operational and strategic strengths.

### Fly to Win

The Company's 2000 Fly to Win initiatives center around two principal themes: Grow Electronic Commerce and Focus on Hub Operations.

#### Grow Electronic Commerce

During 1999, Continental reached several E-commerce milestones. See "Competition and Marketing" below. The Company's goals in 2000 include developing key internet sites and implementing interline e-ticketing with its alliance partners as well as some of the other top ten U.S. carriers. In addition, the Company will focus on reducing distribution expenses through electronic commerce.

Focus on Hub Operations. In 2000, Continental will continue to add select flights and refine its flight schedules to maximize the potential of its hubs. Management believes that by further refining the efficiency of the Company's hub operations, Continental will continue to capture additional flow traffic through its hubs and attract a larger share of higher-yielding business travelers.

Recently, industry capacity and growth in the transatlantic markets have resulted in lower yields and revenue per available seat mile in those markets, which trend is expected to continue in 2000. As a result, Continental will continue to critically review its growth plans and will adjust or redeploy resources as necessary.

### Fund the Future

Having achieved its 1995 goals of building the Company's overall liquidity and improving its financial condition, management shifted its financial focus in 1996 and 1997 to the Company's interest and lease expenses. In 1998 and 1999, the Company concentrated on securing favorable financing for new aircraft and other assets as well as buying back common stock.

In 1999, the Company completed a number of transactions intended to strengthen its long-term financial position and enhance earnings.

In February 1999, the Company completed an offering of \$806 million of pass-through certificates used to finance (either through leveraged leases or secured debt financings) the debt portion of the acquisition cost of 22 aircraft delivered in 1999.

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

In April 1999, the Company exercised its right and called for redemption in May 1999, all \$230 million of its 6-3/4% Convertible Subordinated Notes due 2006. The notes were converted into 7.6 million shares of Class B common stock during May 1999.

Also, in June 1999, the Company completed an offering of \$742 million of pass-through certificates used to finance (either through leveraged leases or secured debt financings) the debt portion of the acquisition cost of 21 new Boeing aircraft delivered in 1999.

In October 1999, Continental sold its interest in AMADEUS Global Travel Distribution, S.A. ("AMADEUS") for \$409 million, including a special dividend.

During 1999, the Company's Board of Directors increased the size of its common stock repurchase program by \$900 million, bringing the total size of the program to \$1.2 billion. As of January 21, 2000, the Company has repurchased 18,853,600 Class B common shares for \$804 million since the inception of the repurchase program in March 1998.

The focus in 2000 is to maintain cash balances of at least \$1 billion while continuing to secure financing for aircraft deliveries in 2000 and beyond and, under appropriate circumstances, buy back common stock. The Company expects to continue to eliminate excess interest and lease expenses through refinancings and other initiatives.

Continental desires to simplify its equity capital structure and is committed to continuing to repurchase outstanding equity. In connection with its stock repurchase program, the Company has held preliminary discussions with Northwest Airlines, Inc. ("Northwest") concerning the acquisition by Continental of all the Class A common stock of Continental held by Northwest in a voting trust (8.7 million shares). The alliance between Continental and Northwest is beneficial to both carriers, and any transaction would be designed to preserve and strengthen the benefits of the alliance. There can be no assurance as to whether a transaction between Continental and Northwest will be agreed to or consummated, nor can Continental predict the structure, form or amount of consideration or other elements of any such transaction.

#### Make Reliability a Reality

Customer service continues to be a principal focus in 2000. Management believes Continental's on-time performance record is crucial to its other operational objectives and, together with its initiatives to improve baggage handling and customer satisfaction and appropriately manage involuntary denied boardings, is an important tool to attract higher-margin business travelers.

Continental's goal for 2000 is to be ranked monthly by the Department of Transportation ("DOT") among the top half of major air carriers in on-time performance, baggage handling, customer satisfaction and avoidance of involuntary denied boarding. For 1999, Continental ranked fifth in on-time performance, third in baggage handling, fourth in fewest customer complaints and second in fewest involuntary denied boardings. In 1999, bonuses of \$65 were paid to substantially all employees for each month that Continental ranked second or third or achieved 80% or above (for arrivals within 14 minutes) in domestic on-time performance, and bonuses of \$100 were paid for each month that Continental ranked first among the top 10 U.S. air carriers (excluding those airlines that do not report electronically) in domestic on-time performance. For 1999, a total of \$26 million of on-time bonuses was paid. This successful on-time performance bonus program continues in 2000.

In addition to programs intended to improve Continental's standings in DOT performance data, the Company has taken action in other areas to enhance its attractiveness to business travelers. Specifically, Continental implemented various initiatives designed to offer travelers cleaner and more attractive aircraft interiors, consistent interior and exterior decor, first class seating on all jet aircraft (other than regional jets), better meals and greater benefits under its award-winning frequent flyer program. Continental continues to make product improvements, such as new and refurbished Presidents Clubs with specialty bars, and on-board specialty coffees and microbrewery beer, among others. Continental Airlines' jets now have reliable air-to-ground telephone service for customers, and its new long-range jets have state-of-the-art video equipment.

Continental's TransContinental service provides passengers traveling coast-to-coast from Newark International Airport ("Newark") enhancements on their flights, including check-in options at nine Continental ticket offices in New York, upgraded meal service and audio/video entertainment. Continental currently flies one of the youngest jet fleets in the industry and plans to integrate the Boeing 767 aircraft into its fleet in 2000. The Company has also continued to refine its award-winning BusinessFirst service.

#### Working Together

Management believes that Continental's employees are its greatest asset and the cornerstones of improved reliability and customer service. Management has introduced a variety of programs to increase employee participation and foster a sense of shared community. These initiatives include significant efforts to communicate openly and honestly with all employees through daily

news bulletins, weekly voicemail updates from the Company's Chief Executive Officer, monthly and quarterly Continental publications, videotapes mailed to employees reporting on the Company's growth and progress, Go Forward Plan bulletin boards in over 600 locations system-wide, and daily news electronic display signs in many Continental employee locations world-wide. In addition, regularly scheduled visits to airports throughout the route system are made by the senior executives of the Company (each of whom is assigned an airport for this purpose). Monthly meetings open to all employees, as well as other periodic on-site visits by management, are designed to encourage employee participation, knowledge and cooperation. Continental was recently named among the best companies to work for in America, finishing 23rd in Fortune Magazine's 1999 "100 Best Companies to Work for in America" list, up from 40th where it debuted in 1998. Continental has also reached long-term agreements with a majority of its employee workgroups regarding wages, benefits and other workplace matters.

Continental's goals for 2000 include (i) being ranked among the top three major air carriers in employee measures such as turnover, lost time, productivity and on-the-job injury claims, (ii) continuing to work with all employee groups in a way that is fair to the employees and fair to the Company, (iii) continuing to improve work environment safety, and (iv) maintaining Continental as one of the 100 best companies to work for in America.

In September 1997, Continental announced that it intended to bring all employees to industry standard wages over a three-year period. This goal will be achieved in 2000. The Company is in the process of formulating a plan to bring all employees to industry standard benefits over a multi-year period. See "Employees" below.

#### Domestic Operations

Continental operates its domestic route system primarily through its hubs at Newark, George Bush Intercontinental Airport ("Bush Intercontinental") in Houston and Hopkins International Airport ("Hopkins International") in Cleveland. The Company's hub system allows it to transport passengers between a large number of destinations with substantially more frequent service than if each route were served directly. The hub system also allows Continental to add service to a new destination from a large number of cities using only one or a limited number of aircraft. Each of Continental's domestic hubs is located in a large business and population center, contributing to a high volume of "origin and destination" traffic.

Newark. As of February 1, 2000, Continental operated 54% (233 departures) of the average daily jet departures (excluding regional jets) and, together with Express, 58% (323 departures) of all average daily departures (jet, regional jet and turboprop) from Newark. Considering the three major airports serving New York City (Newark, LaGuardia and John F. Kennedy), Continental and Express accounted for 22% of all daily departures, while the next largest carrier, American Airlines, Inc. ("American"), and its commuter affiliate accounted for 17% of all daily departures.

Houston. As of February 1, 2000, Continental operated 77% (325 departures) of the average daily jet departures (excluding regional jets) and, together with Express, 82% (483 departures) of all average daily departures from Bush Intercontinental. Southwest Airlines Co. ("Southwest") also has a significant share of the Houston market through Hobby Airport. Considering both Bush Intercontinental and Hobby Airport, Continental operated 56% and Southwest operated 25% of the daily jet departures (excluding regional jets) from Houston.

Cleveland. As of February 1, 2000, Continental operated 52% (85 departures) of the average daily jet departures (excluding regional jets) and, together with Express, 65% (254 departures) of all average daily departures from Hopkins International. The next largest carrier, US Airways, Inc. ("US Airways"), accounted for 6% of all daily jet departures.

Continental Express. Continental Airlines' jet service at each of its domestic hub cities is coordinated with Express, which operates new-generation regional jets and turboprop aircraft under the name "Continental Express". The regional jets average one year of age and seat either 37 or 50 passengers while the turboprop aircraft average approximately eight years of age and seat 64 or fewer passengers.

As of February 1, 2000, Express served 32 destinations from Newark (23 by regional jet), 47 destinations from Bush Intercontinental (29 by regional jet) and 55 destinations from Hopkins International (29 by regional jet). In addition, commuter feed traffic is currently provided to Continental by other code-sharing partners. See "Domestic Carrier Alliances" below.

Management believes Express's regional jet and turboprop operations complement Continental's jet operations by allowing more frequent

service to small cities than could be provided economically with conventional jet aircraft and by carrying traffic that connects onto Continental's jets. In many cases, Express (and Continental) compete for connecting traffic with commuter airlines owned by or affiliated with other major airlines operating out of the same or other cities. Continental believes that Express's new regional jets provide greater comfort and enjoy better customer acceptance than turboprop aircraft. Express is in the process of developing a plan to convert to an all regional jet fleet over a multi-year period. The regional jets also allow Express to serve certain routes that cannot be served by its turboprop aircraft.

**Domestic Carrier Alliances.** Pursuant to the Company's Fly to Win initiative under the Go Forward Plan, Continental has entered into and continues to develop alliances with domestic carriers:

- - In 1998, the Company entered into a long-term global alliance with Northwest (the "Northwest Alliance"). The Northwest Alliance includes the placing by each carrier of its code on a large number of the flights of the other and reciprocal frequent flyer programs and executive lounge access. Significant other joint marketing activities are being undertaken, while preserving the separate identities of the carriers. Continental has also entered into agreements to code-share with certain Northwest regional affiliates. See "Risk Factors Relating to the Company - Risks Regarding Continental/Northwest Alliance".
- - Continental has a series of agreements with America West Airlines, Inc. ("America West"), including agreements related to code-sharing and ground handling, which have created substantial benefits for both airlines. These code-sharing agreements cover 141 city-pairs at February 1, 2000, and allow Continental to link additional destinations to its route network and derive additional traffic from America West's distribution strength in cities where Continental has less sales presence. The sharing of facilities and employees by Continental and America West in their respective key markets has resulted in significant cost savings.
- - Continental began a code-sharing agreement with Gulfstream International Airlines, Inc. ("Gulfstream") in April 1997. Gulfstream serves as a connection for Continental passengers throughout Florida as well as eight destinations in the Caribbean. Continental recently purchased 28% of the equity of Gulfstream.
- - Continental implemented a code-sharing agreement with Mesaba Aviation, Inc. ("Mesaba"), operating as a Northwest affiliate, commencing in January 1999. Mesaba serves as a connection for Continental passengers through Detroit and Minneapolis/St. Paul.
- - Continental and CMI entered into a cooperative marketing agreement with Hawaiian Airlines, Inc. ("Hawaiian") that began in October 1997 on flights connecting in Honolulu. The relationship expanded in 1999 to include code-sharing. Hawaiian connects Continental passengers through Honolulu to six additional Hawaiian cities.
- - In February 1999, Continental announced its code-sharing agreement with Alaska Airlines, Inc. ("Alaska Air") and its affiliate, Horizon Airlines, Inc. ("Horizon"). Alaska Air and Horizon serve as connections for Continental passengers to 35 destinations throughout the Pacific Northwest.

#### International Operations

International Operations. Continental directly serves destinations throughout Europe, Canada, Mexico, Central and South America, and the Caribbean, as well as Tokyo and Tel Aviv, and has extensive operations in the western Pacific conducted by CMI. As measured by 1999 available seat miles, approximately 36.2% of Continental's jet operations, including CMI, were dedicated to international traffic, compared with 33.8% in 1998. Continental anticipates that a majority of its capacity growth in 2000 will be in Europe due to the full year impact of new markets and increased capacity added in 1999. Continental does not intend to add any new European destinations during 2000. As of February 1, 2000, the Company offered 146 weekly departures to 16 European cities and marketed service to 32 other cities through code-sharing agreements. Continental is one of the leading airlines providing service to Mexico and Central America, serving more destinations there than any other U.S. airline.

The Company's Newark hub is a significant international gateway. From Newark at February 1, 2000, the Company served 16 European cities, five Canadian cities, three Mexican cities, four Central American cities, six South American cities, seven Caribbean destinations, Tel Aviv and Tokyo and markets numerous other destinations through code-sharing arrangements with foreign carriers. The Company recently announced the addition of two South American destinations, one of which will also connect to Houston, and one Caribbean destination for 2000, subject to government

approval.

The Company's Houston hub is the focus of its operations in Mexico and Central America. As of February 1, 2000, Continental flew from Houston to 13 cities in Mexico, every country in Central America, six cities in South America, two Caribbean destinations, three cities in Canada, two cities in Europe and Tokyo. Express also serviced three additional cities in Mexico by regional jets and plans to add four more cities in 2000, subject to government approval.

Continental also flies to London, Montreal, Toronto, San Juan and Cancun from its hub in Cleveland.

Continental Micronesia. CMI is a United States-certificated air carrier transporting passengers, cargo and mail in the western Pacific. From its hub operations based on the island of Guam, CMI provides service to eight cities in Japan, more than any other United States carrier, as well as other Pacific rim destinations, including Taiwan, the Philippines, Hong Kong, Australia and Indonesia. Service to these Japanese cities and certain other Pacific Rim destinations is subject to a variety of regulatory restrictions limiting the ability of other carriers to service these markets.

CMI is the principal air carrier in the Micronesian Islands, where it pioneered scheduled air service in 1968. CMI's route system is linked to the United States market through Tokyo and Honolulu, each of which CMI serves non-stop from Guam. CMI and Continental also maintain a code-sharing agreement and coordinate schedules on certain flights from the west coast of the United States to Honolulu, and from Honolulu to Guam, to facilitate travel from the United States into CMI's route system.

Foreign Carrier Alliances. Over the last decade, major United States airlines have developed and expanded alliances with foreign air carriers, generally involving adjacent terminal operations, coordinated flights, code-sharing and other joint marketing activities. Continental is the only major United States air carrier operating a hub in the New York City area. Consequently, Continental believes it is uniquely situated to attract alliance partners from Europe, the Far East and South America and has aggressively pursued such alliances. The Company believes that the Northwest Alliance enhances its ability to attract foreign alliance partners. See "Risk Factors Relating to the Company - Risks Regarding Continental/Northwest Alliance".

Continental believes that continuing to develop a network of international alliance partners will better leverage its hub assets by attracting high-yield flow traffic and strengthening its position in large, local (non-connecting) markets and will result in improved returns to the Company. Additionally, Continental can enlarge its scope of service more rapidly and enter additional markets with lower capital and start-up costs through formation of alliances with partners as compared with entering markets independently of other carriers.

Continental seeks to develop alliance relationships that complement the Company's own flying and permit expanded service through Newark and Houston to major international destinations. Route authorities necessary for the Company's own service to certain of these destinations are not currently available to the Company.

Continental has implemented international code-sharing agreements with Alitalia Linee Aeree Italiane, S.P.A. ("Alitalia"), CSA Czech Airlines, British Midland, EVA Airways Corporation, an airline based in Taiwan, Virgin Atlantic Airways ("Virgin"), Viacao Aerea Sao Paulo ("VASP"), Societe Air France ("Air France") and Compania Panamena de Aviacion, S.A. ("COPA"), 49% of the common equity of which is owned by Continental. Upon receipt of government approval, Continental will commence code-sharing arrangements with Aeroservicios Carabobo S.A., a Venezuelan carrier, Avant Airlines, a Chilean carrier, Air Aruba and Air China. In addition, Continental and KLM Royal Dutch Airlines ("KLM") have signed a memorandum of understanding and anticipate finalizing and implementing a comprehensive cooperative marketing agreement by the second quarter of 2000. The joint marketing initiative is to include through check-in of passengers and baggage, reciprocal frequent flyer program participation, reciprocal airport lounge access, and, subject to government approval, codesharing on selected routes. Continental has entered into joint marketing agreements with Aerolineas Centrales de Colombia ("ACES"), for which government approval has not yet been sought.

Certain of Continental's code-sharing agreements involve block-space arrangements (pursuant to which carriers agree to share capacity and bear economic risk for blocks of seats on certain routes). Alitalia has agreed to purchase blocks of seats on Continental flights between Newark and Rome and Milan. Continental and Air France purchase blocks of seats on each other's flights between Houston and Newark and Paris. Continental and Virgin

exchange blocks of seats on each other's flights between Newark and London, and Continental purchases blocks of seats on eight other routes flown by Virgin between the United Kingdom and the United States.

The Company is negotiating an early termination of its alliance with Air France as a result of Air France's announcement of an alliance with Delta Air Lines, Inc. ("Delta").

The Company might enter into other code-sharing, joint marketing and block-space agreements in 2000, which could include the Company's financial commitment to purchase seats from other carriers.

#### Employees

As of December 31, 1999, the Company had approximately 51,275 employees (46,550 full-time equivalent employees, including approximately 20,150 customer service agents, reservations agents, ramp and other airport personnel, 8,650 flight attendants, 7,450 management and clerical employees, 6,350 pilots, 3,800 mechanics and 150 dispatchers). Labor costs are a significant component of the Company's expenses and can substantially impact airline results. In 1999, labor costs (including employee incentives) constituted 31.5% of the Company's total operating expenses (excluding fleet disposition/impairment loss). While there can be no assurance that the Company's generally good labor relations and high labor productivity will continue, management has established as a significant component of its business strategy the preservation of good relations with the Company's employees, approximately 42% of whom are represented by unions. In September 1997, the Company announced a plan to bring all employees to industry standard wages no later than the end of the year 2000. Wage increases began in 1997, and will continue to be phased in through 2000. The Company is in the process of formulating a plan to bring all employees to industry standard benefits over a multi-year period.

The following is a table of the Company's, Express's and CMI's principal collective bargaining agreements, and their respective amendable dates:

Employee Group	Approximate Number of Full-time Equivalent Employees	Representing Union	Contract Amendable Date
Continental Pilots	5,000	Independent Association of Continental Pilots ("IACP")	October 2002
Express Pilots	1,350	IACP	October 2002
Dispatchers	150	Transport Workers Union of America	October 2003
Continental Mechanics	3,300	International Brotherhood of Teamsters ("Teamsters")	January 2002
Express Mechanics	350	Teamsters	January 2003
CMI Mechanics	150	Teamsters	March 2001
Continental Flight Attendants	7,800	International Association of Machinists and Aerospace Workers ("IAM")	(Negotiations for amended contract ongoing)
Express Flight Attendants	500	IAM	(Negotiations for amended contract ongoing)
CMI Flight Attendants	350	IAM	June 2000
CMI Fleet and Passenger Service Employees	475	Teamsters	March 2001

In February 2000, the Company announced a 54-month tentative collective bargaining agreement with its Continental Airlines flight attendants. The agreement is subject to ratification by the Continental Airlines flight attendants. In September 1999, Express and the IAM began collective bargaining negotiations to amend the

Express flight attendants' contract (which became amendable in November 1999). The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time.

The other employees of Continental, Express and CMI are not covered by collective bargaining agreements.

#### Competition and Marketing

The airline industry is highly competitive and susceptible to price discounting. The Company competes with other air carriers that have substantially greater resources (and in certain cases, lower cost structures) as well as smaller air carriers with low-cost structures. Historically, industry profit margins have been low. However, during 1995 through 1999, industry profit margins improved substantially. See Item 1. "Business. Risk Factors Relating to the Airline Industry" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

As with other carriers, most tickets for travel on Continental are sold by travel agents. Travel agents generally receive commissions measured by the price of tickets sold. Accordingly, airlines compete not only with respect to the price of tickets sold but also with respect to the amount of commissions paid. Airlines often pay additional commissions in connection with special revenue programs.

E-Ticket. In 1999, Continental expanded its electronic ticketing ("E-Ticket") product to 95% of all of its own destinations. E-Tickets result in lower distribution costs to the Company while providing enhanced customer and revenue information. Continental recorded over \$3.9 billion in E-Ticket sales in 1999, representing 41% of total sales. During 1999, Continental announced interline E-Ticketing with America West and replaced E-Ticket machines with e-Service Centers. In 2000, the Company plans to implement interline E-Ticketing with its alliance partners as well as some of the other top ten U.S. carriers. The Company expects these features to contribute to an increase in E-Ticket usage and a further reduction in distribution costs.

Internet. Continental's award winning website, [www.continental.com](http://www.continental.com) ("continental.com") recorded over \$165 million in ticket sales in 1999. The site features computer graphics and navigational aids that make it simpler and faster for travelers to purchase tickets and retrieve travel-related information online. The Company implemented its "featured fare" program for customers to make travel plans around special fare offers. Continental online ("COOL") travel specials are available only to online users offering reduced fares for immediate travel on specified dates. During 1999, the Company announced an online promotion to provide frequent flyer bonus miles for customers who use the [continental.com](http://continental.com) website for the first time to book a Continental flight. Combined with online travel agents, the Company recorded over \$305 million in ticket sales through the internet during 1999.

Other. In 1999, Continental entered into an agreement with priceline.com, Inc. ("Priceline") which allows customers to purchase airline tickets at an offer price determined by the customer. Continental decides on which routes it will allow seats to be sold by Priceline and the related fare it is willing to accept. Additionally, the Company announced an agreement among the Company, Northwest, Delta and United Air Lines, Inc. to create a new on-line travel web site. To date, 27 U.S. and foreign carriers, including American and US Airways, have signed up to join the web-based travel service. The new site, the first multi-airline travel portal, is expected to provide customers with convenient online access to airline, hotel, car rental and other travel services in addition to internet offers. The site will feature published fares from virtually all carriers worldwide and will welcome the posting of internet fares from other carriers as well.

#### Frequent Flyer Program

Each major airline has established a frequent flyer program designed to encourage repeat travel on its system. Continental's OnePass program currently allows passengers to earn mileage credits by flying Continental and certain other carriers including Northwest, America West, Alaska Air, Alitalia, Air France, COPA and Gulfstream. The Company also sells mileage credits to credit card companies, phone companies, hotels, car rental agencies and others participating in the OnePass program.

Due to the structure of the program and the low level of redemptions as a percentage of total travel, Continental believes that displacement of revenue passengers by passengers using flight awards has historically been minimal. The number of awards used on Continental represented slightly less than 7% of Continental's total revenue passenger miles in each of the years 1999 and 1998.

#### Industry Regulation and Airport Access



Continental and its subsidiaries operate under certificates of public convenience and necessity issued by the DOT. Such certificates may be altered, amended, modified or suspended by the DOT if public convenience and necessity so require, or may be revoked for intentional failure to comply with the terms and conditions of a certificate.

The airlines are also regulated by the Federal Aviation Administration ("FAA"), primarily in the areas of flight operations, maintenance, ground facilities and other technical matters. Pursuant to these regulations, Continental has established, and the FAA has approved, a maintenance program for each type of aircraft operated by the Company that provides for the ongoing maintenance of such aircraft, ranging from frequent routine inspections to major overhauls. Continental has retired all of its Stage 2 aircraft in order to meet the FAA's noise compliance requirements with the exception of five Boeing 727 aircraft operated by CMI which are exempt since they are operated outside the United States. The Company intends to retire these five aircraft in 2000.

The DOT allows local airport authorities to implement procedures designed to abate special noise problems, provided such procedures do not unreasonably interfere with interstate or foreign commerce or the national transportation system. Certain airports, including the major airports at Boston, Washington, D.C., Chicago, Los Angeles, San Diego, Orange County (California) and San Francisco, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of such operations. In some instances, these restrictions have caused curtailments in services or increases in operating costs, and such restrictions could limit the ability of Continental to expand its operations at the affected airports. Local authorities at other airports are considering adopting similar noise regulations.

Airports from time to time seek to increase the rates charged to airlines, and the ability of airlines to contest such increases has been restricted by federal legislation, DOT regulations and judicial decisions. In addition, some public airports generally impose passenger facility charges ("PFC's") of up to \$3 per segment for a maximum of \$12 per roundtrip. Legislation which would increase the PFC to \$6 per segment for a maximum of \$24 per roundtrip is being considered in a conference committee between the House of Representatives and the Senate. With certain exceptions, these charges are passed on to the customers.

The FAA has designated John F. Kennedy International Airport ("Kennedy") and LaGuardia Airport ("LaGuardia") in New York, O'Hare International Airport in Chicago ("O'Hare") and Ronald Reagan Washington National Airport in Washington, D.C. ("Reagan National") as "high density traffic airports" and has limited the number of departure and arrival slots at those airports. Currently, such slots may be voluntarily sold or transferred between carriers. Various amendments to the slot system proposed from time to time could, if adopted, significantly affect operations at high density traffic airports, significantly change the value of the slots, grant slots to other carriers or for route or aircraft specific usage, expand slots to other airports or eliminate slots entirely.

The DOT has in the past reallocated slots to other carriers and reserves the right to withdraw slots. In addition, the DOT has proposed the elimination of slot restrictions at high density airports other than Reagan National. Legislation containing a similar proposal, which could eliminate slots as early as 2002 at O'Hare and 2007 at LaGuardia and Kennedy, has passed the full House of Representatives and the full Senate and is currently being considered by a conference committee. The Company cannot predict whether any of these proposals will be adopted. However, if legislation or regulation eliminating slots were adopted, the value of such slots could be deemed to be permanently impaired, resulting in a loss being charged to earnings for the relevant period. Moreover, the elimination of slots could have an adverse effect upon future results of operations of the Company. At December 31, 1999, the net book value of the Company's slots at O'Hare, LaGuardia and Kennedy was \$52 million, \$12 million and \$0, respectively.

The availability of international routes to United States carriers is regulated by treaties and related agreements between the United States and foreign governments. The United States typically follows the practice of encouraging foreign governments to accept multiple carrier designation on foreign routes, although certain countries have sought to limit the number of carriers. Foreign route authorities may become less valuable to the extent that the United States and other countries adopt "open skies" policies liberalizing entry on international routes. Continental cannot predict what laws and regulations will be adopted or their impact, but the impact could be significant.

Many aspects of Continental's operations are subject to increasingly stringent federal, state and local laws protecting the environment. Future regulatory developments could adversely affect operations and increase operating costs in the airline industry.

#### Risk Factors Relating to the Company

**High Leverage and Significant Financing Needs.** Continental has a higher proportion of debt compared to its equity capital than some of its principal competitors. In addition, a majority of Continental's property and equipment is subject to liens securing indebtedness. Accordingly, Continental may be less able than some of its competitors to withstand a prolonged recession in the airline industry or respond as flexibly to changing economic and competitive conditions.

As of December 31, 1999, Continental had approximately \$3.4 billion (including current maturities) of long-term debt and capital lease obligations and had approximately \$1.6 billion of common stockholders' equity. Also at December 31, 1999, Continental had \$1.6 billion in cash and cash equivalents and short-term investments. Continental has lines of credit totaling \$225 million.

Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of January 14, 2000, Continental had agreed to acquire a total of 74 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 28 Boeing jet aircraft in 2000. Continental also has options for an additional 118 aircraft (exercisable subject to certain conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately \$4 billion. Continental currently plans to finance its new Boeing aircraft with a combination of enhanced pass through trust certificates, lease equity and other third-party financing, subject to availability and market conditions. Continental has commitments or letters of intent for backstop financing for approximately 18% of the anticipated remaining acquisition cost of future Boeing deliveries. In addition, at January 14, 2000, Continental has firm commitments to purchase 34 spare engines related to the new Boeing aircraft for approximately \$219 million, which will be deliverable through March 2005.

As of January 14, 2000, Express had firm commitments for 43 Embraer ERJ-145 ("ERJ-145") 50-seat regional jets and 19 Embraer ERJ-135 ("ERJ-135") 37-seat regional jets, with options for an additional 100 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 15 ERJ-145 and 12 ERJ-135 regional jets in 2000. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 or ERJ-135 aircraft that are not financed by a third party and leased to Continental.

For 1999, cash expenditures under operating leases relating to aircraft approximated \$758 million, compared to \$702 million for 1998, and approximated \$328 million relating to facilities and other rentals compared to \$263 million in 1998. Continental expects that its operating lease expenses for 2000 will increase over 1999 amounts.

Additional financing will be needed to satisfy the Company's capital commitments. Continental cannot predict whether sufficient financing will be available for capital expenditures not covered by firm financing commitments.

**Continental's Historical Operating Results.** Continental has recorded positive net income in each of the last five years. However, Continental experienced significant operating losses in the previous eight years. Historically, the financial results of the U.S. airline industry have been cyclical. Continental cannot predict whether current industry conditions will continue.

**Significant Cost of Aircraft Fuel.** Fuel costs constitute a significant portion of Continental's operating expense. Fuel costs were approximately 9.7% of operating expenses for the year ended December 31, 1999 (excluding fleet disposition/impairment losses) and 10.2% for the year ended December 31, 1998 (excluding fleet disposition/impairment losses). Recently, spot jet fuel prices have increased dramatically, rising to 87.3 cents per gallon at January 21, 2000 compared to 58.3 cents per gallon as recently as October 31, 1999. Continental recently announced that if high fuel costs continue without an improvement in the revenue environment, the Company may not post a profit in the first quarter of 2000. Fuel prices and supplies are influenced significantly by international political and economic circumstances. Continental enters into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide some short-term protection (generally three to six months) against a sharp increase in jet fuel prices. The Company's fuel hedging strategy could result in the Company not fully benefiting from certain fuel price declines. If a fuel supply shortage were to arise from OPEC production curtailments, a disruption of oil

imports or otherwise, higher fuel prices or reduction of scheduled airline service could result. Significant changes in fuel costs or continuation of high current jet fuel prices would materially affect Continental's operating results.

**Labor Costs.** Labor costs constitute a significant percentage of the Company's total operating costs, and the Company experiences competitive pressure to increase wages and benefits. In September 1997, the Company announced a plan to bring all employees to industry standard wages no later than the end of the year 2000. Wage increases began in 1997, and will continue to be phased in through 2000. The Company is currently formulating a plan to bring employees to industry standard benefits over a multi-year period.

**Certain Tax Matters.** At December 31, 1999, Continental had estimated net operating loss carryforwards ("NOLs") of \$700 million for federal income tax purposes that will expire through 2009 and federal investment tax credit carryforwards of \$45 million that will expire through 2001. As a result of the change in ownership of Continental on April 27, 1993, the ultimate utilization of Continental's NOLs and investment tax credits may be limited. Reflecting this limitation, Continental has a valuation allowance of \$263 million at December 31, 1999.

Continental had, as of December 31, 1999, deferred tax assets aggregating \$611 million, including \$266 million of NOLs. The Company has consummated several transactions which resulted in the recognition of NOLs of the Company's predecessor. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would reduce the value ascribed to routes, gates and slots.

As a result of NOLs, Continental will not pay United States federal income taxes (other than alternative minimum tax) until it has earned approximately an additional \$700 million of taxable income following December 31, 1999. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. In the event that an ownership change should occur, utilization of Continental's NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of Continental's stock at the time of the ownership change by the applicable long-term tax-exempt rate (which was 5.72% for December 1999). Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by Continental at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, Continental's annual NOL utilization would be limited to approximately \$172 million per year other than through the recognition of future built-in gain transactions.

In November 1998, an affiliate of Northwest completed its acquisition of certain equity of the Company previously held by Air Partners, L.P. and its affiliates, together with certain Class A common stock of the Company held by other investors, totaling 8,661,224 shares of the Class A common stock (the "Air Partners Transaction"). The Company does not believe that the Air Partners Transaction resulted in an ownership change for purposes of Section 382.

**Continental Micronesia's Dependence on Japanese Economy and Currency Risk.** Because the majority of CMI's traffic originates in Japan, its results of operations are substantially affected by the Japanese economy and changes in the value of the yen as compared to the dollar. To reduce the potential negative impact on CMI's earnings, the Company has entered into forward contracts as a hedge against a portion of its expected net yen cash flow position. As of December 31, 1999, the Company had hedged approximately 95% of 2000 projected yen-denominated net cash flows at a rate of 102 yen to \$1 US.

**Principal Stockholder.** As of December 31, 1999, Northwest held approximately 13.2% of the common equity interest and 49.1% of the fully diluted voting power of the Company. In addition, Northwest holds a limited proxy to vote certain additional shares of the Company's common stock that would raise its voting power to approximately 50.9% of the Company's fully diluted voting power.

In connection with the Air Partners Transaction, the Company entered into a corporate governance agreement with certain affiliates of Northwest (the "Northwest Parties") designed to assure the independence of the Company's Board and management during the six-year term of the governance agreement. Under the governance agreement, as amended, the Northwest Parties agreed not to beneficially own voting securities of the Company in excess of

50.1% of the fully diluted voting power of the Company's voting securities, subject to certain exceptions, including third-party acquisitions or tender offers for 15% or more of the voting power of the Company's voting securities. The Northwest Parties deposited all voting securities of the Company beneficially owned by them (other than the shares for which they hold only a limited proxy) in a voting trust with an independent voting trustee requiring that such securities be voted (i) on all matters other than the election of directors, in the same proportion as the votes cast by other holders of voting securities, and (ii) in the election of directors, for the election of independent directors (who must constitute a majority of the Board) nominated by the Board of Directors. However, in the event of a merger or similar business combination or a recapitalization, liquidation or similar transaction, a sale of all or substantially all of the Company's assets, or an issuance of voting securities that would represent more than 20% of the voting power of the Company prior to issuance, or any amendment of the Company's charter or bylaws that would materially and adversely affect Northwest (each, an "Extraordinary Transaction"), the shares may be voted as directed by the Northwest Party owning such shares, and if a third party is soliciting proxies in an election of directors, the shares may be voted at the option of such Northwest Party either as recommended by the Company's Board of Directors or in the same proportion as the votes cast by the other holders of voting securities.

The Northwest Parties also agreed to certain restrictions on the transfer of voting securities owned by them, agreed not to seek to affect or influence the Company's Board of Directors or the control of the management of the Company or the business, operations, affairs, financial matters or policies of the Company or to take certain other actions, and agreed to take all actions necessary to cause independent directors to at all times constitute at least a majority of the Company's Board of Directors. The Company granted preemptive rights to a Northwest Party with respect to issuances of Class A common stock and certain issuances of Class B common stock. The Northwest Parties agreed that certain specified actions, together with any material transactions between the Company and Northwest or its affiliates, including any modifications or waivers of the governance agreement or the alliance agreement, may not be taken without the prior approval of a majority of the Board of Directors, including the affirmative vote of a majority of the independent directors. The governance agreement also required the Company to adopt a shareholder rights plan with reasonably customary terms and conditions, with an acquiring person threshold of 15% (20% in the case of an Institutional Investor) and with appropriate exceptions for the Northwest Parties for actions permitted by and taken in compliance with the governance agreement. A rights plan meeting these requirements was adopted effective November 20, 1998, and amended effective February 8, 2000.

The governance agreement will expire on November 20, 2004, or if earlier, upon the date that the Northwest Parties cease to beneficially own voting securities representing at least 10% of the fully diluted voting power of the Company's voting securities. However, in response to concerns raised by the Department of Justice ("DOJ") in its antitrust review of the Northwest Alliance, the Air Partners Transaction and the related governance agreement between the Company and the Northwest Parties (collectively, the "Northwest Transaction"), a supplemental agreement was adopted in November 1998, which extended the effect of a number of the provisions of the governance agreement for an additional four years. For instance, the Northwest Parties must act to ensure that a majority of the Company's Board is comprised of independent directors, and certain specified actions, together with material transactions between the Company and Northwest or its affiliates, including any modifications or waivers of the supplemental agreement or the alliance agreement, may not be taken without the prior approval of a majority of the Board of Directors, including the affirmative vote of a majority of the independent directors. The Northwest Parties will continue to have the right to vote in their discretion on any Extraordinary Transaction during the supplemental period, but also will be permitted to vote in their discretion on other matters up to 20% of the outstanding voting power (their remaining votes to be cast neutrally, except in a proxy contest, as contemplated in the governance agreement), subject to their obligation set forth in the previous sentence. If, during the term of the supplemental agreement, the Company's rights plan were amended to allow certain parties to acquire more shares than is currently permitted, or if the rights issued thereunder were redeemed, the Northwest Parties could vote all of their shares in their discretion. Certain transfer limitations are imposed on the Northwest Parties during the supplemental period. The Company has granted preemptive rights to a Northwest Party with respect to issuances of Class A common stock and certain issuances of Class B common stock that occur during such period. The Company has agreed to certain limitations upon its ability to amend its charter, bylaws, executive committee charter and rights plan during the term of the supplemental agreement. Following the supplemental period, the supplemental agreement requires the Northwest Parties to take all actions necessary to cause

Continental's Board to have at least five independent directors, a majority of whom will be required to approve material transactions between Continental and Northwest or its affiliates, including the amendment, modification or waiver of any provisions of the supplemental agreement or the alliance agreement.

In certain circumstances, particularly in cases where a change in control of the Company could otherwise be caused by another party, Northwest could exercise its voting power so as to delay, defer or prevent a change in control of the Company.

Continental desires to simplify its equity capital structure and is committed to continuing to repurchase outstanding equity. In connection with its stock repurchase program, the Company has held preliminary discussions with Northwest concerning the acquisition by Continental of all the Class A common stock of Continental held by Northwest in a voting trust (8.7 million shares). The Northwest alliance is beneficial to both carriers, and any transaction would be designed to preserve and strengthen the benefits of the alliance. There can be no assurance as to whether a transaction between Continental and Northwest will be agreed to or consummated, nor can Continental predict the structure, form or amount of consideration or other elements of any such transaction.

**Risks Regarding Continental/Northwest Alliance.** In November 1998, the Company and Northwest began implementing a long-term global alliance involving extensive code-sharing, frequent flyer reciprocity, and other cooperative activities. Implementation of the Northwest Alliance continued throughout 1999 and is continuing in 2000.

Continental's ability to finalize implementation of the Northwest Alliance and to achieve the anticipated benefits is subject to certain risks and uncertainties, including (a) disapproval or delay by regulatory authorities or adverse regulatory developments; (b) competitive pressures, including developments with respect to alliances among other air carriers; (c) customer reaction to the alliance, including reaction to differences in products and benefits provided by Continental and Northwest; (d) economic conditions in the principal markets served by Continental and Northwest; (e) increased costs or other implementation difficulties, including those caused by employees; and (f) Continental's ability to modify certain contracts that restrict certain aspects of the alliance.

The alliance agreement provides that if after four years the Company has not entered into a code share with KLM or is not legally able (but for aeropolitical restrictions) to enter into a new trans-Atlantic joint venture with KLM and Northwest and place its airline code on certain Northwest flights, Northwest can elect to (i) cause good faith negotiations among the Company, KLM and Northwest as to the impact, if any, on the contribution to the joint venture resulting from the absence of the code share, and the Company will reimburse the joint venture for the amount of any loss until it enters into a code share with KLM, or (ii) terminate (subject to cure rights of the Company) after one year's notice any or all of such alliance agreement and any or all of the agreements contemplated thereunder.

On October 23, 1998, the DOJ filed a lawsuit against Northwest and Continental challenging Northwest's acquisition of an interest in Continental. The DOJ did not seek to preliminarily enjoin the transaction before it closed on November 20, 1998, nor is the DOJ challenging the Northwest Alliance at this time, although the DOJ has informed the parties that it continues to investigate certain specific aspects of the alliance. Continental continues to implement its alliance with Northwest. While it is not possible to predict the ultimate outcome of this litigation, management does not believe that it will have a material adverse effect on Continental.

The DOT has continuing jurisdiction to review changes in Continental's ownership and joint venture agreements between major U.S. airlines such as Continental and Northwest. In connection with such reviews, the DOT exempted Continental and Northwest through December 10, 1999, from regulatory approval requirements which the DOT has interpreted to require approval for what it considers de facto route transfers when one U.S. airline holding international route authority acquires control of another U.S. airline holding such authority. The exemption remains in effect pursuant to the Administrative Procedure Act and a renewal application has been submitted to the DOT by Continental and Northwest pending possible further DOT review of the agreements between them to consider whether, in the DOT's view, there has been a de facto route transfer.

If the DOT were to conclude that a de facto route transfer of Continental routes to Northwest were occurring, it would institute a proceeding to determine whether such a transfer was in the public interest. In the past, the DOT has approved numerous transfers, but it has also concluded on occasion that certain overlapping

routes in limited-entry markets should not be transferred. In those instances, the DOT has decided those routes should instead become available to other airlines to enhance competition on overlapping routes or between two countries. Continental and Northwest operate overlapping flights on certain limited entry routes and offer service between their primary U.S. hubs and various other countries. If the DOT were to institute a route transfer proceeding, it could consider whether certain of Continental's international routes overlapping with Northwest's on a point-to-point or country-to-country basis should be transferred to Northwest or to another airline. Continental believes that Northwest has not acquired control of Continental, and that there is a significant question as to the DOT's authority to apply a de facto route transfer theory to the current relationship between Northwest and Continental. Continental would vigorously oppose any attempt by the DOT to institute a route transfer proceeding which would consider any reductions in Continental's route authorities.

#### Risks Factors Relating to the Airline Industry

**Competition and Industry Conditions.** The airline industry is highly competitive and susceptible to price discounting. Carriers have used discount fares to stimulate traffic during periods of slack demand, to generate cash flow and to increase market share. Some of Continental's competitors have substantially greater financial resources or lower cost structures than Continental.

Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels have in the past been influenced by, among other things, the general state of the economy (both internationally and domestically), international events, airline capacity and pricing actions taken by carriers. Domestically, from 1990 to 1993, the weak U.S. economy, turbulent international events and extensive price discounting by carriers contributed to unprecedented losses for U.S. airlines. In the last several years, the U.S. economy has improved and excessive price discounting has abated. Recently, industry capacity and growth in the transatlantic markets have resulted in lower yields and revenue per available seat mile in those markets. Continental cannot predict the extent to which these industry conditions will continue.

In recent years, the major U.S. airlines have sought to form marketing alliances with other U.S. and foreign air carriers. Such alliances generally provide for "code-sharing", frequent flyer reciprocity, coordinated scheduling of flights of each alliance member to permit convenient connections and other joint marketing activities. Such arrangements permit an airline to market flights operated by other alliance members as its own. This increases the destinations, connections and frequencies offered by the airline, which provide an opportunity to increase traffic on its segment of flights connecting with its alliance partners. The Northwest Alliance is an example of such an arrangement, and Continental has existing alliances with numerous other air carriers. Other major U.S. airlines have alliances or planned alliances more extensive than Continental's. Continental cannot predict the extent to which it will benefit from its alliances or be disadvantaged by competing alliances.

**Regulatory Matters.** Airlines are subject to extensive regulatory and legal compliance requirements that engender significant costs. In the last several years, the FAA has issued a number of directives and other regulations relating to the maintenance and operation of aircraft that have required significant expenditures. Some FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement, commuter aircraft safety and increased inspections and maintenance procedures to be conducted on older aircraft. Continental expects to continue incurring expenses in complying with the FAA's regulations.

Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. For instance, "passenger bill of rights" legislation has been introduced in Congress that would, among other things, require the payment of compensation to passengers as a result of certain delays, and limit the ability of carriers to prohibit or restrict usage of certain tickets in manners currently prohibited or restricted. The DOT has proposed rules that would significantly limit major carriers' ability to compete with new entrant carriers. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. Restrictions on the ownership and transfer of airline routes and takeoff and landing slots have also been proposed. See "Industry Regulation and Airport Access" above. The ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because appropriate slots or facilities are not made available. Continental cannot provide

assurance that laws or regulations enacted in the future will not adversely affect it.

Seasonal Nature of Airline Business; Other. Due to greater demand for air travel during the summer months, revenue in the airline industry in the second and third quarters of the year is generally stronger than revenue in the first and fourth quarters of the year for most U.S. air carriers. Continental's results of operations generally reflect this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal, including the extent and nature of competition from other airlines, fare wars, excise and similar taxes, changing levels of operations, fuel prices, weather, air traffic control delays, foreign currency exchange rates and general economic conditions.

ITEM 2. PROPERTIES.

Flight Equipment

As shown in the following table, Continental's (including CMI's) jet aircraft fleet (excluding regional jets) consisted of 363 jets at December 31, 1999.

Type	Total Aircraft Owned		Leased	Seats in Standard Configuration	Average Age (In Years)
<b>Three Engine</b>					
DC-10-30	28	6	22	242	24.0
727-200	5	2	3	149	21.7
<b>Two Engine</b>					
777-200	14	4	10	283	0.9
757-200	38	10	28	183	3.2
737-800	42	12	30	155	0.7
737-700	36	12	24	124	1.0
737-500	66	15	51	104	3.7
737-300	65	14	51	128	12.4
MD-80	69	17	52	141	15.0
	363	92	271		8.4

The table above excludes four all-cargo 727 CMI aircraft and one A300, three 747, three DC-9-30, three DC-10-30 and two 727 Continental aircraft that have been removed from service.

A majority of the aircraft and engines owned by Continental are subject to mortgages.

The FAA adopted rules pursuant to the Airport Noise and Capacity Act of 1990 that required a scheduled phase-out of Stage 2 aircraft during the 1990s. Aircraft operating outside the U.S. are exempt from the phase-out. With the exception of five 727 aircraft operated by CMI, Continental's jet fleet was composed of all Stage 3 aircraft at December 31, 1999.

During 1999, Continental put into service a total of 61 new Boeing aircraft which consisted of 20 737-700 aircraft, 27 737-800 aircraft, six 757-200 aircraft and eight 777-200 aircraft. The Company anticipates taking delivery of 28 new Boeing aircraft and retiring 11 DC-10-30, five 727-200 and three MD-80 aircraft in 2000.

As of December 31, 1999, Express operated a fleet of 147 aircraft, as follows:

Type	Total Aircraft Owned		Leased	Seats in Standard Configuration	Average Age (In Years)
<b>Regional jets</b>					
ERJ-145	56	-	56	50	1.4
ERJ-135	6	-	6	37	0.3
<b>Turboprop</b>					
ATR-72	2	2	-	64	6.1
ATR-42-500	6	-	6	48	3.3
ATR-42-320	31	4	27	46	9.8
EMB-120	21	11	10	30	10.0
Beech 1900-D	25	-	25	19	3.9
	147	17	130		5.0

The table above excludes one EMB-120 owned by the Company but removed from service.

During 1999, Express took delivery of 21 ERJ-145 aircraft and six

ERJ-135 aircraft. Also, Express put into service one ATR 42-320 previously subleased. Express anticipates taking delivery of another 15 ERJ-145 aircraft and 12 new ERJ-135 aircraft in 2000.

During December 1999, under a sale and leaseback agreement with Gulfstream, Express sold 25 Beech 1900-D aircraft to Gulfstream in exchange for Gulfstream's assumption of \$81 million in debt. Express is leasing these aircraft from Gulfstream for periods ranging from eight to 23 months.

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Commitments" for a discussion of the Company's order for new firm commitment aircraft and related financing arrangements.

#### Facilities

The Company's principal facilities are located at Newark, Bush Intercontinental in Houston, Hopkins International in Cleveland and A.B. Won Pat International Airport in Guam. All these facilities, as well as substantially all of Continental's other facilities, are leased on a long-term, net-rental basis, and Continental is responsible for maintenance, taxes, insurance and other facility-related expenses and services. In certain locations, Continental owns hangars and other facilities on land leased on a long-term basis, which facilities will become the property of the lessor on termination of the lease. At each of its three domestic hub cities and most other locations, Continental's passenger and baggage handling space is leased directly from the airport authority on varying terms dependent on prevailing practice at each airport.

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

Continental substantially completed the expansion of its facilities at Hopkins International in the third quarter of 1999. The expansion, which included a new jet concourse for the regional jet service offered by Express, as well as other facility improvements, cost approximately \$156 million and was funded principally by a combination of tax-exempt special facilities revenue bonds (issued in March 1998) and general airport revenue bonds (issued in December 1997) by the City of Cleveland, Ohio (the "City of Cleveland"). Continental has unconditionally guaranteed the special facilities revenue bonds and has entered into a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds.

In September 1999, the City of Cleveland completed the issuance of \$71 million aggregate principal amount of tax-exempt bonds. The bond proceeds were used to refinance \$75 million aggregate principal amount in bonds originally issued by the City of Cleveland in 1990 for the purpose of constructing certain terminal and other improvements at Hopkins International. Continental has unconditionally guaranteed the bonds and has a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds, which have a term of 20 years. Continental estimates that it will save approximately \$44 million in debt service payments over the 20-year term as a result of the refinancing.

Also in September 1999, the New Jersey Economic Development Authority completed the offering of \$730 million aggregate principal amount of tax-exempt special facility revenue bonds to finance a portion of Continental's Global Gateway Program at Newark International Airport. Major construction began in the third quarter of 1999 and is scheduled to be completed in 2002. The program includes construction of a new concourse in Terminal C and other facility improvements. Continental has unconditionally guaranteed the bonds and has entered into a long-term lease with the New Jersey Economic Development Authority under which rental payments will be sufficient to service the related bonds, which have a term of 30 years.

The Company has lease agreements with the City and County of Denver covering several support facilities at Denver International Airport. The facilities exceed Continental's needs at the airport and the Company has subleased a portion of the space.



The Company has cargo facilities at Los Angeles International Airport. In July 1996, the Company subleased such facilities to another carrier. If such carrier fails to comply with its obligations under the sublease, the Company would be required to perform those obligations.

Continental also maintains administrative offices, airport and terminal facilities, training facilities and other facilities related to the airline business in the cities it serves.

Continental remains contingently liable until December 1, 2015, on \$202 million of long-term lease obligations of US Airways related to the East End Terminal at LaGuardia. If US Airways defaulted on these obligations, Continental could be required to cure the default, at which time it would have the right to occupy the terminal.

### ITEM 3. LEGAL PROCEEDINGS.

#### Antitrust Litigation

United States of America v. Northwest Airlines Corp. & Continental Airlines, Inc., in the United States District Court for the Eastern District of Michigan, Southern Division. In this litigation, the Antitrust Division of the DOJ is challenging under Section 7 of the Clayton Act and Section 1 of the Sherman Act the acquisition by Northwest of shares of Continental's Class A common stock bearing, together with certain shares for which Northwest has a limited proxy, more than 50% of the fully diluted voting power of all Continental stock. The government's position is that, notwithstanding various agreements that restrict Northwest's ability to exercise voting control over Continental and are designed to assure Continental's competitive independence, Northwest's control of the Class A common stock will reduce actual and potential competition in various ways and in a variety of markets. The government seeks an order requiring Northwest to divest all voting stock in Continental on terms and conditions as may be agreed to by the government and the Court. No specific relief is sought against Continental. Trial is currently set for October 2000.

#### Environmental Proceedings

Under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (commonly known as "Superfund") and similar state environment cleanup laws, generators of waste disposed of at designated sites may, under certain circumstances, be subject to joint and several liability for investigation and remediation costs. The Company (including its predecessors) has been identified as a potentially responsible party at four federal and two state sites that are undergoing or have undergone investigation or remediation. The Company has entered into a settlement agreement with the Environmental Protection Agency ("EPA") with respect to the four federal sites. The settlement agreement provides for EPA to receive an allowed unsecured claim of approximately \$1.3 million under the Company's Plan of Reorganization (subject to approval of the Bankruptcy Court) and approximately \$230,000 in cash, in full satisfaction of any and all of the Company's liabilities relating to such sites. With respect to the state sites, the Company believes that, although applicable case law is evolving and some cases may be interpreted to the contrary, some or all of any liability claims associated with these sites were discharged by confirmation of the Company's Plan of Reorganization, principally because the Company's exposure is based on alleged offsite disposal known as of the date of confirmation. Even if any such claims were not discharged, on the basis of currently available information, the Company believes that its potential liability for its allocable share of the cost to remedy each site (to the extent the Company is found to have liability) is not, in the aggregate, material; however, the Company has not been designated a "de minimis" contributor at any of such sites.

The Company is also and may from time to time become involved in other environmental matters, including the investigation and/or remediation of environmental conditions at properties used or previously used by the Company. Although the Company is not currently subject to any environmental cleanup orders imposed by regulatory authorities, it is undertaking voluntary investigation or remediation at certain properties in consultation with such authorities. The full nature and extent of any contamination at these properties and the parties responsible for such contamination have not been determined, but based on currently available information, the Company does not believe that any environmental liability associated with such properties will have a material adverse effect on the Company.

#### General

Various other claims and lawsuits against the Company are pending that are of the type generally consistent with the Company's

business. The Company cannot at this time reasonably estimate the possible loss or range of loss that could be experienced if any of the claims were successful. Typically, such claims and lawsuits are covered in whole or in part by insurance. The Company does not believe that the foregoing matters will have a material adverse effect on the Company.

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

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Continental's common stock trades on the New York Stock Exchange. The table below shows the high and low sales prices for the Company's Class B common stock and Class A common stock as reported on the New York Stock Exchange during 1998 and 1999.

	Class B Common Stock		Class A Common Stock	
	High	Low	High	Low
1998 First Quarter . . .	\$62-1/16	\$44	\$64-1/4	\$47-3/4
Second Quarter . . .	\$64	\$54-1/16	\$64-1/2	\$55-3/4
Third Quarter . . .	\$65-1/8	\$35-3/4	\$64-3/4	\$36-1/2
Fourth Quarter . . .	\$42-13/16	\$28-7/8	\$43-5/16	\$30-7/8
1999 First Quarter . . .	\$41-11/16	\$30	\$44-15/16	\$34-1/8
Second Quarter . . .	\$48	\$36-7/16	\$48	\$36-13/16
Third Quarter . . .	\$44-9/16	\$31-5/8	\$44-3/8	\$31-13/16
Fourth Quarter . . .	\$44-3/8	\$32-3/8	\$44-11/16	\$32-3/16

As of January 21, 2000, there were approximately 14,774 and 2,893 holders of record of Continental's Class B common stock and Class A common stock, respectively.

The Company has paid no cash dividends on its common stock and has no current intention of paying cash dividends on its common stock. During 1999, the Company's Board of Directors increased the size of its common stock repurchase program by \$900 million, bringing the total size of the program to \$1.2 billion. In addition, the Company's Board of Directors has also authorized the Company to use up to one-half of its 2000 and later adjusted net income, and all of the net proceeds of future sales of non-strategic assets, for additional stock repurchases. As of January 21, 2000, the Company has repurchased 18,853,600 Class B common shares for \$804 million since the inception of the repurchase program in March 1998. Certain of the Company's credit agreements and indentures restrict the ability of the Company and certain of its subsidiaries to pay cash dividends or repurchase capital stock by imposing minimum unrestricted cash requirements on the Company, limiting the amount of such dividends and repurchases when aggregated with certain other payments or distributions and requiring that the Company comply with other covenants specified in such instruments.

The Company's Certificate of Incorporation provides that no shares of capital stock may be voted by or at the direction of persons who are not United States citizens unless such shares are registered on a separate stock record. The Company's Bylaws further provide that no shares will be registered on such separate stock record if the amount so registered would exceed United States foreign ownership restrictions. United States law currently requires that no more than 25% of the voting stock of the Company (or any other domestic airline) may be owned directly or indirectly by persons who are not citizens of the United States.

ITEM 6. SELECTED FINANCIAL DATA.

The table on the following page sets forth certain consolidated financial data of the Company at December 31, 1999, 1998, 1997, 1996 and 1995 and for each of the five years in the period ended December 31, 1999.

ITEM 6. SELECTED FINANCIAL DATA (Continued)  
(in millions, except per share data)

	1999	Year Ended December 31, 1998	1997	(1)(2) 1996	1995
Operating revenue (3) . . . .	\$8,639	\$7,927	\$7,194	\$6,347	\$5,816
Operating income . . . . .	600	701	716	525	385
Income before cumulative effect of accounting					

changes and extra-ordinary charge. . . . .	488	387	389	325	224
Net income . . . . .	455	383	385	319	224
Earnings per common share:					
Income before cumulative effect of accounting changes and extra-ordinary charge. . . . .	7.02	6.40	6.72	5.87	4.07
Net income . . . . .	6.54	6.34	6.65	5.75	4.07
Earnings per common share assuming dilution:					
Income before cumulative effect of accounting changes and extra-ordinary charge. . . . .	6.64	5.06	5.03	4.25	3.37
Net income . . . . .	6.20	5.02	4.99	4.17	3.37

ITEM 6. SELECTED FINANCIAL DATA (Continued)  
(in millions, except per share data)

	1999	Year Ended 1998	December 31, 1997	(1)(2) 1996	1995
Proforma Effect Assuming Accounting Change-Sale of Frequent Flyer Miles - is Applied Retroactively:					
Income before Extraordinary Charge. . . . .	\$ 488	\$ 382	\$ 385	\$ 319	\$ 219
Earnings per Common Share. . . . .	\$ 7.02	\$ 6.32	\$ 6.65	\$ 5.74	\$ 3.97
Earnings per Common Share Assuming Dilution . . . . .	\$ 6.64	\$ 5.00	\$ 4.98	\$ 4.16	\$ 3.29
Net Income . . . . .	\$ 482	\$ 378	\$ 381	\$ 313	\$ 219
Earnings per Common Share. . . . .	\$ 6.93	\$ 6.26	\$ 6.58	\$ 5.63	\$ 3.97
Earnings per Common Share Assuming Dilution . . . . .	\$ 6.57	\$ 4.95	\$ 4.93	\$ 4.09	\$ 3.29

ITEM 6. SELECTED FINANCIAL DATA (Continued)

	1999	Year Ended 1998	December 31, 1997	1996	1995
Total assets . . . . .	\$8,223	\$7,086	\$5,830	\$5,206	\$4,821
Long-term debt and capital lease obligations. . . . .	3,055	2,480	1,568	1,624	1,658
Minority interest (4). . . . .	-	-	-	15	27
Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust holding solely Convertible Subordinated Debentures (5) . . . . .	-	111	242	242	242
Redeemable preferred stock (6) . . . . .	-	-	-	46	41

(1) See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations" for a discussion of significant transactions in 1999, 1998 and 1997. 1999 results include a \$50 million fleet disposition/impairment loss (\$81 million pre-tax) resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft. In addition, 1999 results include a \$182 million gain (\$297 million pre-tax) related to the sale of the Company's interest in AMADEUS and an \$18 million net gain (\$29 million pre-tax) related to other asset sales, including a portion of the Company's interest in Equant N.V. 1999 results also include the cumulative effect of accounting changes (\$33 million, net of taxes) related to the write-off of pilot training costs and a change in the method of accounting for the sale of mileage credits under the Company's frequent flyer program. 1998 results include a \$122 million fleet disposition/impairment loss resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft. 1996 results include a \$128 million fleet disposition loss associated with the Company's decision to accelerate the replacement of its DC-9-30, DC-10-10, 727-200, 737-100 and 737-200 aircraft. 1995 results include a \$30 million gain (\$108 million pre-tax) from the System One transactions.

- (2) No cash dividends were paid on common stock during the periods shown.
- (3) Certain reclassifications have been made in the prior years' financial data to conform to the current year presentation.
- (4) Continental purchased the United Micronesia Development Association, Inc.'s 9% interest in Air Micronesia, Inc. in 1997.
- (5) The sole assets of the Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust ("Trust") were Convertible Subordinated Debentures. In 1998, approximately \$134 million principal amount of such Preferred Securities converted into shares of Class B common stock, and in January 1999, the remainder of such Preferred Securities converted into shares of Class B common stock.
- (6) Continental redeemed for cash all of the outstanding shares of its Series A 12% Cumulative Preferred Stock in 1997.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion may contain forward-looking statements. In connection therewith, please see the cautionary statements contained in Item 1. "Business - Risk Factors Relating to the Company" and "Business - Risk Factors Relating to the Airline Industry" which identify important factors that could cause actual results to differ materially from those in the forward-looking statements. Hereinafter, the terms "Continental" and the "Company" refer to Continental Airlines, Inc. and its subsidiaries, unless the context indicates otherwise.

Continental's results of operations are impacted by seasonality (the second and third quarters are generally stronger than the first and fourth quarters) as well as numerous other factors that are not necessarily seasonal, including the extent and nature of competition from other airlines, employee job actions (including at other airlines), fare sale activities, excise and similar taxes, changing levels of operations and capacity, fuel prices, weather, air traffic control delays, foreign currency exchange rates, changes in regulations and aviation treaties and general economic conditions. Recently, jet fuel prices have increased dramatically. If high fuel costs continue without an improvement in the revenue environment, the Company may not post a profit in the first quarter of 2000. In addition, industry capacity and growth in the transatlantic markets (including block space arrangements where Continental is obligated to purchase capacity at a fixed price) have resulted in lower yields and revenue per available seat mile in those markets, which trend is expected to continue in 2000. Although the results in Asia of Continental Micronesia, Inc. ("CMI"), a wholly owned subsidiary of the Company, have declined in recent years, the Company successfully redeployed CMI capacity into stronger domestic markets and CMI's recent results continue to improve. Continental will continue to critically review its growth plans in light of industry conditions and will adjust or redeploy resources, including aircraft capacity, as necessary, similar to its recent decision to accelerate the retirement of certain DC-10-30 aircraft and replace them with narrowbody aircraft on certain transatlantic routes. In addition, management believes the Company is well positioned to respond to market conditions in the event of a sustained economic downturn for the following reasons: underdeveloped hubs with strong local traffic; a flexible fleet plan; a strong cash balance, a \$225 million unused revolving credit facility and a well developed alliance network.

Results of Operations

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three years ended December 31, 1999.

Comparison of 1999 to 1998. The Company recorded consolidated net income of \$455 million and \$383 million for the years ended December 31, 1999 and 1998, respectively. Net income in 1999 was significantly impacted by several non-recurring items, including a \$182 million gain on the sale of the Company's interest in AMADEUS Global Travel Distribution S.A. ("AMADEUS") (\$297 million pre-tax), a \$50 million fleet disposition/impairment loss (\$81 million pre-tax) related to the early retirement of several DC-10-30's and other items, the cumulative effect of accounting changes (\$33 million, net of taxes) related to the write-off of pilot training costs and a change in the method of accounting for the sale of mileage credits to participating partners in the Company's frequent flyer program, a \$20 million gain (\$33 million pre-tax) on the sale of a portion of the Company's interest in Equant N.V. ("Equant") and a \$3 million loss (\$4 million pre-tax) on the sale of the Company's warrants to purchase common stock of priceline.com, Inc. ("Priceline"). Net income in 1998 was significantly impacted by a \$77 million (\$122 million pre-tax) fleet disposition/ impairment loss resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft.

Passenger revenue increased 8.9%, \$660 million, during 1999 as compared to 1998. The increase was due to an 11.3% increase in revenue passenger miles, partially offset by a 3.3% decrease in yield. Both yield pressures in the transatlantic markets and a 6.7% increase in average stage length negatively impacted yield.

Cargo and mail revenue increased 10.2%, \$28 million, in 1999 as compared to 1998 due to increased domestic and international volumes and new markets added in 1999.

Other operating revenue increased 12.2%, \$24 million, in 1999 compared to the prior year primarily due to an increase in fees charged to customers to change advance purchase tickets and also due to an increase in Presidents Club revenue as a result of a larger number of these airport private clubs.

Wages, salaries and related costs increased 13.2%, \$292 million, during 1999 as compared to 1998, primarily due to an 8.3% increase in average full-time equivalent employees to support increased flying and higher wage rates resulting from the Company's decision to increase employee wages to industry standard by the year 2000.

Aircraft fuel expense increased 6.1%, \$44 million, in 1999 as compared to the prior year. The average price per gallon increased 1.0% from 46.83 cents in 1998 to 47.31 cents in 1999. This increase is net of gains of approximately \$105 million recognized during 1999 related to the Company's fuel hedging program. See "Fuel Hedging" below. In addition, the quantity of jet fuel used increased 3.7% principally reflecting increased capacity offset in part by the increased fuel efficiency of the Company's younger fleet.

Aircraft rentals increased 17.0%, \$112 million, during 1999 as compared to 1998, due to the delivery of new aircraft.

Commissions expense decreased 1.2%, \$7 million, during 1999 as compared to 1998 due to lower rates resulting from international commission caps and a lower volume of commissionable sales, partially offset by increased passenger revenue.

Other rentals and landing fees increased 20.0%, \$83 million, primarily due to higher facilities rent due to increased rates and volume and higher landing fees resulting from increased operations.

Depreciation and amortization expense increased 22.4%, \$66 million, in 1999 compared to 1998 primarily due to the addition of new aircraft and related spare parts. These increases were partially offset by approximately a \$5 million reduction in the amortization of routes, gates and slots resulting from the recognition of previously unbenefitted net operating losses ("NOLs") during 1998.

During the fourth quarter of 1999, the Company made the decision to accelerate the retirement of six DC-10-30 aircraft and other items in 1999 and the first half of 2000 and to dispose of related excess inventory. The DC-10-30's will be replaced by Boeing 757 and Boeing 737-800 aircraft on certain routes, and by Boeing 777 aircraft on other routes. In addition, the market value of certain Boeing 747 aircraft no longer operated by the Company has declined. As a result of these items and certain other fleet-related items, the Company recorded a fleet disposition/impairment loss of \$81 million in the fourth quarter of 1999.

Approximately \$52 million of the \$81 million charge relates to the impairment of owned or capital leased aircraft and related inventory held for disposal with a carrying amount of \$77 million. The remaining \$29 million of the charge relates primarily to costs expected to be incurred related to the return of leased aircraft. As of December 31, 1999, the remaining accrual for the 1999 fleet disposition/impairment loss totaled \$12 million. The Company expects to finance the cash outlays primarily with internally generated funds.

Other operating expense increased 14.9%, \$243 million, in 1999 as compared to the prior year, primarily as a result of increases in passenger services expense, aircraft servicing expense, reservations and sales expense and other miscellaneous expense, principally due to a 9.7% increase in available seat miles.

Interest expense increased 30.9%, \$55 million, due to an increase in long-term debt resulting from the purchase of new aircraft and \$200 million of 8% unsecured senior notes issued in December 1998, partially offset by interest savings of \$9 million due to the conversion of the Company's 6-3/4% Convertible Subordinated Notes into Class B common stock.

Interest income increased 20.3%, \$12 million, due to higher average balances of cash, cash equivalents and short-term investments and due to higher rates.

The Company's other nonoperating income (expense) in 1999 includes a \$33 million gain on the sale of a portion of the Company's interest in Equant, partially offset by foreign currency losses of \$13 million, losses on equity investments of \$7 million and a \$4 million loss on the sale of the Company's warrants to purchase common stock of Priceline. Other nonoperating income (expense) in 1998 included a \$6 million gain on the sale of certain stock of

America West Holdings Corporation ("America West Holdings").

Comparison of 1998 to 1997. The Company recorded consolidated net income of \$383 million and \$385 million for the years ended December 31, 1998 and 1997 (including special charges), respectively. Net income in 1998 was significantly impacted by a \$77 million (\$122 million pre-tax) fleet disposition/impairment loss resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft. Management believes that the Company benefitted in the first quarter of 1997 from the expiration of the aviation trust fund tax (the "ticket tax"). The ticket tax was reinstated on March 7, 1997. Management believes that the ticket tax has a negative impact on the Company, although neither the amount of such negative impact directly resulting from the reimposition of the ticket tax, nor the benefit realized by its previous expiration, can be precisely determined.

Passenger revenue increased 10.7%, \$723 million, during 1998 as compared to 1997. The increase was due to a 12.5% increase in revenue passenger miles, partially offset by a 2.4% decrease in yield. The decrease in yield was due to lower industry-wide fare levels and an 8% increase in average stage length.

Cargo and mail increased 6.6%, \$17 million, due to an increase in freight revenue resulting from strong international volumes and strong growth in Continental's express delivery service.

Wages, salaries and related costs increased 22.3%, \$404 million, during 1998 as compared to 1997, primarily due to an 11.2% increase in average full-time equivalent employees to support increased flying and higher wage rates resulting from the Company's decision to increase employee wages to industry standards by the year 2000.

Aircraft fuel expense decreased 17.9%, \$158 million, in 1998 as compared to the prior year. The average price per gallon decreased 25.6% from 62.91 cents in 1997 to 46.83 cents in 1998. This reduction was partially offset by a 9.6% increase in the quantity of jet fuel used principally reflecting increased capacity.

Aircraft rentals increased 19.6%, \$108 million, during 1998 as compared to 1997, due primarily to the delivery of new leased aircraft.

Maintenance, materials and repairs increased 8.4%, \$45 million, during 1998 as compared to 1997. Aircraft maintenance expense in the second quarter of 1997 was reduced by \$16 million due to the reversal of reserves that were no longer required as a result of the acquisition of 10 aircraft previously leased by the Company. In addition, maintenance expense increased due to the overall increase in flight operations offset by newer aircraft and the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Depreciation and amortization expense increased 15.7%, \$40 million, in 1998 compared to 1997 primarily due to the addition of new aircraft and related spare parts. These increases were partially offset by an approximate \$18 million reduction in the amortization of reorganization value in excess of amounts allocable to identifiable assets and routes, gates and slots resulting from the recognition of previously unbenefitted NOLs.

In August 1998, Continental announced that CMI would accelerate the retirement of its four Boeing 747 aircraft by April 1999 and its remaining thirteen Boeing 727 aircraft by December 2000. The Boeing 747s were replaced by DC-10-30 aircraft and the Boeing 727 aircraft were replaced with a reduced number of Boeing 737 aircraft. In addition, Continental Express, Inc. ("Express"), a wholly owned subsidiary of the Company, announced that it would accelerate the retirement of certain turboprop aircraft by December 2000, including its fleet of 32 Embraer 120 turboprop aircraft, as regional jets are acquired to replace turboprops. As a result of its decision to accelerate the retirement of these aircraft, Continental recorded a fleet disposition/impairment loss of \$77 million (\$122 million pre-tax) in the third quarter of 1998.

Other operating expense increased 10.3%, \$152 million, in 1998 as compared to the prior year, primarily as a result of increases in passenger and aircraft servicing expense, reservations and sales expense and other miscellaneous expense, primarily due to the 10.6% increase in available seat miles.

Interest expense increased 7.2%, \$12 million, due to an increase in long-term debt resulting from the purchase of new aircraft.

Interest capitalized increased 57.1%, \$20 million, due to increased capital spending and a higher average balance of purchase deposits for flight equipment.

The Company's other nonoperating income (expense) in 1998 included a \$6 million gain on the sale of America West Holdings stock.

## Certain Statistical Information

An analysis of statistical information for Continental's jet operations, excluding regional jets operated by Express, for each of the three years in the period ended December 31, 1999 is as follows:

	1999	Net Increase/ (Decrease) 1999-1998	1998	Net Increase/ (Decrease) 1998-1997	1997
Revenue pas- senger miles (millions) (1) . . .	60,022	11.3 %	53,910	12.5 %	47,906
Available seat miles (millions) (2) . . .	81,946	9.7 %	74,727	10.6 %	67,576
Passenger load factor (3) . . .	73.2%	1.1 pts.	72.1%	1.2 pts.	70.9%
Breakeven pas- senger load factor (4), (5) . . .	65.6%	4.0 pts.	61.6%	1.5 pts.	60.1%
Passenger revenue per available seat mile (cents) . . . . .	9.06	(1.8)%	9.23	(0.6)%	9.29
Total revenue per available seat mile (cents) . . . . .	9.81	(1.4)%	9.95	(1.1)%	10.06
Operating cost per available seat mile (cents) (5) . . . . .	9.03	1.6 %	8.89	(1.7)%	9.04
Average yield per revenue passenger mile (cents) (6) . . . . .	12.37	(3.3)%	12.79	(2.4)%	13.11
Average fare per revenue passenger . . . . .	\$163.07	3.2 %	\$158.02	3.7 %	\$152.40
Revenue passengers (thousands) . . . . .	45,540	4.4 %	43,625	5.9 %	41,210
Average length of aircraft flight (miles) . . . . .	1,114	6.7 %	1,044	8.0 %	967
Average daily utilization of each aircraft (hours) (7) . . . . .	10:29	2.6 %	10:13	0.0 %	10:13
Actual aircraft in fleet at end of period (8) . . . . .	363	-	363	7.7 %	337

Continental has entered into block space arrangements with certain other carriers whereby one or both of the carriers is obligated to purchase capacity on the other. The table above excludes 2.6 billion, 1.9 billion and 738 million available seat miles, together with related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carriers in 1999, 1998 and 1997, respectively, and includes 1.0 billion and 358 million available seat miles, together with related revenue passenger miles and enplanements, operated by other carriers but purchased and marketed by Continental in 1999 and 1998, respectively.

- (1) The number of scheduled miles flown by revenue passengers.
- (2) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
- (3) Revenue passenger miles divided by available seat miles.
- (4) The percentage of seats that must be occupied by revenue passengers in order for the airline to break even on an income before income taxes basis, excluding nonrecurring charges, nonoperating items and other special items.
- (5) 1999 and 1998 exclude fleet disposition/impairment losses totaling \$81 million and \$122 million, respectively.
- (6) The average revenue received for each mile a revenue passenger is carried.
- (7) The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).
- (8) Excludes all-cargo 727 aircraft (four in 1999 and six in 1998 and 1997) at CMI.

## Liquidity and Capital Resources

During 1999, the Company completed a number of transactions intended to strengthen its long-term financial position and enhance earnings:

In February 1999, the Company completed an offering of \$806 million of pass-through certificates used to finance (either through leveraged leases or secured debt financings) the debt portion of the acquisition cost of 22 aircraft delivered in 1999.

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

In April 1999, the Company exercised its right and called for redemption in May 1999, all \$230 million of its 6-3/4% Convertible Subordinated Notes due 2006. The notes were converted into 7.6 million shares of Class B common stock during May 1999.

Also, in June 1999, the Company completed an offering of \$742 million of pass-through certificates used to finance (either through leveraged leases or secured debt financings) the debt portion of the acquisition cost of 21 new Boeing aircraft delivered in 1999.

In October 1999, Continental sold its interest in AMADEUS for \$409 million, including a special dividend.

During 1999, the Company's Board of Directors increased the size of its common stock repurchase program by \$900 million, bringing the total size of the program to \$1.2 billion. As of January 21, 2000, the Company has repurchased 18,853,600 Class B common shares for \$804 million since the inception of the program in March of 1998.

As of December 31, 1999, Continental had approximately \$3.4 billion (including current maturities) of long-term debt and capital lease obligations, and had approximately \$1.6 billion of common stockholders' equity, a ratio of 2.1 to 1, at both December 31, 1999 and 1998.

As of December 31, 1999, the Company had \$1.6 billion in cash and cash equivalents and short-term investments, compared to \$1.4 billion as of December 31, 1998. Net cash provided by operating activities decreased \$100 million during the year ended December 31, 1999 compared to the same period in the prior year primarily due to a decrease in operating income. Net cash used by investing activities for the year ended December 31, 1999 compared to the same period in the prior year decreased \$39 million, primarily due to proceeds received from the sale of AMADEUS and increased proceeds received from the sale of equipment offset by the purchase of short-term investments in 1999. Net cash used by financing activities increased \$514 million primarily due to an increase in the purchase of the Company's Class B common stock and a decrease in proceeds received from the issuance of long-term debt.

Continental has unused lines of credit totaling \$225 million. A significant amount of Continental's assets are encumbered.

Deferred Tax Assets. As of December 31, 1999, the Company had deferred tax assets aggregating \$611 million, including \$266 million of NOLs, and a valuation allowance of \$263 million.

As a result of NOLs, the Company will not pay United States federal income taxes (other than alternative minimum tax) until it has recorded approximately an additional \$700 million of taxable income following December 31, 1999. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change". In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. In the event that an ownership change should occur, utilization of Continental's NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax exempt rate (which was 5.72% for December 1999). Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by the Company at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, Continental's annual NOL utilization would be limited to approximately \$172 million per year other than through the recognition of future built-in gain transactions.

On November 20, 1998, an affiliate of Northwest Airlines, Inc. completed its acquisition of certain equity of the Company previously held by Air Partners, L.P. and its affiliates, together with certain Class A common stock of the Company held by certain other investors, totaling 8,661,224 shares of the Class A common stock (the "Air Partners Transaction"). The Company does not believe that the Air Partners Transaction resulted in an ownership change for purposes of Section 382.



Purchase Commitments. Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of January 14, 2000, Continental had agreed to acquire a total of 74 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 28 Boeing jet aircraft in 2000. Continental also has options for an additional 118 aircraft (exercisable subject to certain conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately \$4 billion. Continental currently plans to finance its new Boeing aircraft with a combination of enhanced pass through trust certificates, lease equity and other third-party financing, subject to availability and market conditions. Continental has commitments or letters of intent for backstop financing for approximately 18% of the anticipated remaining acquisition cost of future Boeing deliveries. In addition, at January 14, 2000, Continental has firm commitments to purchase 34 spare engines related to the new Boeing aircraft for approximately \$219 million which will be deliverable through March 2005. However, further financing will be needed to satisfy the Company's capital commitments for other aircraft and aircraft-related expenditures such as engines, spare parts, simulators and related items. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments. Deliveries of new Boeing aircraft are expected to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

As of January 14, 2000, Express had firm commitments for 43 Embraer ERJ-145 ("ERJ-145") regional jets and 19 Embraer ERJ-135 ("ERJ-135") regional jets, with options for an additional 100 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 15 ERJ-145 and 12 ERJ-135 regional jets in 2000. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 or ERJ-135 aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 2000 capital expenditures, exclusive of fleet plan requirements, to aggregate \$207 million, primarily relating to software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment. Continental's capital expenditures during 1999 aggregated \$213 million, exclusive of fleet plan requirements.

The Company expects to fund its future capital commitments through internally generated funds together with general Company financings and aircraft financing transactions. However, there can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments.

Continental has certain block-space arrangements whereby it is committed to purchase capacity on other carriers at an aggregate cost of approximately \$159 million per year. These arrangements are currently scheduled to expire over the next eight years. Pursuant to other block-space arrangements, other carriers are committed to purchase capacity at a cost of approximately \$95 million per year on Continental.

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

The Company uses a significant number of computer software programs and embedded operating systems that are essential to its operations. For this reason, the Company implemented a Year 2000 project in late 1995 so that the Company's computer systems would function properly in the year 2000 and thereafter. The Company's Year 2000 project involved the review of a number of internal and third-party systems. Each system was subjected to the project's five phases which consisted of systems inventory, evaluation and analysis, modification implementation, user testing and integration compliance. The Company completed its system review and made certain modifications to its existing software and systems and/or conversions to new software. As a result, the Year 2000 issue did not pose any operational problems.

The Company completed its extensive communications and on-site visits with its significant suppliers, vendors and governmental agencies with which its systems interface and exchange data or upon

which its business depends. The Company coordinated efforts with these parties to minimize the extent to which its business would be vulnerable to their failure to remediate their own Year 2000 problems. The Company's business is dependent upon certain domestic and foreign governmental organizations or entities such as the Federal Aviation Administration that provide essential aviation industry infrastructure. The systems of such third parties on which Continental relies did not pose significant operational problems for the Company. Management updated its day-to-day operational contingency plans for possible Year 2000-specific operational requirements. Although passenger travel was lower in the latter part of December and early January due in part, the Company believes, to Year 2000 concerns, the Company does not believe that it has continued exposure to the Year 2000 issue.

The total cost of the Company's Year 2000 project (excluding internal payroll) was \$20 million and was funded through cash from operations. In addition, the Company estimates that the negative revenue impact in the latter part of December and early January attributable to the Year 2000 concerns approximated \$20 million and \$10 million, respectively. The cost of the Year 2000 project was limited by the substantial outsourcing of the Company's systems and the significant implementation of new systems since 1993.

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

Continental substantially completed the expansion of its facilities at its Hopkins International Airport hub in Cleveland in the third quarter of 1999. The expansion, which included a new jet concourse for the regional jet service offered by Express, as well as other facility improvements, cost approximately \$156 million and was funded principally by a combination of tax-exempt special facilities revenue bonds (issued in March 1998) and general airport revenue bonds (issued in December 1997) by the City of Cleveland, Ohio (the "City of Cleveland"). Continental has unconditionally guaranteed the special facilities revenue bonds and has entered into a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds.

In September 1999, the City of Cleveland completed the issuance of \$71 million aggregate principal amount of tax-exempt bonds. The bond proceeds were used to refinance \$75 million aggregate principal amount in bonds originally issued by the City of Cleveland in 1990 for the purpose of constructing certain terminal and other improvements at Cleveland Hopkins International Airport. Continental has unconditionally guaranteed the bonds and has a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds, which have a term of 20 years. Continental estimates that it will save approximately \$44 million in debt service payments over the 20-year term as a result of the refinancing.

Also, in September 1999, the New Jersey Economic Development Authority completed the offering of \$730 million aggregate principal amount of tax-exempt special facility revenue bonds to finance a portion of Continental's Global Gateway Program at Newark International Airport. Major construction began in the third quarter of 1999 and is scheduled to be completed in 2002. The program includes construction of a new concourse in Terminal C and other facility improvements. Continental has unconditionally guaranteed the bonds and has entered into a long-term lease with the New Jersey Economic Development Authority under which rental payments will be sufficient to service the related bonds, which have a term of 30 years.

**Employees.** In September 1997, the Company announced a plan to bring all employees to industry standard wages no later than the end of the year 2000. Wage increases began in 1997, and will continue to be phased in through 2000. The Company is in the process of formulating a plan to bring employees to industry standard benefits over a multi-year period.

The following is a table of the Company's, Express's and CMI's principal collective bargaining agreements, and their respective amendable dates:

Employee Group	Approximate Number of Full-time Equivalent Employees	Representing Union	Contract Amendable Date
Continental Pilots	5,000	Independent Association of Continental Pilots ("IACP")	October 2002
Express Pilots	1,350	IACP	October 2002
Dispatchers	150	Transport Workers Union of America	October 2003
Continental Mechanics	3,300	International Brotherhood of Teamsters ("Teamsters")	January 2002
Express Mechanics	350	Teamsters	January 2003
CMI Mechanics	150	Teamsters	March 2001
Continental Flight Attendants	7,800	International Association of Machinists and Aerospace Workers ("IAM")	(Negotiations for amended contract ongoing)
Express Flight Attendants	500	IAM	(Negotiations for amended contract ongoing)
CMI Flight Attendants	350	IAM	June 2000
CMI Fleet and Passenger Service Employees	475	Teamsters	March 2001

In February 2000, the Company announced a 54-month tentative collective bargaining agreement with its Continental Airlines flight attendants. The agreement is subject to ratification by the Continental Airlines flight attendants. In September 1999, Express and the IAM began collective bargaining negotiations to amend the Express flight attendants' contract (which became amendable in November 1999). The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time.

The other employees of Continental, Express and CMI are not covered by collective bargaining agreements.

Other. The Department of Transportation has proposed the elimination of slot restrictions at high density airports other than Ronald Reagan Washington National Airport in Washington, D.C. Legislation containing a similar proposal, which could eliminate slots as early as 2002 at O'Hare International Airport in Chicago and 2007 at LaGuardia Airport and John F. Kennedy International Airport in New York has passed the full House of Representatives and the full Senate and is currently being considered by a conference committee. The Company cannot predict whether any of these proposals will be adopted. However, if legislation or regulation eliminating slots were adopted, the value of such slots could be deemed to be permanently impaired, resulting in a loss being charged to earnings for the relevant period. Moreover, the elimination of slots could have an adverse effect upon future results of operations of the Company. At December 31, 1999, the net book value of slots at these three airports was \$64 million.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Sensitive Instruments and Positions

The Company is subject to certain market risks, including commodity price risk (i.e., aircraft fuel prices), interest rate risk, foreign currency risk and price changes related to investments in equity securities. The adverse effects of potential changes in these market risks are discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions management may take to mitigate the Company's exposure to such changes. Actual results may differ. See the notes to the consolidated financial statements for a description of the Company's accounting policies and other information related to these financial instruments.

**Aircraft Fuel.** The Company's results of operations are significantly impacted by changes in the price of aircraft fuel. During 1999 and 1998, aircraft fuel accounted for 9.7% and 10.2%, respectively, of the Company's operating expenses (excluding fleet disposition/impairment losses). In order to provide short-term protection (generally three to six months) against a sharp increase in jet fuel prices, the Company from time to time enters into petroleum call options, petroleum swap contracts and jet fuel purchase commitments. The Company's fuel hedging strategy could result in the Company not fully benefiting from certain fuel price declines. As of December 31, 1999, the Company had hedged approximately 24% of its projected 2000 fuel requirements, including 93% related to the first quarter and 8% related to the second quarter using petroleum call options, compared to approximately 25% of its projected 1999 fuel requirements hedged at December 31, 1998 using petroleum swap contracts and purchase commitments. The Company estimates that at December 31, 1999, a ten percent increase in the price per gallon of aircraft fuel would not have a material impact on the fair value of the existing petroleum call options, as compared to an \$8 million increase in the fair value of the petroleum swap contracts existing at December 31, 1998.

**Foreign Currency.** The Company is exposed to the effect of exchange rate fluctuations on the U.S. dollar value of foreign currency denominated operating revenue and expenses. The Company's largest exposure comes from the Japanese yen. However, the Company is attempting to mitigate the effect of certain potential foreign currency losses by entering into forward contracts that effectively enable it to sell Japanese yen expected to be received from yen-denominated net cash flows over the next twelve months at specified exchange rates. As of December 31, 1999, the Company had entered into forward contracts to hedge approximately 95% of its 2000 projected yen-denominated net cash flows, as compared to having in place average rate options and forward contracts to hedge 69% of its 1999 projected yen-denominated net cash flows at December 31, 1998. The Company estimates that at December 31, 1999, a 10% strengthening in the value of the U.S. dollar relative to the yen would have increased the fair value of the existing forward contracts by \$18 million as compared to a \$7 million increase in the fair value of existing average rate options and forward contracts at December 31, 1998.

**Interest Rates.** The Company's results of operations are affected by fluctuations in interest rates (e.g., interest expense on debt and interest income earned on short-term investments).

The Company had approximately \$690 million and \$599 million of variable-rate debt as of December 31, 1999 and 1998, respectively. The Company has mitigated its exposure on certain variable-rate debt by entering into an interest rate cap (notional amount of \$106 million and \$125 million as of December 31, 1999 and 1998, respectively) which expires in July 2001. The interest rate cap limits the amount of potential increase in the LIBOR rate component of the floating rate to a maximum of 9% over the term of the contract. If average interest rates increased by 100 basis points during 2000 as compared to 1999, the Company's projected 2000 interest expense would increase by approximately \$6 million. At December 31, 1998, an interest rate increase of 100 basis points during 1999 and compared to 1998 was projected to increase 1999 interest expense by approximately \$5 million. The interest rate cap does not mitigate this increase in interest expense materially given the current level of such floating rates.

As of December 31, 1999 and 1998, the fair value of \$2.2 billion and \$1.5 billion (carrying value) of the Company's fixed-rate debt was estimated to be \$2.2 billion and \$1.5 billion, respectively, based upon discounted future cash flows using current incremental borrowing rates for similar types of instruments or market prices. Market risk, estimated as the potential increase in fair value resulting from a hypothetical 100 basis points decrease in interest rates, was approximately \$91 million and \$70 million as of December

31, 1999 and 1998, respectively. The fair value of the remaining fixed-rate debt at December 31, 1999 and 1998, (with a carrying value of \$248 million and \$287 million, respectively, and primarily relates to aircraft modification notes and various loans with immaterial balances) was not practicable to estimate due to the large number and small dollar amounts of these notes.

If 2000 average short-term interest rates decreased by 100 basis points over 1999 average rates, the Company's projected interest income from cash, cash equivalents and short-term investments would decrease by approximately \$11 million during 2000, compared to an estimated \$13 million decrease during 1999 measured at December 31, 1998.

Investments in Equity Securities. The Company has a 49% equity investment in Compania Panamena de Aviacion, S.A. ("COPA") and a 28% equity investment in Gulfstream International Airlines, Inc. ("Gulfstream") which are also subject to price risk. However, since a readily determinable market value does not exist for either COPA or Gulfstream (each is privately held), the Company is unable to quantify the amount of price risk sensitivity inherent in these investments. At December 31, 1999 and 1998, the carrying value of COPA was \$49 million and \$53 million, respectively.

At December 31, 1999, the Company owned approximately 357,000 depository certificates convertible, subject to certain restrictions, into the common stock of Equant, which completed an initial public offering in July 1998. As of December 31, 1999, the estimated fair value of these depository certificates was approximately \$40 million, based upon the publicly traded market value of Equant common stock. Since the fair value of the Company's investment in the depository certificates is not readily determinable (i.e., the depository certificates are not traded on a securities exchange), the investment is carried at cost, which was not material as of December 31, 1999 or 1998.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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##### REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Continental Airlines, Inc.

We have audited the accompanying consolidated balance sheets of Continental Airlines, Inc. (the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of operations, redeemable preferred stock and common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999,

in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 1999, the Company changed its method of accounting for the sale of mileage credits to participating partners in its frequent flyer program.

ERNST & YOUNG LLP

Houston, Texas  
January 17, 2000

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

	Year Ended December 31,		
	1999	1998	1997
Operating Revenue:			
Passenger . . . . .	\$8,116	\$7,456	\$6,733
Cargo and mail . . . . .	303	275	258
Other . . . . .	220	196	203
	8,639	7,927	7,194
Operating Expenses:			
Wages, salaries and related costs . . . . .	2,510	2,218	1,814
Aircraft fuel . . . . .	771	727	885
Aircraft rentals . . . . .	771	659	551
Maintenance, materials and repairs . . . . .	603	582	537
Commissions . . . . .	576	583	567
Other rentals and landing fees . . . . .	497	414	395
Depreciation and amortization . . . . .	360	294	254
Fleet disposition/impairment losses . . . . .	81	122	-
Other . . . . .	1,870	1,627	1,475
	8,039	7,226	6,478
Operating Income	600	701	716
Nonoperating Income (Expense):			
Interest expense . . . . .	(233)	(178)	(166)
Interest income . . . . .	71	59	56
Interest capitalized . . . . .	55	55	35
Gain on sale of AMADEUS . . . . .	297	-	-
Other, net . . . . .	8	11	(1)
	198	(53)	(76)
Income before Income Taxes, Cumulative Effect of Accounting Changes and Extraordinary Charge . . . . .	798	648	640
Income Tax Provision . . . . .	(310)	(248)	(237)
Distributions on Preferred Securities of Trust, net of applicable income taxes of \$7 and \$8 in 1998 and 1997, respectively . . . . .	-	(13)	(14)

(continued on next page)

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

	Year Ended December 31,		
	1999	1998	1997
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge . . . . .	\$ 488	\$ 387	\$ 389
Cumulative Effect of Accounting Changes, Net of Applicable Income Taxes of \$19 (1) . . . . .	(33)	-	-

Extraordinary Charge, net of applicable income taxes of \$2 in 1998 and 1997. . . .	-	(4)	(4)
Net Income. . . . .	455	383	385
Preferred Dividend Requirements and Accretion to Liquidation Value . . . . .	-	-	(2)
Income Applicable to Common Shares. . . . \$	455	\$ 383	\$ 383
Earnings per Common Share:			
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge. . . . .	\$ 7.02	\$ 6.40	\$ 6.72
Cumulative Effect of Accounting Changes . . . . .	(0.48)	-	-
Extraordinary Charge. . . . .	-	(0.06)	(0.07)
Net Income. . . . .	\$ 6.54	\$ 6.34	\$ 6.65

Earnings per Common Share Assuming Dilution:			
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge. . . . .	\$ 6.64	\$ 5.06	\$ 5.03
Cumulative Effect of Accounting Changes . . . . .	(0.44)	-	-
Extraordinary Charge. . . . .	-	(0.04)	(0.04)
Net Income. . . . .	\$ 6.20	\$ 5.02	\$ 4.99

(1) See Note 1(i) for the proforma effect of retroactive application of the accounting change.

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

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

ASSETS	December 31, 1999	December 31, 1998
Current Assets:		
Cash and cash equivalents. . . . .	\$1,198	\$1,399
Short-term investments . . . . .	392	-
Accounts receivable, net of allowance for doubtful receivables of \$20 and \$22, respectively . . . . .	506	449
Spare parts and supplies, net of allowance for obsolescence of \$59 and \$46, respectively . . . . .	236	166
Deferred income taxes. . . . .	145	234
Prepayments and other assets . . . . .	129	106
Total current assets . . . . .	2,606	2,354
Property and Equipment:		
Owned property and equipment:		
Flight equipment. . . . .	3,593	2,459
Other . . . . .	814	582
	4,407	3,041
Less: Accumulated depreciation . . . .	808	625
	3,599	2,416
Purchase deposits for flight equipment .	366	410
Capital leases:		
Flight equipment. . . . .	300	361
Other . . . . .	88	56
	388	417
Less: Accumulated amortization . . . .	180	178
	208	239
Total property and equipment . . . . .	4,173	3,065
Other Assets:		
Routes, gates and slots, net of accumulated amortization of \$345 and \$295, respectively. . . . .	1,131	1,181
Investments. . . . .	71	151
Other assets, net. . . . .	242	335
Total other assets . . . . .	1,444	1,667
Total Assets . . . . .	\$8,223	\$7,086

(continued on next page)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1999	December 31, 1998
Current Liabilities:		
Current maturities of long-term debt . . . . .	\$ 278	\$ 184
Current maturities of capital leases . . . . .	43	47
Accounts payable . . . . .	856	843
Air traffic liability . . . . .	962	854
Accrued payroll and pensions . . . . .	299	265
Accrued other liabilities . . . . .	337	249
Total current liabilities . . . . .	2,775	2,442
Long-Term Debt . . . . .	2,855	2,267
Capital Leases . . . . .	200	213
Other Long-Term Liabilities:		
Deferred income taxes . . . . .	590	372
Accruals for aircraft retirements and excess facilities . . . . .	69	95
Other . . . . .	141	393
Total other long-term liabilities . . . . .	800	860
Commitments and Contingencies		
Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures . . . . .	-	111
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 11,320,849 shares issued and out- standing in 1999 and 11,406,732 shares issued and outstanding in 1998 . . . . .	-	-
Class B common stock - \$.01 par, 200,000,000 shares authorized; 63,923,431 shares issued in 1999 and 53,370,741 shares issued in 1998 . . . . .	1	1
Additional paid-in capital . . . . .	871	634
Retained earnings . . . . .	1,114	659
Accumulated other comprehensive income . . . . .	(1)	(88)
Treasury Stock - 9,763,684 and 399,524 Class B shares, respectively, at cost . . . . .	(392)	(13)
Total common stockholders' equity . . . . .	1,593	1,193
Total Liabilities and Stockholders' Equity . . . . .	\$8,223	\$7,086

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

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

	Year Ended December 31,		
	1999	1998	1997
Cash Flows From Operating			
Activities:			
Net income . . . . .	\$ 455	\$ 383	\$ 385
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes . . . . .	293	224	212



Depreciation . . . . .	284	211	162
Amortization . . . . .	76	83	92
Fleet disposition/impairment losses . .	81	122	-
Gain on sale of AMADEUS . . . . .	(297)	-	-
Gain on sale of other investments . . .	(29)	(6)	-
Cumulative effect of change in accounting principles . . . . .	33	-	-
Other, net . . . . .	(83)	(4)	34
Changes in operating assets and liabilities:			
Increase in accounts receivable . . .	(53)	(102)	(1)
Increase in spare parts and supplies . . . . .	(99)	(71)	(38)
Increase in accounts payable . . . .	8	59	71
Increase in air traffic liability . .	110	108	85
Other . . . . .	(3)	(131)	(103)
Net cash provided by operating activities . . . . .	776	876	899
Cash Flows from Investing Activities:			
Purchase deposits paid in connection with future aircraft deliveries . . . .	(1,174)	(818)	(409)
Purchase deposits refunded in connection with aircraft delivered . . .	1,139	758	141
Capital expenditures . . . . .	(706)	(610)	(417)
Purchase of short-term investments . .	(392)	-	-
Proceeds from sale of AMADEUS, net . .	391	-	-
Proceeds from disposition of property and equipment . . . . .	77	46	29
Proceeds from sale of other investments.	35	9	-
Investment in and advances to partner airlines . . . . .	(23)	(53)	-
Other . . . . .	(6)	(30)	(1)
Net cash used by investing activities .	(659)	(698)	(657)

(continued on next page)

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

	Year Ended December 31,		
	1999	1998	1997
Cash Flows From Financing Activities:			
Proceeds from issuance of long-term debt, net . . . . .	\$ 453	\$ 737	\$ 517
Purchase of Class B common stock . . . .	(528)	(223)	-
Payments on long-term debt and capital lease obligations . . . . .	(295)	(423)	(676)
Proceeds from issuance of common stock .	38	56	24
Proceeds from sale-leaseback transactions . . . . .	14	71	39
Dividends paid on preferred securities of trust . . . . .	-	(22)	(22)
Purchase of warrants to purchase Class B common stock . . . . .	-	-	(94)
Redemption of redeemable preferred stock . . . . .	-	-	(48)
Other . . . . .	-	-	(18)
Net cash (used) provided by financing activities . . . . .	(318)	196	(278)
Net (Decrease) Increase in Cash and Cash Equivalents . . . . .	(201)	374	(36)
Cash and Cash Equivalents Beginning of Period . . . . .	1,399	1,025	1,061
Cash and Cash Equivalents End of Period . . . . .	\$1,198	\$1,399	\$1,025
Supplemental Cash Flows Information:			
Interest paid . . . . .	\$ 221	\$ 157	\$ 156
Income taxes paid . . . . .	\$ 18	\$ 25	\$ 12
Investing and Financing Activities Not Affecting Cash:			
Property and equipment acquired through the issuance of debt . . . . .	\$ 774	\$ 425	\$ 207
Conversion of 6-3/4% Convertible Subordinated Notes . . . . .	\$ 230	\$ -	\$ -

Conversion of trust originated preferred securities . . . . .	\$ 111	\$ 134	\$ -
Capital lease obligations incurred. . .	\$ 50	\$ 124	\$ 22
Sale-leaseback of Beech 1900-D aircraft	\$ 81	\$ -	\$ -

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

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY  
(In millions)

	Redeemable Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Comprehensive Income	Treasury Stock, at Cost
Balance, December 31, 1996 . .	\$ 46	\$ 688	\$ (109)	\$ 2	\$329	\$ -
Net Income . . . . .	-	-	385	-	385	-
Purchase of Warrants . . . . .	-	(94)	-	-	-	-
Accumulated Dividends on Series A 12% Cumulative Preferred Stock . . . . .	2	(2)	-	-	-	-
Redemption of Series A 12% Cumulative Preferred Stock . . . . .	(48)	-	-	-	-	-
Additional Minimum Pension Liability, net of applicable income taxes of \$2. . . . .	-	-	-	(4)	(4)	-
Other. . . . .	-	49	-	-	-	-
Balance, December 31, 1997 . .	-	641	276	(2)	381	-

(continued on next page)

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY  
(In millions)

	Redeemable Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Comprehensive Income	Treasury Stock, at Cost
Net Income . . . . .	\$ -	\$ -	\$ 383	\$ -	\$383	\$ -
Cumulative Effect of Adopting SFAS 133 (see Note 5) as of October 1, 1998, net of applicable income taxes of \$1 . . . . .	-	-	-	1	1	-
Net loss on derivative instruments designated and qualifying as cash flow hedging instruments, net of applicable income taxes of \$4 . . . . .	-	-	-	(7)	(7)	-
Additional Minimum Pension Liability, net of applicable income taxes of \$41 . . . . .	-	-	-	(76)	(76)	-
Unrealized loss on Marketable Equity Securities, net of applicable income taxes of \$1 . . . . .	-	-	-	(4)	(4)	-
Purchase of Common Stock . . .	-	-	-	-	-	(223)
Reissuance of Treasury Stock pursuant to Stock Plans . . .	-	-	-	-	-	50
Issuance of Common Stock pursuant to Stock Plans . . .	-	19	-	-	-	-
Conversion of Trust Originated Preferred Securities into Common Stock. . . . .	-	(32)	-	-	-	160
Other. . . . .	-	6	-	-	-	-

(continued on next page)

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED  
STOCK AND COMMON STOCKHOLDERS' EQUITY  
(In millions)

	Redeemable Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Comprehensive Income	Treasury Stock, at Cost
Net Income . . . . .	\$ -	\$ -	\$ 455	\$ -	\$455	\$ -
Net gain on derivative instruments designated and qualifying as cash flow hedging instruments, net of reclassification adjustments and applicable income taxes of \$2 . . . . .	-	-	-	4	4	-
Unrealized gain on marketable equity securities, net of applicable income taxes . . .	-	-	-	1	1	-
Reduction in additional minimum pension liability, net of applicable income taxes of \$43. . . . .	-	-	-	82	82	-
Purchase of Common Stock . . .	-	-	-	-	-	(528)
Reissuance of Treasury Stock pursuant to Stock Plans . . .	-	(18)	-	-	-	69
Conversion of 6-3/4% Convertible Subordinated Notes into Common Stock . . .	-	161	-	-	-	66
Conversion of Trust Originated Preferred Securities into Common Stock. . . . .	-	100	-	-	-	11
Conversion of Class A Common Stock to Class B Common Stock . . . . .	-	(3)	-	-	-	3
Other . . . . .	-	(3)	-	-	-	-
Balance, December 31, 1999 . . .	\$ -	\$ 871	\$ 1,114	\$ (1)	\$542	\$(392)

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED  
STOCK AND COMMON STOCKHOLDERS' EQUITY  
NUMBER OF SHARES

	Redeemable Preferred Stock	Class A Common Stock	Class B Common Stock	Treasury Stock
Balance, December 31, 1996 . . . . .	447,082	9,280,000	47,943,343	-
Conversion of Class A to Class B Common Stock. . . . .	-	(900,536)	900,536	-
Purchase of Common Stock . . . . .	-	-	(154,882)	154,882
Reissuance of Treasury Stock pursuant to Stock Plans. . . . .	-	-	154,882	(154,882)
Issuance of Preferred Stock Dividends on Series A 12% Cumulative Preferred Stock . . . . .	13,165	-	-	-
Redemption of Series A 12% Cumulative Preferred Stock . . . . .	(460,247)	-	-	-
Issuance of Common Stock pursuant to Stock Plans . . . . .	-	-	1,646,419	-
Conversion of Trust Originated Preferred Securities into Common Stock. . . . .	-	-	21,712	-
Balance, December 31, 1997 . . . . .	-	8,379,464	50,512,010	-

(continued on next page)

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED  
STOCK AND COMMON STOCKHOLDERS' EQUITY

## NUMBER OF SHARES

	Redeemable Preferred Stock	Class A Common Stock	Class B Common Stock	Treasury Stock
Purchase of Common Stock . . . . .	-	-	(4,452,700)	4,452,700
Reissuance of Treasury Stock pursuant to Stock Plans. . . . .	-	-	859,080	(859,080)
Reissuance of Treasury Stock pursuant to Conversion of Trust Originated Preferred Securities. . . . .	-	-	3,181,896	(3,181,896)
Conversion of Class A to Class B Common Stock. . . . .	-	(12,200)	12,200	(12,200)
Issuance of Common Stock pursuant to Stock Plans . . . . .	-	-	235,290	-
Conversion of Trust Originated Preferred Securities into Common Stock. . . . .	-	-	2,376,753	-
Exercise of warrants . . . . .	-	3,039,468	246,688	-
Balance, December 31, 1998 . . . . .	-	11,406,732	52,971,217	399,524

(continued on next page)

CONTINENTAL AIRLINES, INC.  
CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED  
STOCK AND COMMON STOCKHOLDERS' EQUITY  
NUMBER OF SHARES

	Redeemable Preferred Stock	Class A Common Stock	Class B Common Stock	Treasury Stock
Purchase of Common Stock . . . . .	-	-	(13,133,700)	13,133,700
Reissuance of Treasury Stock pursuant to Stock Plans. . . . .	-	-	1,853,478	(1,853,478)
Reissuance of Treasury Stock pursuant to Conversion of Class A to Class B Common Stock. . . . .	-	(85,883)	85,883	(85,883)
Issuance of Common Stock pursuant to Stock Plans . . . . .	-	-	13,227	-
Conversion of 6-3/4% Convertible Subordinated Notes into Common Stock. .	-	-	6,132,055	-
Reissuance of Treasury Stock pursuant to Conversion of 6-3/4% Convertible Subordinated Notes. . . . .	-	-	1,485,065	(1,485,065)
Conversion of Trust Originated Preferred Securities into Common Stock. . . . .	-	-	4,407,408	-
Reissuance of Treasury Stock pursuant to Conversion of Trust Originated Preferred Securities. . . . .	-	-	345,114	(345,114)
Balance, December 31, 1999 . . . . .	-	11,320,849	54,159,747	9,763,684

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

CONTINENTAL AIRLINES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Continental Airlines, Inc. (the "Company" or "Continental") is a major United States air carrier engaged in the business of transporting passengers, cargo and mail. Continental is the fifth largest United States airline (as measured by 1999 revenue passenger miles) and, together with its wholly owned subsidiaries, Continental Express, Inc. ("Express"), and Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, serves 219 airports worldwide at January 17, 2000. As of December 31, 1999, Continental flies to 132 domestic and 87 international destinations and offers additional connecting service through alliances with domestic and foreign carriers. Continental directly serves 16 European cities, eight South American cities, Tel Aviv and Tokyo and is one of the leading airlines providing service to Mexico and

Central America, serving more destinations there than any other United States airline. Through its Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

As used in these Notes to Consolidated Financial Statements, the terms "Continental" and "Company" refer to Continental Airlines, Inc. and, unless the context indicates otherwise, its subsidiaries.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation -

The consolidated financial statements of the Company include the accounts of Continental and its operating subsidiaries, Express and CMI. All significant intercompany transactions have been eliminated in consolidation.

(b) Use of Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents -

Cash and cash equivalents consist of cash and short-term, highly liquid investments which are readily convertible into cash and have a maturity of three months or less when purchased.

(d) Short-Term Investments -

The Company invests in commercial paper with original maturities in excess of 90 days but less than 270 days. These investments are classified as short-term investments in the accompanying consolidated balance sheet. Short-term investments are stated at cost, which approximates market value.

(e) Spare Parts and Supplies -

Inventories, expendable parts and supplies relating to flight equipment are carried at average acquisition cost and are expensed when incurred in operations. An allowance for obsolescence is provided over the remaining estimated useful life of the related aircraft, for spare parts expected to be on hand the date the aircraft are retired from service, plus allowances for spare parts currently identified as excess. These allowances are based on management estimates, which are subject to change.

(f) Property and Equipment -

Property and equipment are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. The estimated useful lives and residual values for the Company's property and equipment are as follows:

	Estimated Useful Life	Estimated Residual Value
Jet aircraft. . . . .	25 to 30 years	10-15%
Turboprop aircraft. . . . .	18 years	10%
Ground property and equipment. . . . .	2 to 30 years	0%
Capital lease - flight and ground . . . . .	Lease Term	0%

(g) Routes, Gates and Slots -

Routes are amortized on a straight-line basis over 40 years, gates over the stated term of the related lease and slots over 20 years. Routes, gates and slots are comprised of the following (in millions):

	Balance at December 31, 1999	Accumulated Amortization at December 31, 1999
Routes. . . . .	\$ 732	\$157
Gates . . . . .	306	141
Slots . . . . .	93	47
	\$1,131	\$345

(h) Air Traffic Liability -

Passenger revenue is recognized when transportation is provided rather than when a ticket is sold. The amount of passenger ticket sales not yet recognized as revenue is reflected in the accompanying Consolidated Balance Sheets as air traffic liability. The Company performs periodic evaluations of this estimated liability, and any adjustments resulting therefrom, which can be significant, are included in results of operations for the periods in which the evaluations are completed.

(i) Frequent Flyer Program -

Continental sponsors a frequent flyer program ("OnePass") and records an estimated liability for the incremental cost associated with providing the related free transportation at the time a free travel award is earned. The liability is adjusted periodically based on awards earned, awards redeemed and changes in the OnePass program.

The Company also sells mileage credits in the OnePass program to participating partners, such as hotels, car rental agencies and credit card companies. During 1999, as a result of the recently issued Staff Accounting Bulletin No. 101 - "Revenue Recognition in Financial Statements," the Company changed the method it uses to account for the sale of these mileage credits. This change, which totaled \$27 million, net of tax, was applied retroactively to January 1, 1999. Under the new accounting method, revenue from the sale of mileage credits is deferred and recognized when transportation is provided. Previously, the resulting revenue, net of the incremental cost of providing future air travel, was recorded in the period in which the credits were sold. This change reduced net income for the year ended December 31, 1999 by \$21 million (\$32 million pre-tax). The Company believes the new method is preferable as it results in a better matching of revenues with the period in which services are provided.

The pro forma results, assuming the accounting change is applied retroactively, is shown below (in millions except per share data):

	1999	1998	1997
Income before Cumulative Effect of Accounting Change and Extraordinary Charge . . . . .	\$ 488	\$ 382	\$ 385
Earnings per Common Share . . . . .	\$ 7.02	\$ 6.32	\$ 6.65
Earnings per Common Share Assuming Dilution. . . . .	\$ 6.64	\$ 5.00	\$ 4.98
Net Income. . . . .	\$ 482	\$ 378	\$ 381
Earnings per Common Share . . . . .	\$ 6.93	\$ 6.26	\$ 6.58
Earnings per Common Share Assuming Dilution. . . . .	\$ 6.57	\$ 4.95	\$ 4.93

Actual per share amounts are shown below for comparative purposes.

Income before Cumulative Effect of Accounting Change and Extraordinary Charge . . . . .	\$ 488	\$ 387	\$ 389
Earnings per Common Share . . . . .	\$ 7.02	\$ 6.40	\$ 6.72
Earnings per Common Share Assuming Dilution. . . . .	\$ 6.64	\$ 5.06	\$ 5.03
Net Income. . . . .	\$ 455	\$ 383	\$ 385
Earnings per Common Share . . . . .	\$ 6.54	\$ 6.34	\$ 6.65
Earnings per Common Share Assuming Dilution. . . . .	\$ 6.20	\$ 5.02	\$ 4.99

(j) Passenger Traffic Commissions -

Passenger traffic commissions are recognized as expense when the transportation is provided and the related revenue is recognized. The amount of passenger traffic commissions not yet recognized as expense is included in Prepayments and other assets in the accompanying Consolidated Balance Sheets.

(k) Deferred Income Taxes -

Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(l) Maintenance and Repair Costs -

Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expense as incurred, except engine overhaul costs covered by power by the hour agreements, which are accrued on the basis of hours flown.

(m) Advertising Costs -

The Company expenses the costs of advertising as incurred. Advertising expense was \$82 million, \$78 million and \$78 million for the years ended December 31, 1999, 1998 and 1997, respectively.

(n) Stock Plans and Awards -

Continental has elected to follow Accounting Principles Board Opinion No. 25 - "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its employee stock options and its stock purchase plans because the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123 - "Accounting for Stock-Based Compensation" ("SFAS 123") requires use of option valuation models that were not developed for use in valuing employee stock options or purchase rights. Under APB 25, since the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, generally no compensation expense is recognized. Furthermore, under APB 25, since the stock purchase plans are considered noncompensatory plans, no compensation expense is recognized.

(o) Measurement of Impairment -

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"), the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets.

(p) Start-Up Costs -

Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), requires start-up costs to be expensed as incurred. Continental adopted SOP 98-5 in the first quarter of 1999. This statement requires all unamortized start up costs (e.g., pilot training costs related to induction of new aircraft) to be expensed upon adoption, resulting in a \$6 million cumulative effect of a change in accounting principle, net of tax, in the first quarter of 1999.

(q) Reclassifications -

Certain reclassifications have been made in the prior years' financial statements to conform to the current year presentation.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per common share ("EPS") excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share (in millions):

	1999	1998	1997
Numerator:			
Income before cumulative effect of accounting changes and extraordinary charge . . . . .	\$488	\$387	\$389
Cumulative effect of accounting changes . . . . .	(33)	-	-
Extraordinary charge, net of applicable income taxes . . . . .	-	(4)	(4)
Net income . . . . .	455	383	385
Preferred stock dividends . . . . .	-	-	(2)
Numerator for basic earnings per share - income available to common stockholders . . . . .	455	383	383
Effect of dilutive securities:			
Preferred Securities of Trust . . . . .	-	11	14

6-3/4% convertible subordinated notes . . . . .	4	9	11
	4	20	25
Other . . . . .	-	-	(4)
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions . . . . .			
	\$459	\$403	\$404
	1999	1998	1997
Denominator:			
Denominator for basic earnings per share - weighted-average shares. .	69.5	60.3	57.6
Effect of dilutive securities:			
Employee stock options . . . . .	1.4	1.7	1.6
Warrants . . . . .	-	0.9	3.5
Preferred Securities of Trust. . .	0.1	9.8	10.3
6-3/4% convertible subordinated notes . . . . .	2.9	7.6	7.6
Restricted Class B common stock. .	-	-	0.4
Dilutive potential common shares. .	4.4	20.0	23.4
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions .			
	73.9	80.3	81.0

Approximately 1.1 million in 1999 and 1.4 million in 1998 of weighted average options to purchase shares of the Company's Class B common stock, par value \$.01 per share ("Class B common stock"), were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would have been antidilutive.

#### NOTE 3 - LONG-TERM DEBT

Long-term debt as of December 31 is summarized as follows (in millions):

	1999	1998
Secured		
Notes payable, interest rates of 5.00% to 7.73%, payable through 2019 . . . . .	\$1,817	\$ 886
Floating rate notes, interest rates of LIBOR plus 0.75% to 1.25%, Eurodollar plus 1.0%, or Commercial Paper, payable through 2009. . . . .	241	223
Revolving credit facility totaling \$160 million, floating interest rates of LIBOR or Eurodollar plus 1.125% to 1.375%, payable through 2001. . . . .	160	57
Notes payable, interest rates of 8.49% to 9.46%, payable through 2008 . . . . .	51	66
Notes payable, interest rates of 7.13% to 7.15%, payable through 1999 . . . . .	-	86
Unsecured		
Senior notes payable, 9.5%, payable through 2001. . . . .	242	250
Credit facility, floating interest rate of LIBOR or Eurodollar plus 1.0%, payable through 2002. . . . .	215	245
Senior notes payable, interest rate of 8.0%, payable through 2005. . . . .	200	200
Notes payable, interest rate of 8.125%, payable through 2008. . . . .	110	110
Floating rate note, interest rate of LIBOR or Eurodollar plus 1.25%, payable through 2004. . . . .	74	74
Convertible subordinated notes, interest rate of 6.75% . . . . .	-	230
Other. . . . .	23	24
	3,133	2,451
Less: current maturities. . . . .	278	184
Total. . . . .	\$2,855	\$2,267

At December 31, 1999 and 1998, the LIBOR and Eurodollar rates associated with Continental's indebtedness approximated 6.0% and 5.1% and 6.0% and 5.1%, respectively. The Commercial Paper rate was 6.1% and 5.5% as of December 31, 1999 and 1998, respectively.

A majority of Continental's property and equipment is subject to agreements securing indebtedness of Continental.

In July 1997, Continental entered into a \$575 million credit



facility (the "Credit Facility"), including a \$275 million term loan, the proceeds of which were loaned to CMI to repay its existing \$320 million secured term loan. In connection with this prepayment, Continental recorded a \$4 million after tax extraordinary charge relating to early extinguishment of debt. The Credit Facility also includes a \$225 million revolving credit facility with a commitment fee of 0.225% per annum on the unused portion, and a \$75 million term loan commitment with a current floating interest rate of Libor or Eurodollar plus 1.25%. At December 31, 1999 and 1998, no borrowings were outstanding under the \$225 million revolving credit facility. During 1998, the Credit Facility became unsecured due to an upgrade of Continental's credit rating by Standard and Poor's Corporation.

The Credit Facility does not contain any financial covenants relating to CMI other than covenants restricting CMI's incurrence of certain indebtedness and pledge or sale of assets. In addition, the Credit Facility contains certain financial covenants applicable to Continental and prohibits Continental from granting a security interest on certain of its international route authorities and its stock in Air Micronesia, Inc., CMI's parent company.

In April 1998, the Company completed an offering of \$187 million of pass-through certificates to be used to refinance the debt related to 14 aircraft currently owned by Continental. In connection with this refinancing, Continental recorded a \$4 million after tax extraordinary charge to consolidated earnings in the second quarter of 1998 related to the early extinguishment of such debt.

At December 31, 1999, under the most restrictive provisions of the Company's debt and credit facility agreements, the Company had a minimum cash balance requirement of \$600 million, a minimum net worth requirement of \$972 million and was restricted from paying cash dividends in excess of \$576 million.

On April 15, 1999, the Company exercised its right and called for redemption on May 25, 1999, all \$230 million of its 6-3/4% Convertible Subordinated Notes due 2006. The notes were converted into 7.6 million shares of Class B common stock during May 1999.

Maturities of long-term debt due over the next five years are as follows (in millions):

Year ending December 31,	
2000. . . . .	\$278
2001. . . . .	592
2002. . . . .	266
2003. . . . .	170
2004. . . . .	239

NOTE 4 - LEASES

Continental leases certain aircraft and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, sales offices, maintenance facilities, training centers and general offices. Most leases also include both renewal options and purchase options.

At December 31, 1999, the scheduled future minimum lease payments under capital leases and the scheduled future minimum lease rental payments required under aircraft and engine operating leases, that have initial or remaining noncancellable lease terms in excess of one year, are as follows (in millions):

	Capital Leases	Operating Leases
Year ending December 31,		
2000. . . . .	\$ 59	\$ 851
2001. . . . .	50	823
2002. . . . .	46	753
2003. . . . .	28	700
2004. . . . .	26	652
Later years . . . . .	96	6,080
Total minimum lease payments . . . . .	305	\$9,859
Less: amount representing interest. . . . .	62	
Present value of capital leases. . . . .	243	
Less: current maturities of capital leases. . . . .	43	
Long-term capital leases . . . . .	\$200	

Not included in the above operating lease table is approximately \$493 million of annual average minimum lease payments for each of the next five years relating to non-aircraft leases, principally airport and terminal facilities and related equipment.

Continental is the guarantor of \$1.2 billion aggregate principal amount of tax-exempt special facilities revenue bonds. These bonds, issued by various airport municipalities, are payable solely

from rentals paid by Continental under long-term agreements with the respective governing bodies.

At December 31, 1999, the Company, including Express, had 382 and 19 aircraft under operating and capital leases, respectively. These leases have remaining lease terms ranging from one month to 22 years.

The Company's total rental expense for all operating leases, net of sublease rentals, was \$1.1 billion, \$922 million and \$787 million in 1999, 1998 and 1997, respectively.

#### NOTE 5 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As part of the Company's risk management program, Continental uses or used a variety of financial instruments, including petroleum call options, petroleum swaps, jet fuel purchase commitments, foreign currency average rate options, foreign currency forward contracts and interest rate cap agreements. The Company does not hold or issue derivative financial instruments for trading purposes.

Effective October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 133 - "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The adoption of SFAS 133 on October 1, 1998 did not have a material impact on results of operations but resulted in the cumulative effect of an accounting change of \$2 million pre-tax being recognized as income in other comprehensive income.

#### Notional Amounts and Credit Exposure of Derivatives

The notional amounts of derivative financial instruments summarized below do not represent amounts exchanged between parties and, therefore, are not a measure of the Company's exposure resulting from its use of derivatives. The amounts exchanged are calculated based upon the notional amounts as well as other terms of the instruments, which relate to interest rates, exchange rates or other indices.

The Company is exposed to credit losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any of the counterparties to fail to meet their obligations. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined Company guidelines, and monitors the market position with each counterparty.

#### Fuel Price Risk Management

The Company uses a combination of petroleum call options, petroleum swap contracts, and jet fuel purchase commitments to provide some short-term protection against a sharp increase in jet fuel prices. These instruments generally cover the Company's forecasted jet fuel needs for three to six months.

The Company accounts for the call options and swap contracts as cash flow hedges. In accordance with SFAS 133, such financial instruments are marked-to-market using forward prices and fair market value quotes with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness and then subsequently recognized as a component of fuel expense when the underlying fuel being hedged is used. The ineffective portion of these call options and swap agreements is determined based on the correlation between West Texas Intermediate Crude Oil prices and jet fuel prices, which was not material for the years ended December 31, 1999 and 1998. For the year ended December 31, 1999, the Company recognized approximately a \$105 million net gain on its fuel hedging program. The gain is included in fuel expense in the accompanying consolidated statement of operations.

At December 31, 1999, the Company had petroleum call options outstanding with an aggregate notional amount of approximately \$310 million and an immaterial fair value. The notional value of the Company's petroleum swap contracts outstanding at December 31, 1998 was \$82 million with a fair value of \$6 million loss, which was recorded in other current liabilities with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness. The loss was recognized in earnings during 1999.

#### Foreign Currency Exchange Risk Management

The Company uses a combination of foreign currency average rate options and forward contracts to hedge against the currency risk associated with Japanese yen-denominated net cash flows for the next nine to twelve months. The average rate options and forward contracts have only nominal intrinsic value at the time of purchase.

The Company accounts for these instruments as cash flow hedges. In accordance with SFAS 133, such financial instruments are marked-to-market using forward prices and fair market value quotes with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness and then subsequently recognized as a component of other revenue when the underlying net cash flows are realized. The Company measures hedge effectiveness of average rate options and forward contracts based on the forward price of the underlying commodity. Hedge ineffectiveness was not material during 1999 or 1998.

At December 31, 1999, the Company had yen forward contracts outstanding with an aggregate notional amount of \$197 million and a fair value loss of \$5 million. The notional amount of the Company's yen average rate options and forward contracts outstanding at December 31, 1998 was \$78 million and \$76 million, respectively, with a total fair value loss of \$3 million. Unrealized losses are recorded in other current liabilities with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness. The unrealized loss at December 31, 1999 will be recognized in earnings within the next twelve months.

#### Interest Rate Risk Management

The Company entered into an interest rate cap agreement to reduce the impact of potential increases on floating rate debt. The interest rate cap had a notional amount of \$106 million and \$125 million as of December 31, 1999 and 1998, respectively, and is effective through July 31, 2001. The Company accounts for the interest rate cap as a cash flow hedge whereby the fair value of the interest rate cap is reflected as an asset in the accompanying consolidated balance sheet with the offset, net of any hedge ineffectiveness (which is not material) recorded as interest expense and net of applicable income taxes, to other comprehensive income. The fair value of the interest rate cap was not material as of December 31, 1999 or 1998. As interest expense on the underlying hedged debt is recognized, corresponding amounts are removed from other comprehensive income and charged to interest expense. Such amounts were not material during 1999 or 1998.

#### Accumulated Derivative Gains or Losses

The following table summarizes activity in other comprehensive income related to derivatives classified as cash flow hedges held by the Company during the period October 1 (the date of the Company's adoption of SFAS 133) through December 31, 1998 and for the year ended December 31, 1999 (in millions):

	1999	1998
Accumulated derivative loss included in other comprehensive income at beginning of period . . . . .	\$ (6)	\$ -
Cumulative effect of adopting SFAS 133 as of October 1, 1998, net . . . . .	-	1
(Gains)/losses reclassified into earnings from other comprehensive income, net . .	(63)	-
Change in fair value of derivatives, net .	67	(7)
Accumulated loss included in other comprehensive income, net . . . . .	\$ (2)	\$ (6)

#### Other Financial Instruments

##### (a) Cash equivalents -

Cash equivalents consist primarily of commercial paper with original maturities of three months or less and approximate fair value due to their short maturity.

##### (b) Short-term Investments -

Short-term investments consist primarily of commercial paper with original maturities in excess of 90 days but less than 270 days and approximate fair value due to their short maturity.

##### (c) Investment in Equity Securities -

Continental's investment in America West Holdings Corporation is classified as available-for-sale and carried at an aggregate market value of approximately \$3 million at both December 31, 1999 and 1998. Included in stockholders' equity

at both December 31, 1999 and 1998 are net unrealized gains of \$1 million.

In May 1998, the Company acquired a 49% interest in Compania Panamena de Aviacion, S.A. ("COPA") for \$53 million. The investment is accounted for under the equity method of accounting. As of December 31, 1999 and 1998, the excess of the amount at which the investment is carried and the amount of underlying equity in the net assets was \$40 million and \$43 million, respectively. This difference is being amortized over 40 years.

On October 20, 1999, Continental sold its interest in AMADEUS Global Travel Distribution, S.A. ("AMADEUS") for \$409 million, including a special dividend. The sale, which occurred as part of AMADEUS's initial public offering resulted in a gain of approximately \$297 million. As of December 31, 1998, Continental's investment in AMADEUS was carried at cost (\$95 million), since a readily determinable market value did not exist.

At December 31, 1999, the Company owned approximately 357,000 depository certificates convertible, subject to certain restrictions, into the common stock of Equant N.V. ("Equant"), which completed an initial public offering in July 1998. As of December 31, 1999, the estimated fair value of these depository certificates was approximately \$40 million, based upon the publicly traded market value of Equant common stock. Since the fair value of the Company's investment in the depository certificates is not readily determinable (i.e., the depository certificates are not traded on a securities exchange), the investment is carried at cost, which was not material as of December 31, 1999 or 1998.

In December 1999, the Company acquired a 28% interest in Gulfstream International Airlines, Inc. ("Gulfstream"). The investment is accounted for under the equity method of accounting.

In 1999, Continental received 1,500,000 warrants to purchase common stock of priceline.com, Inc. ("Priceline") at an exercise price of \$59.93 per share (the "Warrants"). In the fourth quarter of 1999, the Company sold the Warrants for \$18 million, resulting in a loss of approximately \$4 million.

(d) Debt -

The fair value of the Company's debt with a carrying value of \$2.75 billion and \$1.98 billion at December 31, 1999 and 1998, respectively, estimated based on the discounted amount of future cash flows using the current incremental rate of borrowing for a similar liability or market prices, approximate \$2.53 billion and \$1.88 billion, respectively. The fair value of the remaining debt (with a carrying value of \$383 million and \$473 million, respectively, and primarily relating to aircraft modification notes and various loans with immaterial balances) was not practicable to estimate due to the large number and small dollar amounts of these notes.

NOTE 6 - PREFERRED SECURITIES OF TRUST

Continental Airlines Finance Trust, a Delaware statutory business trust (the "Trust") with respect to which the Company owned all of the common trust securities, had 2,298,327 8-1/2% Convertible Trust Originated Preferred Securities ("TOPRS") outstanding at December 31, 1998. In November 1998, the Company exercised its right and called for redemption approximately half of its outstanding TOPRS. The TOPRS were convertible into shares of Class B common stock at a conversion price of \$24.18 per share of Class B common stock. As a result of the call for redemption, 2,688,173 TOPRS were converted into 5,558,649 shares of Class B common stock. In December 1998, the Company called for redemption the remaining outstanding TOPRS. As a result of the second call, the remaining 2,298,327 TOPRS were converted into 4,752,522 shares of Class B common stock during January 1999.

Distributions on the preferred securities were payable by the Trust at the annual rate of 8-1/2% of the liquidation value of \$50 per preferred security and are included in Distributions on Preferred Securities of Trust in the accompanying Consolidated Statements of Operations. At December 31, 1998, outstanding TOPRS totaling \$111 million are included in Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures in the accompanying Consolidated Balance Sheets.

The sole assets of the trust were 8-1/2% Convertible Subordinated Deferrable Interest Debentures ("Convertible Subordinated Debentures") with an aggregate principal amount of \$115 million at December 31, 1998.

The Convertible Subordinated Debentures and related income statement effects are eliminated in the Company's consolidated financial statements.

#### NOTE 7 - PREFERRED, COMMON AND TREASURY STOCK

##### Preferred Stock

Continental has 10 million shares of authorized preferred stock, none of which was outstanding as of December 31, 1999 or 1998.

##### Common Stock

Continental has two classes of common stock issued and outstanding, Class A common stock, par value \$.01 per share ("Class A common stock") and Class B common stock. Each share of Class A common stock is entitled to 10 votes per share and each share of Class B common stock is entitled to one vote per share. In addition, Continental has authorized 50 million shares of Class D common stock, par value \$.01 per share, none of which is outstanding.

The Company's Certificate of Incorporation permits shares of the Company's Class A common stock to be converted into an equal number of shares of Class B common stock. During 1999 and 1998, 85,883 and 12,200 shares of the Company's Class A common stock, respectively, were so converted.

##### Treasury Stock

The Company's Board of Directors has authorized the expenditure of up to \$1.2 billion to repurchase shares of the Company's Class A common stock and Class B common stock or securities convertible into Class B common stock. The Company's Board of Directors also authorized the Company to use up to one-half of its 2000 and later adjusted net income, and all of the net proceeds of future sales of non-strategic assets, for additional stock repurchases. Subject to applicable securities law, such purchases occur at times and in amounts that the Company deems appropriate. No time limit was placed on the duration of the repurchase program. As of December 31, 1999, the Company had repurchased 17,586,400 shares of Class B common stock for \$751 million since the inception of the repurchase program in March 1998.

##### Stockholder Rights Plan

Effective November 20, 1998, the Company adopted a stockholder rights plan (the "Rights Plan") in connection with the disposition by Air Partners, L.P. ("Air Partners") of its interest in the Company to an affiliate of Northwest Airlines, Inc. (together with such affiliate, "Northwest").

The rights become exercisable upon the earlier of (i) the tenth day following a public announcement or public disclosure of facts indicating that a person or group of affiliated or associated persons has acquired beneficial ownership of 15% or more of the total number of votes entitled to be cast generally by the holders of the common stock of the Company then outstanding, voting together as a single class (such person or group being an "Acquiring Person"), or (ii) the tenth business day (or such later date as may be determined by action of the Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in any person becoming an Acquiring Person. Certain persons and entities related to the Company, Air Partners or Northwest at the time the Rights Plan was adopted are exempt from the definition of "Acquiring Person."

The rights will expire on November 20, 2008 unless extended or unless the rights are earlier redeemed or exchanged by the Company.

Subject to certain adjustments, if any person becomes an Acquiring Person, each holder of a right, other than rights beneficially owned by the Acquiring Person and its affiliates and associates (which rights will thereafter be void), will thereafter have the right to receive, upon exercise thereof, that number of Class B Common Shares having a market value of two times the exercise price (\$200, subject to adjustment) of the right.

If at any time after a person becomes an Acquiring Person, (i) the Company merges into any other person, (ii) any person merges into the Company and all of the outstanding common stock does not remain outstanding after such merger, or (iii) the Company sells 50% or more of its consolidated assets or earning power, each holder of a right (other than the Acquiring Person and its affiliates and associates) will have the right to receive, upon the exercise thereof, that number of shares of common stock of the acquiring corporation (including the Company as successor thereto or as the surviving corporation) which at the time of such transaction will have a market value of two times the exercise price of the right.

At any time after any person becomes an Acquiring Person, and prior to the acquisition by any person or group of a majority of the Company's voting power, the Board of Directors may exchange the rights (other than rights owned by such Acquiring Person which have become void), in whole or in part, at an exchange ratio of one share of Class B common stock per right (subject to adjustment).

At any time prior to any person becoming an Acquiring Person, the Board of Directors may redeem the rights at a price of \$.001 per right. The Rights Plan may be amended by the Board of Directors without the consent of the holders of the rights, except that from and after such time as any person becomes an Acquiring Person no such amendment may adversely affect the interests of the holders of the rights (other than the Acquiring Person and its affiliates and associates). Until a right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

NOTE 8 - STOCK PLANS AND AWARDS

Stock Options

On October 4, 1999, the Board of Directors adopted the Continental Airlines, Inc. Incentive Plan 2000 (the "2000 Incentive Plan"), subject to approval by the stockholders of the Company at the annual stockholders meeting in May 2000. The 2000 Incentive Plan provides that the Company may grant awards (options, restricted stock awards, performance awards or incentive awards) to non-employee directors of the Company or employees of the Company or its subsidiaries. Subject to adjustment as provided in the Incentive Plan, the aggregate number of shares of Class B common stock that may be issued under the Incentive Plan may not exceed 3,000,000 shares, which may be originally issued or treasury shares or a combination thereof.

The stockholders of the Company have approved the Company's 1998 Stock Incentive Plan, 1997 Stock Incentive Plan and 1994 Incentive Equity Plan (collectively, the "Plans") under which the Company may issue shares of restricted Class B common stock or grant options to purchase shares of Class B common stock to non-employee directors and employees of the Company or its subsidiaries. Subject to adjustment as provided in the Plans, the aggregate number of shares of Class B common stock that may be issued may not exceed 16,500,000 shares, which may be originally issued or treasury shares or a combination thereof. Options granted under the Plans are awarded with an exercise price equal to the fair market value of the stock on the date of grant. The total shares remaining available for grant under the Plans at December 31, 1999 was 969,327. No options may be awarded under the 1994 Incentive Equity Plan after December 31, 1999. Stock options granted under the Plans generally vest over a period of three to four years and have a term of five years.

Under the terms of the Plans, a change of control would result in all outstanding options under these plans becoming exercisable in full and restrictions on restricted shares being terminated.

The table on the following page summarizes stock option transactions pursuant to the Company's Plans (share data in thousands):

	1999		1998		1997	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at Beginning of Year . . . . .	9,683	\$30.31	5,998	\$22.62	5,809	\$17.37
Granted . . . . .	1,055	\$33.38	6,504	\$43.75	1,968	\$29.34
Exercised . . . . .	(1,464)	\$16.54	(807)	\$19.53	(1,582)	\$11.72
Cancelled . . . . .	(269)	\$37.41	(2,012)	\$55.18	(197)	\$22.49
Outstanding at End of Year . . . . .	9,005	\$32.69	9,683	\$30.31	5,998	\$22.62
Options exercisable at end of year (1) . . . . .	4,845	\$29.13	5,174	\$23.56	1,229	\$20.61

(1) On November 20, 1998, Air Partners disposed of its interest in the Company to Northwest, resulting in a change of control under the terms of the Plans. As a result, all options and restricted stock then outstanding under these plans became exercisable and fully vested, respectively.

The following tables summarize the range of exercise prices and the weighted average remaining contractual life of the options outstanding and the range of exercise prices for the options exercisable at December 31, 1999 (share data in thousands):

#### Options Outstanding

Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$4.56-\$8.00	208	0.68	\$7.80
\$8.19-\$22.13	183	2.03	\$16.64
\$22.38-\$28.63	2,468	1.76	\$26.12
\$28.75-\$32.13	2,616	3.45	\$30.31
\$32.25-\$56.81	3,530	3.92	\$41.35
\$4.56-\$56.81	9,005	3.08	\$32.69

#### Options Exercisable

Range of Exercise Prices	Exercisable	Weighted Average Exercise Price
\$4.56-\$8.00	208	\$ 7.80
\$8.19-\$22.13	183	\$16.64
\$22.38-\$28.63	2,468	\$26.12
\$28.75-\$32.13	917	\$29.71
\$32.25-\$56.81	1,069	\$41.90
\$4.56-\$56.81	4,845	\$29.13

#### Employee Stock Purchase Plans

All employees of the Company are eligible to participate in the Company's stock purchase program under which they may purchase shares of Class B common stock of the Company at 85% of the lower of the fair market value on the first day of the option period or the last day of the option period. During 1999 and 1998, 526,729 and 305,978 shares, respectively, of Class B common stock were issued at prices ranging from \$27.84 to \$49.41 in 1999 and \$29.33 to \$49.41 in 1998. During 1997, 218,892 shares of Class B common stock were issued at prices ranging from \$19.55 to \$29.33.

#### Pro Forma SFAS 123 Results

Pro forma information regarding net income and earnings per share has been determined as if the Company had accounted for its employee stock options and purchase rights under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 4.9%, 4.9% and 6.1%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 43% for 1999, 40% for 1998 and 34% for 1997; and a weighted-average expected life of the option of 3.1 years, 3.0 years and 2.5 years. The weighted average grant date fair value of the stock options granted in 1999, 1998 and 1997 was \$11.13, \$13.84 and \$7.87 per option, respectively.

The fair value of the purchase rights under the stock purchase plans was also estimated using the Black-Scholes model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk free interest rates of 4.7%, 4.7% and 5.2%; dividend yields of 0%; expected volatility of 43% for 1999, 40% for 1998 and 34% for 1997; and an expected life of .25 years for 1999, .25 years for 1998 and .33 years for 1997. The weighted-average fair value of the purchase rights granted in 1999, 1998 and 1997 was \$7.72, \$9.10 and \$7.38, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferrable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and purchase rights have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and purchase rights.

Assuming that the Company had accounted for its employee stock options and purchase rights using the fair value method and amortized the resulting amount to expense over the options' vesting period, net income would have been reduced by \$24 million, \$18

million and \$11 million for the years ended December 31, 1999, 1998 and 1997, respectively. Basic EPS would have been reduced by 35 cents, 30 cents and 18 cents for the years ended December 31, 1999, 1998 and 1997, respectively, and diluted EPS would have been reduced by 33 cents, 23 cents and 14 cents for the same periods, respectively. The pro forma effect on net income is not representative of the pro forma effects on net income in future years because it did not take into consideration pro forma compensation expense related to grants made prior to 1995.

NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income are as follows (in millions):

	Minimum Pension Liability	Unrealized Gain/(Loss) on Investments	Unrealized Gain/(Loss) on Derivative Instruments	Total
Balance at December 31, 1996 . . . . .	\$ (2)	\$ 4	\$ -	\$ 2
Current year net change in other comprehensive income . . . . .	(4)	-	-	(4)
Balance at December 31, 1997 . . . . .	(6)	4	-	(2)
Current year net change in other comprehensive income . . . . .	(76)	(4)	(6)	(86)
Balance at December 31, 1998 . . . . .	(82)	-	(6)	(88)
Current year net change in other comprehensive income . . . . .	82	1	4	87
Balance at December 31, 1999 . . . . .	\$ -	\$ 1	\$ (2)	\$ (1)

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Company has noncontributory defined benefit pension and defined contribution (including 401(k) savings) plans. Substantially all domestic employees of the Company are covered by one or more of these plans. The benefits under the active defined benefit pension plan are based on years of service and an employee's final average compensation. For the years ended December 31, 1999, 1998 and 1997, total expense for the defined contribution plan was \$14 million, \$8 million and \$6 million, respectively.

The following table sets forth the defined benefit pension plans' change in projected benefit obligation for 1999 and 1998:

	1999 (in millions)	1998 (in millions)
Projected benefit obligation at beginning of year . . . . .	\$1,230	\$ 846
Service cost . . . . .	66	55
Interest cost . . . . .	90	69
Plan amendments . . . . .	54	110
Actuarial (gains) losses . . . . .	(47)	178
Benefits paid . . . . .	(93)	(28)
Projected benefit obligation at end of year . . . . .	\$1,300	\$1,230

The following table sets forth the defined benefit pension plans' change in the fair value of plan assets for 1999 and 1998:

	1999 (in millions)	1998 (in millions)
Fair value of plan assets at beginning of year . . . . .	\$ 781	\$ 633
Actual return on plan assets . . . . .	138	75
Employer contributions . . . . .	187	101
Benefits paid . . . . .	(93)	(28)
Fair value of plan assets at end of year . . . . .	\$1,013	\$ 781

Pension cost recognized in the accompanying consolidated balance sheets is computed as follows:



	1999	1998
	(in millions)	
Funded status of the plans -		
net underfunded . . . . .	\$ (287)	\$ (449)
Unrecognized net actuarial loss . . . . .	152	256
Unrecognized prior service cost . . . . .	143	113
Net amount recognized . . . . .	8	(80)
Prepaid benefit cost . . . . .	12	2
Accrued benefit liability . . . . .	(78)	(320)
Intangible asset . . . . .	74	113
Accumulated other comprehensive		
income . . . . .	-	125
Net amount recognized . . . . .	\$ 8	\$ (80)

The \$125 million charge to other comprehensive income in 1998 was reversed in 1999 due to favorable asset performance and an increase in the weighted average assumed discount rate.

Net periodic defined benefit pension cost for 1999, 1998 and 1997 included the following components:

	1999	1998	1997
	(in millions)		
Service cost . . . . .	\$ 66	\$ 55	\$ 38
Interest cost . . . . .	90	69	51
Expected return on plan assets . . . . .	(84)	(64)	(49)
Amortization of prior service cost . . . . .	13	6	1
Amortization of unrecognized net actuarial loss . . . . .	13	4	-
Net periodic benefit cost . . . . .	\$ 98	\$ 70	\$ 41

The following actuarial assumptions were used to determine the actuarial present value of the Company's projected benefit obligation:

	1999	1998	1997
Weighted average assumed discount rate . . . . .	8.25%	7.0%	7.25%
Expected long-term rate of return on plan assets . . . . .	9.50%	9.50%	9.25%
Weighted average rate of compensation increase . . . . .	4.98%-5.27%	5.30%	4.90%

The projected benefit obligation, accumulated benefit obligation and the fair value of plan assets for the pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets were \$1.3 billion, \$1.1 billion and \$1.0 billion, respectively, as of December 31, 1999, and \$1.2 billion, \$1.1 billion and \$771 million, respectively, as of December 31, 1998.

During 1999 and 1998, the Company amended its benefit plan as a result of changes in benefits pursuant to new collective bargaining agreements.

Plan assets consist primarily of equity securities, long-term debt securities and short-term investments.

Continental's policy is to fund the noncontributory defined benefit pension plans in accordance with Internal Revenue Service ("IRS") requirements as modified, to the extent applicable, by agreements with the IRS.

The Company also has a profit sharing program under which an award pool consisting of 15% of the Company's annual pre-tax earnings, subject to certain adjustments, is distributed each year to substantially all employees (other than employees whose collective bargaining agreement provides otherwise or who otherwise receive profit sharing payments as required by local law) on a pro rata basis according to base salary. The profit sharing expense included in the accompanying Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997 was \$62 million, \$86 million and \$105 million, respectively.

#### NOTE 11 - INCOME TAXES

The reconciliations of income tax computed at the United States federal statutory tax rates to income tax provision for the years ended December 31, 1999, 1998 and 1997 are as follows (in millions):

Amount				Percent	
1999	1998	1997	1999	1998	1997

Income tax provision at United States statutory rates . . .	\$279	\$227	\$224	35.0%	35.0%	35.0 %
State income tax provision . . . . .	12	10	9	1.5	1.5	1.4
Meals and entertainment disallowance. . . . .	11	10	9	1.3	1.5	1.4
Net operating loss not previously benefitted. . . . .	-	-	(15)	-	-	(2.3)
Other. . . . .	8	1	10	1.1	0.3	1.6
Income tax provision, net. . .	\$310	\$248	\$237	38.9%	38.3%	37.1 %

The significant component of the provision for income taxes for the year ended December 31, 1999, 1998 and 1997 was a deferred tax provision of \$293 million, \$231 million and \$220 million, respectively. The provision for income taxes for each of the years ended December 31, 1999, 1998 and 1997 also reflects a current tax provision in the amount of \$17 million, as the Company is in an alternative minimum tax position for federal income tax purposes and pays current state and foreign income tax.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the related amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 1999 and 1998 are as follows (in millions):

	1999	1998
Spare parts and supplies, fixed assets and intangibles . . . . .	\$ 590	\$ 536
Deferred gain. . . . .	61	57
Capital and safe harbor lease activity . . . . .	73	46
Other, net . . . . .	69	39
Gross deferred tax liabilities . . . . .	793	678
Accrued liabilities. . . . .	(254)	(347)
Net operating loss carryforwards . . . . .	(266)	(372)
Investment tax credit carryforwards. . . . .	(45)	(45)
Minimum tax credit carryforward. . . . .	(46)	(37)
Other. . . . .	-	(2)
Gross deferred tax assets. . . . .	(611)	(803)
Deferred tax assets valuation allowance. . . . .	263	263
Net deferred tax liability . . . . .	445	138
Less: current deferred tax asset. . . . .	(145)	(234)
Non-current deferred tax liability . . . . .	\$ 590	\$ 372

At December 31, 1999, the Company had estimated tax net operating losses ("NOLs") of \$700 million for federal income tax purposes that will expire through 2009 and federal investment tax credit carryforwards of \$45 million that will expire through 2001. As a result of the change in ownership of the Company on April 27, 1993, the ultimate utilization of the Company's net operating losses and investment tax credits may be limited. Reflecting this limitation, the Company had a valuation allowance of \$263 million at December 31, 1999 and 1998.

The Company has consummated several transactions which resulted in the recognition of NOLs of the Company's predecessor. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would reduce the value ascribed to routes, gates and slots.

**NOTE 12 - ACCRUALS FOR AIRCRAFT RETIREMENTS AND EXCESS FACILITIES**

During the fourth quarter of 1999, the Company made the decision to accelerate the retirement of six DC-10-30 aircraft and other items in 1999 and the first half of 2000 and to dispose of related excess inventory. The DC-10-30's will be replaced by Boeing 757 and Boeing 737-800 aircraft on certain routes, and by Boeing 777 aircraft on other routes. In addition, the market value of certain Boeing 747 aircraft no longer operated by the Company has declined. As a result of these items and certain other fleet-related items, the Company recorded a fleet disposition/impairment loss of \$81 million in the fourth quarter of 1999.

Approximately \$52 million of the \$81 million charge relates to the

impairment of owned or capital leased aircraft and related inventory held for disposal with a carrying amount of \$77 million. The remaining \$29 million of the charge relates primarily to costs expected to be incurred related to the return of leased aircraft. As of December 31, 1999, the remaining accrual for the 1999 fleet disposition/impairment loss totaled \$12 million.

In August 1998, the Company announced that CMI planned to accelerate the retirement of its four Boeing 747 aircraft by April 1999 and its remaining thirteen Boeing 727 aircraft by December 2000. The Boeing 747s have been replaced by DC-10-30 aircraft and the Boeing 727 aircraft will be replaced with a reduced number of Boeing 737 aircraft. In addition, Express accelerated the retirement of certain turboprop aircraft to the year 2000, including its fleet of 32 EMB-120 turboprop aircraft, as regional jets are acquired to replace turboprops. In connection with its decision to accelerate the replacement of these aircraft, the Company performed evaluations to determine, in accordance with SFAS 121, whether future cash flows (undiscounted and without interest charges) expected to result from the use and eventual disposition of these aircraft would be less than the aggregate carrying amount of these aircraft and the related assets. As a result of the evaluation, management determined that the estimated future cash flows expected to be generated by these aircraft would be less than their carrying amount, and therefore these aircraft are impaired as defined by SFAS 121. Consequently, the original cost basis of these aircraft and related items was reduced to reflect the fair market value at the date the decision was made, resulting in a \$59 million fleet disposition/impairment loss. In determining the fair market value of these assets, the Company considered recent transactions involving sales of similar aircraft and market trends in aircraft dispositions. The remaining \$63 million of the fleet disposition/impairment loss includes cash and non-cash costs related primarily to future commitments on leased aircraft past the dates they will be removed from service and the write-down of related inventory to its estimated fair market value. The combined charge of \$122 million was recorded in the third quarter of 1998. As of December 31, 1999, the remaining accrual for the 1998 fleet disposition/impairment loss totaled \$40 million.

The remaining balance of accruals for aircraft retirements and excess facilities at December 31, 1999 relates to the 1996 fleet disposition/impairment loss accrual of \$21 million and the 1994 accrual for fleet disposition/impairment loss and underutilized facilities of \$47 million.

The following represents the activity within these accruals during the three years ended December 31, 1999 (in millions):

	1999	1998	1997
Total accruals at beginning of year . .	\$155	\$151	\$205
Net cash payments:			
Aircraft related . . . . .	(32)	(34)	(27)
Underutilized facilities and other . .	(20)	(30)	(13)
Increase/(decrease) in accrual for grounded aircraft . . . . .	-	-	(16)
Fleet disposition/impairment loss for costs of return of leased aircraft . .	20	-	-
Fleet disposition/impairment loss for the retirement of aircraft . . . .	-	63	-
Other . . . . .	(3)	5	2
Total accruals at end of year . . . . .	120	155	151
Portion included in accrued other liabilities . . . . .	(51)	(60)	(28)
Accrual for aircraft retirements and excess facilities . . . . .	\$ 69	\$ 95	\$123

The remaining accruals relate primarily to anticipated cash outlays associated with (i) underutilized airport facilities (primarily associated with Denver International Airport), (ii) the return of leased aircraft and (iii) the remaining liability associated with the grounded aircraft. The Company has assumed certain sublease rental income for these closed and underutilized facilities and grounded aircraft in determining the accrual at each balance sheet date. However, should actual sublease rental income be different from the Company's estimates, the actual charge could be different from the amount estimated. The remaining accrual represents cash outlays to be incurred over the remaining lease terms (from one to 19 years). The Company expects to finance the cash outlays primarily with internally generated funds.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of January 14, 2000, Continental had agreed to acquire a total of 74 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 28 Boeing jet aircraft in 2000. Continental also has options for an additional 118 aircraft (exercisable subject to certain

conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately \$4 billion. Continental currently plans to finance its new Boeing aircraft with a combination of enhanced pass through trust certificates, lease equity and other third-party financing, subject to availability and market conditions. Continental has commitments or letters of intent for backstop financing for approximately 18% of the anticipated remaining acquisition cost of future Boeing deliveries. In addition, at January 14, 2000, Continental has firm commitments to purchase 34 spare engines related to the new Boeing aircraft for approximately \$219 million, which will be deliverable through March 2005. However, further financing will be needed to satisfy the Company's capital commitments for other aircraft and aircraft-related expenditures such as engines, spare parts, simulators and related items. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments. Deliveries of new Boeing aircraft are expected to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

As of January 14, 2000, Express had firm commitments for 43 Embraer ERJ-145 ("ERJ-145") 50-seat regional jets and 19 Embraer ERJ-135 ("ERJ-135") 37-seat regional jets, with options for an additional 100 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 15 ERJ-145 and 12 ERJ-135 regional jets in 2000. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 or ERJ-135 aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 2000 capital expenditures, exclusive of fleet plan requirements, to aggregate \$207 million primarily relating to software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment.

Continental remains contingently liable until December 1, 2015, on \$202 million of long-term lease obligations of US Airways, Inc. ("US Airways") related to the East End Terminal at LaGuardia Airport in New York. If US Airways defaulted on these obligations, Continental could be required to cure the default, at which time it would have the right to occupy the terminal.

Continental has certain block space arrangements whereby it is committed to purchase capacity on other carriers at an aggregate cost of approximately \$159 million per year. These arrangements are currently scheduled to expire over the next eight years. Pursuant to other block-space arrangements, other carriers are committed to purchase capacity at a cost of approximately \$95 million per year on Continental.

Approximately 42% of the Company's employees are covered by collective bargaining agreements. The Company's collective bargaining agreements with its Express flight attendants and Continental Airlines flight attendants (representing approximately 18% of the Company's employees) became amendable in November and December 1999, respectively. Negotiations began in September 1999 to amend these contracts. The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the Company's negotiations is unknown at this time.

#### Legal Proceedings

United States of America v. Northwest Airlines Corp. & Continental Airlines, Inc.: The Antitrust Division of the Department of Justice is challenging under Section 7 of the Clayton Act and Section 1 of the Sherman Act the acquisition by Northwest of Shares of Continental's Class A common stock bearing, together with certain shares for which Northwest has a limited proxy, more than 50% of the fully diluted voting power of all Continental stock. The government's position is that, notwithstanding various agreements that restrict Northwest's ability to exercise voting control over Continental and are designed to assure Continental's competitive independence, Northwest's control of the Class A common stock will reduce actual and potential competition in various ways and in a variety of markets. The government seeks an order requiring Northwest to divest all voting stock in Continental on terms and conditions as may be agreed to by the government and the Court. No specific relief is sought against Continental. Trial is currently set for October 2000.

The Company and/or certain of its subsidiaries are defendants in various lawsuits, including suits relating to certain environmental claims, the Company's consolidated Plan of Reorganization under Chapter 11 of the federal bankruptcy code which became effective on April 27, 1993, and proceedings arising in the normal course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the Company's financial position, results of

operations and cash flows, it is the opinion of management, after consulting with counsel, that the ultimate disposition of such suits will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

#### NOTE 14 - RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions that occurred during 1999, 1998 and 1997, other than those discussed elsewhere in the Notes to Consolidated Financial Statements.

The Company and America West Airlines, Inc. ("America West"), a subsidiary of America West Holdings Corporation, in which David Bonderman holds a significant interest, entered into a series of agreements during 1994 related to code-sharing and ground handling that have created substantial benefits for both airlines. Mr. Bonderman is a director and stockholder of the Company. The services provided are considered normal to the daily operations of both airlines. As a result of these agreements, Continental paid America West \$25 million, \$20 million and \$16 million in 1999, 1998 and 1997, respectively, and America West paid Continental \$31 million, \$27 million and \$23 million in 1999, 1998 and 1997, respectively.

In November 1998, the Company and Northwest, a significant stockholder of the Company, began implementing a long-term global alliance involving extensive code-sharing, frequent flyer reciprocity and other cooperative activities. The services provided are considered normal to the daily operations of both airlines. As a result of these activities, Continental paid Northwest \$7 million in 1999, and Northwest paid Continental \$9 million in 1999.

During December 1999, Continental entered into an equipment sales agreement with COPA for \$8 million. The resulting note receivable is payable in quarterly installments through October 2002. During 1999, COPA paid Continental \$4 million for services considered normal to the daily operations of both airlines.

In connection with Continental's investment in Gulfstream, Continental purchased from Gulfstream, a ten-year \$10 million convertible note, payable in quarterly installments of principal and interest totaling \$0.4 million. Continental also purchased a six month \$3 million secured note, with interest paid quarterly and principal due at the end of the six months. During 1999, Continental paid Gulfstream \$1 million and Gulfstream paid Continental \$13 million for services considered normal to the daily operations of both airlines.

Also during December 1999, under a sale and leaseback agreement with Gulfstream, Express sold 25 Beech 1900-D aircraft to Gulfstream in exchange for Gulfstream's assumption of \$81 million in debt. Express is leasing these aircraft from Gulfstream for periods ranging from eight to 23 months.

#### NOTE 15 - SEGMENT REPORTING

Information concerning principal geographic areas is as follows (in millions):

	1999 Operating Revenue	1998 Operating Revenue	1997 Operating Revenue
Domestic (U.S.)	\$6,066	\$5,596	\$5,196
Atlantic	1,102	995	778
Latin America	860	769	572
Pacific	611	567	648
	\$8,639	\$7,927	\$7,194

The Company attributes revenue among the geographical areas based upon the origin and destination of each flight segment. The Company's tangible assets consist primarily of flight equipment which is mobile across geographic markets and, therefore, has not been allocated. Continental has one reportable operating segment (air transportation).

#### NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 1999 and 1998 is as follows (in millions, except per share data):

Three Months Ended  
March 31   June 30   September 30   December 31

Operating revenue . . . . .	\$2,042	\$2,181	\$2,264	\$2,152
Operating income (loss) . . . . .	153	247	202	(2)
Income before cumulative effect of accounting changes . . . . .	85	132	104	167
Cumulative effect of accounting changes:				
Start-up costs . . . . .	(6)	-	-	-
Sale of frequent flyer miles . . . . .	(27)	-	-	-
Net income . . . . .	52	132	104	167

Earnings per common share:				
Income before cumulative effect of accounting changes (b) . . . . .	\$ 1.25	\$ 1.85	\$ 1.47	\$ 2.46
Cumulative effect of accounting changes, net of tax . . . . .	(0.48)	-	-	-
Net income (b) . . . . .	\$ 0.77	\$ 1.85	\$ 1.47	\$ 2.46

Earnings per common share assuming dilution:				
Income before cumulative effect of accounting changes (b) . . . . .	\$ 1.13	\$ 1.73	\$ 1.44	\$ 2.42
Cumulative effect of accounting changes, net of tax . . . . .	(0.42)	-	-	-
Net income (b) . . . . .	\$ 0.71	\$ 1.73	\$ 1.44	\$ 2.42

(continued on next page)

	Three Months Ended			
	March 31	June 30	September 30	December 31
1998				
Operating revenue . . . . .	\$1,848	\$2,030	\$2,110	\$1,939
Operating income . . . . .	150	280	143	128
Nonoperating income (expense), net . . . . .	(13)	(5)	(18)	(17)
Net income . . . . .	81	163	73	66
Earnings per common share:				
Income before extraordinary charge . . . . .	\$ 1.38	\$ 2.74	\$ 1.21	\$ 1.08
Extraordinary charge, net of tax . . . . .	-	(0.06)	-	-
Net income (b) . . . . .	\$ 1.38	\$ 2.68	\$ 1.21	\$ 1.08
Earnings per common share assuming dilution:				
Income before extraordinary charge . . . . .	\$ 1.06	\$ 2.11	\$ 0.97	\$ 0.91
Extraordinary charge, net of tax . . . . .	-	(0.05)	-	-
Net income (b) . . . . .	\$ 1.06	\$ 2.06	\$ 0.97	\$ 0.91
Proforma Effect Assuming Accounting Change-Sale of Frequent Flyer Miles - is Applied Retroactively:				
Income before Extraordinary Charge . . . . .	\$ 79	\$ 166	\$ 71	\$ 66
Earnings per Common Share (b) . . . . .	\$ 1.34	\$ 2.72	\$ 1.18	\$ 1.07
Earnings per Common Share Assuming Dilution (b) . . . . .				
Income before Extraordinary Charge . . . . .	\$ 79	\$ 162	\$ 71	\$ 66
Earnings per Common Share (b) . . . . .	\$ 1.34	\$ 2.66	\$ 1.18	\$ 1.07
Earnings per Common Share Assuming Dilution (b) . . . . .				
Income before Extraordinary Charge . . . . .	\$ 1.04	\$ 2.09	\$ 0.96	\$ 0.90
Income before Extraordinary Charge . . . . .	\$ 79	\$ 162	\$ 71	\$ 66
Earnings per Common Share (b) . . . . .	\$ 1.34	\$ 2.66	\$ 1.18	\$ 1.07
Earnings per Common Share Assuming Dilution (b) . . . . .				
Income before Extraordinary Charge . . . . .	\$ 1.04	\$ 2.05	\$ 0.96	\$ 0.90

(a) During the fourth quarter of 1999, the Company changed its method of accounting for the sale of mileage credits under its frequent flyer program. Therefore, effective January 1, 1999, the Company recorded a \$27 million cumulative effect of a change in accounting principle, net of tax, and has restated the quarterly information for 1999 presented herein.

(b) The sum of the four quarterly earnings per share amounts does not agree with the earnings per share as calculated for the full year due to the fact that the full year calculation uses a weighted average number of shares based on the sum of the four quarterly weighted average shares divided by four quarters.

During the first quarter of 1999, Continental recorded a \$6 million cumulative effect of a change in accounting principle, net of tax, related to the write-off of pilot training costs.

In addition, during the first quarter of 1999, Continental recorded a \$12 million gain (\$20 million pre-tax) on the sale of a portion of the Company's interest in Equant.

During the fourth quarter of 1999, the Company changed its method of accounting for the sale of mileage credits under its frequent flyer program. Therefore, effective January 1, 1999, the Company recorded a \$27 million cumulative effect of this change in accounting principle, net of tax.

During the fourth quarter of 1999, Continental recorded a \$182

million gain (\$297 million pre-tax) on the sale of its interest in AMADEUS and a \$6 million net gain (\$9 million pre-tax) on other asset sales, including a portion of its interest in Equant.

Also during the fourth quarter of 1999, Continental recorded a fleet disposition/impairment loss of \$50 million (\$81 million pre-tax).

During the second quarter of 1998, Continental recorded a \$4 million after tax extraordinary charge relating to prepayment of debt.

During the third quarter of 1998, Continental recorded a fleet disposition/impairment loss of \$77 million (\$122 million pre-tax) relating to its decision to accelerate the retirement of certain jet and turboprop aircraft.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There were no changes in or disagreements on any matters of accounting principles or financial statement disclosure between the Company and its independent auditors during the registrant's two most recent fiscal years or any subsequent interim period.

### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 23, 2000.

#### ITEM 11. EXECUTIVE COMPENSATION.

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 23, 2000.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 23, 2000.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on May 23, 2000.

### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

- (a) The following financial statements are included in Item 8. "Financial Statements and Supplementary Data":

Report of Independent Auditors  
Consolidated Statements of Operations for each of the Three Years in the Period Ended December 31, 1999  
Consolidated Balance Sheets as of December 31, 1999 and 1998  
Consolidated Statements of Cash Flows for each of the Three Years in the Period Ended December 31, 1999  
Consolidated Statements of Redeemable Preferred Stock and Common Stockholders' Equity for each of the Three Years in the Period Ended December 31, 1999  
Notes to Consolidated Financial Statements

- (b) Financial Statement Schedules:

Report of Independent Auditors  
Schedule II - Valuation and Qualifying Accounts

All other schedules have been omitted because they are inapplicable, not required, or the information is included elsewhere in the consolidated financial statements or notes thereto.

- (c) Reports on Form 8-K:

None.

- (d) See accompanying Index to Exhibits.

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements of Continental Airlines, Inc. (the "Company") as of December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999, and have issued our report thereon dated January 17, 2000 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedule for these related periods listed in Item 14(b) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Houston, Texas  
January 17, 2000

CONTINENTAL AIRLINES, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1999, 1998, and 1997  
(In millions)

	Allowance for Doubtful Receivables	Allowance for Obsolescence
Balance, December 31, 1996 . . .	\$ 27	\$ 47
Additions charged to expense . . .	12	12
Deductions from reserve . . . . .	(21)	(4)
Other . . . . .	5	(4)
Balance, December 31, 1997 . . .	23	51
Additions charged to expense . . .	18	17
Deductions from reserve . . . . .	(18)	(16)
Other . . . . .	(1)	(6)
Balance, December 31, 1998 . . .	22	46
Additions charged to expense . . .	12	19
Deductions from reserve . . . . .	(12)	(5)
Other . . . . .	(2)	(1)
Balance, December 31, 1999 . . .	\$ 20	\$ 59

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By /s/ LAWRENCE W. KELLNER  
Lawrence W. Kellner  
Executive Vice President and  
Chief Financial Officer  
(On behalf of Registrant)

Date: February 11, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on February 11, 2000.

Signature

Capacity



/s/ GORDON M. BETHUNE Gordon M. Bethune	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ LAWRENCE W. KELLNER Lawrence W. Kellner	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ CHRIS KENNY Chris Kenny	Staff Vice President and Controller (Principal Accounting Officer)
THOMAS J. BARRACK, JR.* Thomas J. Barrack, Jr.	Director
DAVID BONDERMAN* David Bonderman	Director
/s/GREGORY D. BRENNEMAN Gregory D. Brenneman	Director
KIRBYJON CALDWELL* Kirbyjon Caldwell	Director
PATRICK FOLEY* Patrick Foley	Director
DOUGLAS McCORKINDALE* Douglas McCorkindale	Director
GEORGE G. C. PARKER* George G. C. Parker	Director
RICHARD W. POGUE* Richard W. Pogue	Director
WILLIAM S. PRICE III* William Price III	Director
DONALD L. STURM* Donald L. Sturm	Director
KAREN HASTIE WILLIAMS* Karen Hastie Williams	Director
CHARLES A. YAMARONE* Charles A. Yamarone	Director

\*By /s/ LAWRENCE W. KELLNER  
Lawrence W. Kellner  
Attorney in-fact  
February 11, 2000

INDEX TO EXHIBITS  
OF  
CONTINENTAL AIRLINES, INC.

- 2.1 Revised Third Amended Disclosure Statement Pursuant to Section 1125 of the Bankruptcy Code with Respect to Debtors' Revised Second Amended Joint Plan of Reorganization Under Chapter 11 of the United States Bankruptcy Code, as filed with the Bankruptcy Court on January 13, 1993 -- incorporated by reference from Exhibit 2.1 to Continental's Annual Report on Form 10-K for the year ended December 31, 1992 (File no. 0-9781).
- 2.2 Modification of Debtors' Revised Second Amended Joint Plan of Reorganization dated March 12, 1993 -- incorporated by reference to Exhibit 2.2 to Continental's Current Report on Form 8-K, dated April 16, 1993 (File no. 0-9781) (the "4/93 8-K").
- 2.3 Second Modification of Debtors' Revised Second Amended Joint Plan of Reorganization, dated April 8, 1993 -- incorporated by reference to Exhibit 2.3 to the 4/93 8-K.
- 2.4 Third Modification of Debtors' Revised Second Amended Joint Plan of Reorganization, dated April 15, 1993 -- incorporated by reference to Exhibit 2.4 to the 4/93 8-K.
- 2.5 Confirmation Order, dated April 16, 1993 -- incorporated by reference to Exhibit 2.5 to the 4/93 8-K.
- 3.1 Amended and Restated Certificate of Incorporation of Continental -- incorporated by reference to Exhibit 4.1(a) to Continental's Form S-8 registration statement (No. 333-06993) (the "1996 S-8").
- 3.2 By-laws of Continental, as amended to date -- incorporated by reference to Exhibit 99.3 to Continental's Current Report on Form 8-K dated November

20, 1998 (the "11/98 8-K").

- 4.1 Specimen Class A Common Stock Certificate of the Company -- incorporated by reference to Exhibit 4.1 to Continental's Annual Report on Form 10-K for the year ended December 31, 1995 (File no. 0-9781) (the "1995 10-K").
- 4.2 Specimen Class B Common Stock Certificate of the Company -- incorporated by reference to Exhibit 4.1 to Continental's Form S-1 Registration Statement (No. 33-68870) (the "1993 S-1").
- 4.3 Rights Agreement, dated as of November 20, 1998, between Continental and Harris Trust and Savings Bank -- incorporated by reference to Exhibit 4.1 to the 11/98 8-K.
- 4.3(a) First Amendment to Rights Agreement, dated as of February 8, 2000 -- incorporated by reference to Exhibit 4.1 to Continental's Current Report on Form 8-K dated February 8, 2000 (File No. 0-9781) (the "2/00 8-K").
- 4.4 Certificate of Designation of Series A Junior Participating Preferred Stock, included as Exhibit A to Exhibit 4.3 -- incorporated by reference to Exhibit 4.2 to the 11/98 8-K.
- 4.5 Form of Right Certificate, included as Exhibit B to Exhibit 4.3 -- incorporated by reference to Exhibit 4.3 to the 11/98 8-K.
- 4.6 Summary of Rights to Purchase Preferred Shares, included as Exhibit C to Exhibit 4.3 -- incorporated by reference to Exhibit 4.4 to the 11/98 8-K.
- 4.7 Amended and Restated Governance Agreement, dated February 8, 2000, among the Company, Northwest Airlines Corporation ("Northwest") and Northwest Airlines Holdings Corporation ("Northwest Holdings") -- incorporated by reference to Exhibit 99.2 to the 2/00 8-K.
- 4.8 Supplemental Agreement dated November 20, 1998 among the Company, Newbridge Parent Corporation and Northwest -- incorporated by reference to Exhibit 99.7 to the 11/98 8-K.
- 4.8(a) First Amendment to Supplemental Agreement, dated as of February 8, 2000, among the Company, Northwest and Northwest Holdings -- incorporated by reference to Exhibit 99.3 to the 2/00 8-K.
- 4.9 Amended and Restated Registration Rights Agreement dated April 19, 1996 among the Company, Air Partners, L.P. and Air Canada -- incorporated by reference to Exhibit 10.2 to Continental's Form S-3 Registration Statement (No. 333-02701).
- 4.9(a) Amendment dated November 20, 1998 to the Amended and Restated Registration Rights Agreement among the Company, Air Partners and Northwest -- incorporated by reference to Exhibit 99.5 to the 11/98 8-K.
- 4.10 Warrant Agreement dated as of April 27, 1993, between Continental and Continental as warrant agent -- incorporated by reference to Exhibit 4.7 to the 4/93 8-K.
- 4.11 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.
- 9.1 Northwest Airlines/Air Partners Voting Trust Agreement dated as of November 20, 1998 among the Company, Northwest, Northwest Holdings, Air Partners and Wilmington Trust Company, as Trustee -- incorporated by reference to Exhibit 99.4 to the 11/98 8-K.
- 9.1(a) First amendment to Northwest Airlines/Air Partners Voting Trust Agreement, dated as of February 8, 2000 between the Company and Northwest -- incorporated by reference to Exhibit 99.1 to the 2/00 8-K.
- 10.1 Agreement of Lease dated as of January 11, 1985, between the Port Authority of New York and New Jersey and People Express Airlines, Inc., regarding Terminal C (the "Terminal C Lease") -- incorporated by reference to Exhibit 10.61 to the Annual Report on Form 10-K (File No. 0-9781) of People Express Airlines, Inc. for the year ended December 31, 1984.

- 10.1(a) Supplemental Agreements Nos. 1 through 6 to the Terminal C Lease -- incorporated by reference to Exhibit 10.3 to Continental's Annual Report on Form 10-K (File No. 1-8475) for the year ended December 31, 1987 (the "1987 10-K").
- 10.1(b) Supplemental Agreement No. 7 to the Terminal C Lease -- incorporated by reference to Exhibit 10.4 to Continental's Annual Report on Form 10-K (File No. 1-8475) for the year ended December 31, 1988.
- 10.1(c) Supplemental Agreements No. 8 through 11 to the Terminal C Lease -- incorporated by reference to Exhibit 10.10 to the 1993 S-1.
- 10.1(d) Supplemental Agreements No. 12 through 15 to the Terminal C Lease -- incorporated by reference to Exhibit 10.2(d) to the 1995 10-K.
- 10.1(e) Supplemental Agreement No. 16 to the Terminal C Lease -- incorporated by reference to Exhibit 10.1(e) to Continental's Annual Report on Form 10-K for the year ended December 31, 1997 (File no. 0-9781) (the "1997 10-K").
- 10.1(f) Supplemental Agreement No. 17 to the Terminal C Lease. (2)(3)
- 10.2 Assignment of Lease with Assumption and Consent dated as of August 15, 1987, among the Port Authority of New York and New Jersey, People Express Airlines, Inc. and Continental -- incorporated by reference to Exhibit 10.2 to the 1987 10-K.
- 10.3\* Amended and restated employment agreement between the Company and Gordon Bethune, dated as of November 20, 1998 -- incorporated by reference to Exhibit 10.3 to the 1998 10-K.
- 10.3(a)\* Amendment dated as of May 19, 1999 to Mr. Bethune's Employment Agreement -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 0-9781) (the "1999 Q-2 10-Q").
- 10.3(b)\* Amendment dated as of September 16, 1999 to Mr. Bethune's Employment Agreement -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (File No. 0-9781) (the "1999 Q-3 10-Q").
- 10.4\* Amended and restated employment agreement between the Company and Gregory Brenneman, dated as of November 20, 1998 -- incorporated by reference to Exhibit 10.4 to the 1998 10-K.
- 10.4(a)\* Amendment dated as of May 19, 1999 to Mr. Brenneman's Employment Agreement -- incorporated by reference to Exhibit 10.3 to the 1999 Q-2 10-Q.
- 10.4(b)\* Amendment dated as of September 16, 1999 to Mr. Brenneman's Employment Agreement -- incorporated by reference to Exhibit 10.3 to the 1999 Q-3 10-Q.
- 10.5\* Amended and restated employment agreement dated as of September 16, 1999 between the Company and Lawrence Kellner -- incorporated by reference to Exhibit 10.4 to the 1999 Q-3 10-Q.
- 10.6\* Amended and restated employment agreement dated as of September 16, 1999 between the Company and C.D. McLean -- incorporated by reference to Exhibit 10.5 to the 1999 Q-3 10-Q.
- 10.7\* Amended and restated employment agreement dated September 16, 1999 between the Company and Jeffery A. Smisek -- incorporated by reference to Exhibit 10.6 to the 1999 Q-3 10-Q.
- 10.8\* Stay Bonus Agreement between the Company and Gordon Bethune -- incorporated by reference to Exhibit 10.3 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File no. 0-9781) (the "1998 Q-2 10-Q").
- 10.9\* Stay Bonus Agreement between the Company and Gregory Brenneman -- incorporated by reference to Exhibit 10.4 to the 1998 Q-2 10-Q.
- 10.10\* Stay Bonus Agreement between the Company and Lawrence Kellner -- incorporated by reference to Exhibit 10.5 to

the 1998 Q-2 10-Q.

- 10.11\* Stay Bonus Agreement between the Company and C.D. McLean -- incorporated by reference to Exhibit 10.6 to the 1998 Q-2 10-Q.
- 10.12\* Stay Bonus Agreement between the Company and Jeffery Smisek -- incorporated by reference to Exhibit 10.7 to the 1998 Q-2 10-Q.
- 10.13\* Forms of Stay Bonus Agreements for other executive officers -- incorporated by reference to Exhibit 10.8 to the 1998 Q-2 10-Q.
- 10.14\* Executive Bonus Program -- incorporated by reference to Appendix B to the Company's proxy statement relating its annual meeting of stockholders held on June 26, 1996.
- 10.14(a)\* Amendment of Executive Bonus Program effective January 1, 1999 -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (File no. 0-9781) (the "1999 Q-1 10-Q").
- 10.14(b)\* Amendment of Executive Bonus Program dated February 8, 2000. (3)
- 10.15\* Continental Airlines, Inc. 1994 Incentive Equity Plan ("1994 Equity Plan") -- incorporated by reference to Exhibit 4.3 to the Company's Form S-8 Registration Statement (No. 33-81324).
- 10.15(a)\* First Amendment to 1994 Equity Plan -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 (File no. 0-9781).
- 10.15(b)\* Second Amendment to 1994 Equity Plan -- incorporated by reference to Exhibit 4.3(c) to the 1996 S-8.
- 10.15(c)\* Third Amendment to 1994 Equity Plan -- incorporated by reference to Exhibit 10.4 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 (File no. 0-9781).
- 10.15(d)\* Fourth Amendment to 1994 Equity Plan -- incorporated by reference to Exhibit 10.10(d) to the 1997 10-K.
- 10.15(e)\* Form of Employee Stock Option Grant pursuant to the 1994 Equity Plan -- incorporated by reference to Exhibit 10.10(e) to the 1997 10-K.
- 10.15(f)\* Form of Outside Director Stock Option Grant pursuant to the 1994 Equity Plan -- incorporated by reference to Exhibit 10.10(f) to the 1997 10-K.
- 10.15(g)\* Form of Restricted Stock Grant pursuant to the 1994 Equity Plan -- incorporated by reference to Exhibit 10.10(g) to the 1997 10-K.
- 10.16\* Continental Airlines, Inc. 1997 Stock Incentive Plan ("1997 Incentive Plan") -- incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration Statement (No. 333-23165).
- 10.16(a)\* First Amendment to 1997 Incentive Plan -- incorporated by reference to Exhibit 10.11(a) to the 1997 10-K.
- 10.16(b)\* Form of Employee Stock Option Grant pursuant to the 1997 Incentive Plan -- incorporated by reference to Exhibit 10.11(b) to the 1997 10-K.
- 10.16(c)\* Form of Outside Director Stock Option Grant pursuant to the 1997 Incentive Plan -- incorporated by reference to Exhibit 10.11(c) to the 1997 10-K.
- 10.17\* Amendment and Restatement of the 1994 Equity Plan and the 1997 Incentive Plan -- incorporated by reference to Exhibit 10.19 to the 1998 10-K.
- 10.18\* Continental Airlines, Inc. 1998 Stock Incentive Plan ("1998 Incentive Plan") -- incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration Statement (No. 333-57297) (the "1998 S-8").
- 10.18(a)\* Form of Employee Stock Option Grant pursuant to the 1998 Incentive Plan -- incorporated by reference to Exhibit 4.4 to the 1998 S-8.
- 10.19\* Amended and Restated Continental Airlines, Inc. Deferred Compensation Plan. (3)

- 10.20\* Continental Airlines, Inc. Incentive Plan 2000. (3)
- 10.21\* Continental Airlines, Inc. Executive Bonus Performance Award Program, as amended. (3)
- 10.22\* Continental Airlines, Inc. Long Term Incentive Performance Award Program. (3)
- 10.23\* Form of Letter Agreement relating to certain flight benefits between the Company and each of its nonemployee directors -- incorporated by reference to Exhibit 10.19 to the 1995 10-K.
- 10.24 Purchase Agreement No. 1783, including exhibits and side letters, between the Company and Boeing, effective April 27, 1993, relating to the purchase of Boeing 757 aircraft ("P.A. 1783") -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 (File no. 0-9781). (1)
- 10.24(a) Supplemental Agreement No. 4 to P.A. 1783, dated March 31, 1995 -- incorporated by reference to Exhibit 10.12(a) to Continental's Annual Report on Form 10-K for the year ended December 31, 1994 (File no. 0-9781) (the "1994 10-K"). (1)
- 10.24(b) Supplemental Agreement No. 6 to P.A. 1783, dated June 13, 1996 -- incorporated by reference to Exhibit 10.6 to Continental's Quarterly Report on Form 10-Q for the quarter ending June 30, 1996 (File no. 0-9781) (the "1996 Q-2 10-Q"). (1)
- 10.24(c) Supplemental Agreement No. 7 to P.A. 1783, dated July 23, 1996 -- incorporated by reference to Exhibit 10.6(a) to the 1996 Q-2 10-Q. (1)
- 10.24(d) Supplemental Agreement No. 8 to P.A. 1783, dated October 27, 1996 -- incorporated by reference to Exhibit 10.11(d) to Continental's Annual Report on Form 10-K for the year ended December 31, 1996 (File no. 0-9781) (the "1996 10-K"). (1)
- 10.24(e) Letter Agreement No. 6-1162-GOC-044 to P.A. 1783, dated March 21, 1997 -- incorporated by reference to Exhibit 10.4 to Continental's Quarterly Report on Form 10-Q for the quarter ending March 31, 1997 (File no. 0-9781) (the "1997 Q-1 10-Q"). (1)
- 10.24(f) Supplemental Agreement No. 9 to P.A. 1783, dated August 13, 1997 -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 (File no. 0-9781). (1)
- 10.24(g) Supplemental Agreement No. 10, including side letters, to P.A. 1783, dated October 10, 1997 -- incorporated by reference to Exhibit 10.13(g) to the 1997 10-K. (1)
- 10.24(h) Supplemental Agreement No. 11, including exhibits and side letters, to P.A. 1783, dated July 30, 1998 -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File no. 0-9781) (the "1998 Q-3 10-Q"). (1)
- 10.24(i) Supplemental Agreement No. 12, including side letter, to P.A. 1783, dated September 29, 1998 -- incorporated by reference to Exhibit 10.23(i) to the 1998 10-K. (1)
- 10.24(j) Supplemental Agreement No. 13 to P.A. 1783, dated November 16, 1998 -- incorporated by reference to Exhibit 10.23(j) to the 1998 10-K. (1)
- 10.24(k) Supplemental Agreement No. 14, including side letter, to P.A. 1783, dated December 17, 1998 -- incorporated by reference to Exhibit 10.23(k) to the 1998 10-K. (1)
- 10.24(l) Supplemental Agreement No. 15, including side letter, to P.A. 1783, dated February 18, 1999 -- incorporated by reference to Exhibit 10.3 to the 1999 Q-1 10-Q. (1)
- 10.24(m) Supplemental Agreement No. 16, including side letters, to P.A. 1783, dated July 2, 1999 -- incorporated by reference to Exhibit 10.7 to the 1999 Q-3 10-Q. (2)
- 10.25 Purchase Agreement No. 1951, including exhibits and side letters thereto, between the Company and Boeing, dated July 23, 1996, relating to the purchase of Boeing 737 aircraft ("P.A. 1951") -- incorporated by reference to Exhibit 10.8 to the 1996 Q-2 10-Q. (1)

- 10.25(a) Supplemental Agreement No. 1 to P.A. 1951, dated October 10, 1996 -- incorporated by reference to Exhibit 10.14(a) to the 1996 10-K. (1)
- 10.25(b) Supplemental Agreement No. 2 to P.A. 1951, dated March 5, 1997 -- incorporated by reference to Exhibit 10.3 to the 1997 Q1 10-Q. (1)
- 10.25(c) Supplemental Agreement No. 3, including exhibit and side letter, to P.A. 1951, dated July 17, 1997 -- incorporated by reference to Exhibit 10.14(c) to the 1997 10-K. (1)
- 10.25(d) Supplemental Agreement No. 4, including exhibits and side letters, to P.A. 1951, dated October 10, 1997 -- incorporated by reference to Exhibit 10.14(d) to the 1997 10-K. (1)
- 10.25(e) Supplemental Agreement No. 5, including exhibits and side letters, to P.A. 1951 dated October 10, 1997 -- incorporated by reference to Exhibit 10.1 to the 1998 Q-2 10-Q. (1)
- 10.25(f) Supplemental Agreement No. 6, including exhibits and side letters, to P.A. 1951, dated July 30, 1998 -- incorporated by reference to Exhibit 10.1 to the 1998 Q-3 10-Q. (1)
- 10.25(g) Supplemental Agreement No. 7, including side letters, to P.A. 1951, dated November 12, 1998 -- incorporated by reference to Exhibit 10.24(g) to the 1998 10-K. (1)
- 10.25(h) Supplemental Agreement No. 8, including side letters, to P.A. 1951, dated December 7, 1998 -- incorporated by reference to Exhibit 10.24(h) to the 1998 10-K. (1)
- 10.25(i) Letter Agreement No. 6-1162-GOC-131R1 to P.A. 1951, dated March 26, 1998 -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (File no. 0-9781). (1)
- 10.25(j) Supplemental Agreement No. 9, including side letters, to P.A. 1951, dated February 18, 1999 -- incorporated by reference to Exhibit 10.4 to the 1999 Q-1 10-Q. (1)
- 10.25(k) Supplemental Agreement No. 10, including side letters, to P.A. 1951, dated March 19, 1999 -- incorporated by reference to Exhibit 10.4(a) to the 1999 Q-1 10-Q. (1)
- 10.25(l) Supplemental Agreement No. 11, including side letters, to P.A. 1951, dated May 14, 1999 -- incorporated by reference to Exhibit 10.7 to the 1999 Q-2 10-Q. (1)
- 10.25(m) Supplemental Agreement No. 12 to P.A. 1951, dated July 2, 1999 -- incorporated by reference to Exhibit 10.8 to the 1999 Q-3 10-Q. (2)
- 10.25(n) Supplemental Agreement No. 13 to P.A. 1951, dated October 13, 1999. (2)(3)
- 10.25(o) Supplemental Agreement No. 14 to P.A. 1951, dated December 13, 1999. (2)(3)
- 10.26 Aircraft General Terms Agreement between the Company and Boeing, dated October 10, 1997 -- incorporated by reference to Exhibit 10.15 to the 1997 10-K. (1)
- 10.26(a) Letter Agreement No. 6-1162-GOC-136 between the Company and Boeing, dated October 10, 1997, relating to certain long-term aircraft purchase commitments of the Company -- incorporated by reference to Exhibit 10.15(a) to the 1997 10-K. (1)
- 10.27 Purchase Agreement No. 2060, including exhibits and side letters, between the Company and Boeing, dated October 10, 1997, relating to the purchase of Boeing 767 aircraft ("P.A. 2060") -- incorporated by reference to Exhibit 10.16 to the 1997 10-K. (1)
- 10.27(a) Supplemental Agreement No. 1 to P.A. 2060 dated December 18, 1997 -- incorporated by reference to Exhibit 10.16(a) to the 1997 10-K. (1)
- 10.27(b) Supplemental Agreement No. 2 to P.A. 2060 dated June 8, 1999 -- incorporated by reference to Exhibit 10.8 to the 1999 Q-2 10-Q. (1)
- 10.28 Purchase Agreement No. 2061, including exhibits and side letters, between the Company and Boeing, dated October 10, 1997, relating to the purchase of Boeing 777 aircraft ("P.A. 2061") -- incorporated by reference to Exhibit

- 10.17 to the 1997 10-K. (1)
- 10.28(a) Supplemental Agreement No. 1 to P.A. 2061 dated December 18, 1997 -- incorporated by reference to Exhibit 10.17(a) as to the 1997 10-K. (1)
- 10.28(b) Supplemental Agreement No. 2, including side letter, to P.A. 2061, dated July 30, 1998 -- incorporated by reference to Exhibit 10.27(b) to the 1998 10-K. (1)
- 10.28(c) Supplemental Agreement No. 3, including side letter, to P.A. 2061, dated September 25, 1998 -- incorporated by reference to Exhibit 10.27(c) to the 1998 10-K. (1)
- 10.28(d) Supplemental Agreement No. 4, including side letter, to P.A. 2061, dated February 3, 1999 -- incorporated by reference to Exhibit 10.5 to the 1999 Q-1 10-Q. (1)
- 10.28(e) Supplemental Agreement No. 5, including side letter, to P.A. 2061, dated March 26, 1999 -- incorporated by reference to Exhibit 10.5(a) to the 1999 Q-1 10-Q. (1)
- 10.28(f) Supplemental Agreement No. 6, including side letter, to P.A. 2061, dated May 14, 1999 -- incorporated by reference to Exhibit 10.9 to the 1999 Q-2 10-Q. (1)
- 10.29 Purchase Agreement No. 2211, including exhibits and side letters thereto, between the Company and Boeing, dated November 16, 1998, relating to the purchase of Boeing 767 aircraft ("P.A. 2211") -- incorporated by reference to Exhibit 10.28 to the 1998 10-K. (1)
- 10.29(a) Supplemental Agreement No. 1, including side letters, to P.A. 2211, dated July 2, 1999 -- incorporated by reference to Exhibit 10.9 to the 1999 Q-2 10-Q. (1)
- 10.30 Lease Agreement dated as of May 1992 between the City and County of Denver, Colorado and Continental regarding Denver International Airport -- incorporated by reference to Exhibit 10.17 to the 1993 S-1.
- 10.30(a) Supplemental Lease Agreement, including an exhibit thereto, dated as of April 3, 1995 between the City and County of Denver, Colorado and Continental and United Air Lines, Inc. regarding Denver International Airport -- incorporated by reference to Exhibit 10.15(a) to the 1994 10-K.
- 10.31 Airport Use and Lease Agreement dated as of January 1, 1998 between the Company and the City of Houston, Texas regarding Bush Intercontinental -- incorporated by reference to Exhibit 10.30 to the 1998 10-K.
- 10.31(a) Special Facilities Lease Agreement dated as of March 1, 1997 by and between the Company and the City of Houston, Texas regarding an automated people mover project at Bush Intercontinental -- incorporated by reference to Exhibit 10.30(a) to the 1998 10-K.
- 10.31(b) Amended and Restated Special Facilities Lease Agreement dated as of December 1, 1998 by and between the Company and the City of Houston, Texas regarding certain terminal improvement projects at Bush Intercontinental -- incorporated by reference to Exhibit 10.30(b) to the 1998 10-K.
- 10.31(c) Amended and Restated Special Facilities Lease Agreement dated December 1, 1998 by and between the Company and the City of Houston, Texas regarding certain airport improvement projects at Bush Intercontinental -- incorporated by reference to Exhibit 10.30(c) to the 1998 10-K.
- 10.32 Agreement and Lease dated as of May 1987, as supplemented, between the City of Cleveland, Ohio and Continental regarding Hopkins International -- incorporated by reference to Exhibit 10.6 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 (File no. 0-9781).
- 10.32(a) Special Facilities Lease Agreement dated as of October 24, 1997 by and between the Company and the City of Cleveland, Ohio regarding certain concourse expansion projects at Hopkins International (the "1997 SFLA") -- incorporated by reference to Exhibit 10.31(a) to the 1998 10-K.
- 10.32(b) First Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1997 SFLA -- incorporated by reference to Exhibit 10.1 to the 1999 Q-1 10-Q.

- 10.33 Special Facilities Lease Agreement dated as of December 1, 1989 by and between the Company and the City of Cleveland, Ohio regarding Cleveland Hopkins International Airport (the "1989 SFLA") -- incorporated by reference to Exhibit 10.1 to the 1999 Q-3 10-Q.
- 10.33(a) First Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1989 SFLA -- incorporated by reference to Exhibit 10.1(a) to the 1999 Q-3 10-Q.
- 10.33(b) Second Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1989 SFLA -- incorporated by reference to Exhibit 10.1(b) to the 1999 Q-3 10-Q.
- 10.34 Third Revised Investment Agreement, dated April 21, 1994, between America West Airlines, Inc. and AmWest Partners, L.P. -- incorporated by reference to Exhibit 1 to Continental's Schedule 13D relating to America West Airlines, Inc. filed on August 25, 1994.
- 10.35 Letter Agreement No. 11 between the Company and General Electric Company, dated December 22, 1997, relating to certain long-term engine purchase commitments of the Company -- incorporated by reference to Exhibit 10.23 to the 1997 10-K. (1)
- 18.1 Letter from Ernst & Young LLP re change in accounting principle. (3)
- 21.1 List of Subsidiaries of Continental. (3)
- 23.1 Consent of Ernst & Young LLP. (3)
- 24.1 Powers of attorney executed by certain directors and officers of Continental. (3)
- 27.1 Financial Data Schedule. (3)

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\* These exhibits relate to management contracts or compensatory plans or arrangements.

- (1) The Commission has granted confidential treatment for a portion of this exhibit.
- (2) The Company has applied to the Commission for confidential treatment of a portion of this exhibit.
- (3) Filed herewith.



SUPPLEMENT NO. 17 TO LEASE ANA-170

PORT AUTHORITY OF NEW YORK AND NEW JERSEY

AND

CONTINENTAL AIRLINES, INC.  
(the "Lessee")

THIS AGREEMENT SHALL NOT BE BINDING  
UPON THE PORT AUTHORITY UNTIL DULY  
EXECUTED BY AN EXECUTIVE OFFICER  
THEREOF AND DELIVERED TO THE LESSEE  
BY AN AUTHORIZED REPRESENTATIVE OF THE  
PORT AUTHORITY

Newark International Airport  
Supplement No. 17  
Port Authority Lease No. ANA-170

SEVENTEENTH SUPPLEMENTAL AGREEMENT

THIS AGREEMENT, made as of September 1, 1999 (the "Effective Date") (sometimes referred to as "Seventeenth Supplemental Agreement" or as "Supplement No. 17" of the Lease) by and between THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY (hereinafter referred to as "the Port Authority") and CONTINENTAL AIRLINES, INC., a corporation of the State of Delaware, (hereinafter referred to as "the Lessee"),

WITNESSETH, That:

WHEREAS, the Port Authority and People Express Airlines, Inc. as of January 11, 1985 entered into an agreement of lease covering certain premises, rights and privileges at and in respect to Newark International Airport (hereinafter called the "Airport") as therein set forth (said agreement of lease as heretofore supplemented and amended is hereinafter called the "Lease"); and

WHEREAS, the Lease was thereafter assigned by said People Express Airlines, Inc. to the Lessee pursuant to an Assignment of Lease with Assumption and Consent Agreement entered into among the Port Authority, the Lessee and said People Express Airlines, Inc. and dated August 15, 1987; and

WHEREAS, a certain Stipulation between the parties hereto was heretofore submitted for approval of the United States Bankruptcy Court for the District of Delaware ("the Bankruptcy Court") covering the Lessee's assumption of the Lease as part of the confirmation of its reorganization plan in its Chapter 11 bankruptcy proceedings and as debtor and debtor in possession pursuant to the applicable provisions of the United States Bankruptcy Code as set forth in and subject to the terms and conditions of said Stipulation (said Stipulation being hereinafter referred to as the "Stipulation"); and

WHEREAS, the Stipulation and the Lessee's assumption of the Lease was approved by the Bankruptcy Court by an Order thereof dated the 1st day of October, 1993; and

WHEREAS, the Port Authority and the Lessee desire to extend the term of the letting of Area C-3 under the Lease and to amend the Lease in certain other respects as hereinafter set forth;

NOW, THEREFORE, in consideration of the covenants and mutual agreements herein contained, the Port Authority and the Lessee hereby agree to amend the Lease, effective as of the Effective Date (except as otherwise herein expressly provided), as follows:

1. (a) Premises added to Area C-3: In addition to the premises heretofore let to the Lessee under the Lease as to which the letting shall continue in full force and effect subject to all the terms and conditions of the Lease, as herein amended, the Port Authority hereby lets to the Lessee and the Lessee hereby hires and

takes from the Port Authority the following areas at Newark International Airport (i) effective as of 12:01 A.M. on the Effective Date the ground areas shown in diagonal hatch and in broken diagonal hatch on the sketch attached hereto, hereby made a part hereof and marked "Exhibit A-1", together with the fixtures, improvements and other property of the Port Authority located or to be located therein or thereon (collectively, the "Added Area 1"), (ii) effective as of 12:01 A.M. on the Effective Date the ground areas (including the area known as "Adams Ditch") shown in crosses on Exhibit A-1, together with the fixtures, improvements and other property of the Port Authority located or to be located therein or thereon (collectively, the "Added Area 2" and also sometimes referred to as the "Adams Ditch Area"), and (iii) effective as of 12:01 A.M. on the Added Area 3 Effective Date (as defined below) the ground areas shown in cross-hatch on Exhibit A-1, together with the fixtures, improvements and other property of the Port Authority located or to be located therein or thereon (collectively, the "Added Area 3") and, the said Added Area 1, Added Area 2 and Added Area 3 to be and become a part of Area C-3 of the premises under the Lease, as herein amended, let to the Lessee (said Added Area 1, Added Area 2 and Added Area 3 sometimes collectively hereinafter referred to as the "Area C-3 Addition") subject to and in accordance with all of the terms, covenants, provisions and conditions of the Lease, as herein amended, for and during all the residue and remainder of the term of the letting of Area C-3 under the Lease, as herein amended, and as said term is extended pursuant to Paragraph 2 hereof.

It is expressly recognized that Exhibit A-1 is a preliminary exhibit and is marked "Preliminary" and is subject to replacement with a final exhibit upon the Port Authority's determination of final metes and bounds of the aforesaid Added Area 1, Added Area 2 and Added Area 3 as more fully described in Paragraph 3A of this Supplement No. 17.

For purposes hereof, the term "Added Area 3 Effective Date" shall mean the later to occur of (i) the date set forth by the Port Authority in a completion certificate delivered by the Port Authority to the Lessee covering the portion of the Expansion Construction Work which constitutes the Area C-3 concourse (as defined in Paragraph (b) (1) (i) of Section 93 of the Lease) pursuant to paragraph (n) (1), (n) (3) or (n) (4) of Section 93 of the Lease, and (ii) November 1, 2001.

Subsequent to the execution of this Supplement No. 17 to the Lease and prior to the Added Area 3 Effective Date the Port Authority and the Lessee shall each use their best efforts to enter into space permit(s) or other appropriate agreement(s) which provide the Lessee with temporary staged access to portions of the area which would become the Added Area 3 for the purpose of performing paving and such other specified construction activities as may be permitted (as provided in said permit(s) or other agreement(s), and consistent with the terms of this Supplement No. 17). The parties each understand that such access will be coordinated and staged so as to permit the continuous use by the Port Authority of Added Area 3 for vehicular parking except for those portions thereof that are, from time to time, temporarily made available to the Lessee as provided herein, and that it is the Lessee's desire to have as much of said area as possible paved and ready for use as aircraft ramp on the Added Area 3 Effective Date.

(b) Premises added to C-1 and C-2 portions of the premises: In addition to the premises heretofore let to the Lessee under the Lease as to which the letting shall continue in full force and effect subject to all the terms and conditions of the Lease, as herein amended, the Port Authority hereby lets to the Lessee and the Lessee hereby hires and takes from the Port Authority at Newark International Airport effective as of 12:01 A.M. on the Effective Date the ground areas shown in diagonal hatch and in crosses on the sketch attached hereto, hereby made a part hereof and marked "Exhibit B-1", together with the fixtures, improvements and other property of the Port Authority located or to be located therein or thereon (collectively, the "Added Area 4"), to be and become a part of the "C-1 and C-2 portions" of the premises under the Lease, as herein amended, let to the Lessee (said Added Area 4 being sometimes hereinafter referred to as the "C-1-C-2 Additional Area") subject to and in accordance with all of the terms, covenants, provisions and conditions of the Lease, as herein amended, for and during all the residue and remainder of the term of the letting of the C-1 and C-2 portions of the premises under the Lease, as herein amended; with an expiration date of March 31, 2013 as set forth in Section 4 of the Lease.

It is expressly recognized that Exhibit B-1 is a preliminary exhibit and is marked "Preliminary" and is subject to replacement with a final exhibit upon the Port Authority's determination of final metes and bounds of the aforesaid Added Area 4 as more fully described in Paragraph 3A of this Supplement No. 17.

The term "C-1 and C-2 portions" of the premises shall refer to all portions of the premises let to the Lessee under the

Lease excluding the Area C-3 portion of the premises.

(c) The parties acknowledge and agree that the aforesaid areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1 constitute non-residential real property.

(d) (1) The Lessee accepts all of the aforesaid additional areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1 in their "as is" condition and agrees that the Port Authority shall not have any responsibility for any work or installation to make said aforesaid additional areas usable by the Lessee, to place it in any particular condition or to reimburse the Lessee for any work or installation as may be made by or on behalf of the Lessee, the Lessee having exclusive responsibility therefor. However, the Lessee shall not effect, without the prior written approval of the Port Authority, any modification, addition, removal or other change with respect to said additional areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1. The Lessee hereby acknowledges that it has not relied upon any representation or statement of the Port Authority or its Commissioners, officers, employees or agents as to the condition of the said additional areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1. The Lessee, prior to the execution of this Agreement, has thoroughly examined the said additional areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1 and determined them to be suitable for the Lessee's operations hereunder and the Lessee hereby agrees to take said additional areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1 in the condition they are in as of the applicable effective date and, subject to Section 12(p)(2) of the Lease as herein amended, to assume all responsibility for any and all risks, costs and expenses of any kind whatsoever (including but not limited to the risks, costs and expenses described in subparagraph (2) of this subparagraph (d)) caused by, arising out of or in connection with, the condition of the said areas whether any aspect of such condition existed prior to, on or after the applicable effective date of the letting of the said additional areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1, including without limitation all Environmental Requirements (as defined in Section 72 of the Lease as herein amended) and Environmental Damages (as defined Section 72 of the Lease as herein amended), and to indemnify and hold harmless the Port Authority for all such risks, requirements, costs and expenses imposed upon or required of the Port Authority. Without limiting any obligation of the Lessee to commence operations hereunder at the time and in the manner stated elsewhere in the Lease as herein amended, the Lessee agrees that no portion of the premises will be used initially or at any time during the letting which is in a condition unsafe or improper for the conduct of the Lessee's operations hereunder so that there is possibility of injury or damage to life or property. All the obligations of the Lessee under the Lease as hereby amended with respect to the aforesaid responsibilities, risks, costs and expenses assumed by the Lessee shall survive the expiration or termination of the Lease.

(2) In addition to and without limiting the foregoing or any Section, term, provision, covenant or condition of the Lease or any of the Lessee's obligations, duties or liabilities thereunder, the Lessee expressly acknowledges that the Lessee shall at its own cost and expense obtain, maintain and fully comply with all governmental permits and approvals, including but not limited to any and all approvals of the City of Newark, required or which may at any time be required for or relating to Added Area 2 (Adams Ditch) or the Lessee's use and occupancy thereof or the Lessee's construction activities relating, affecting or in connection with said Added Area 2 or any relocation or rerouting of the water flow or drainage provided thereby, and that the Lessee shall not commence any operations, filling in or any other construction activities whatsoever on, in or upon or affecting said Adams Ditch Area prior to the Lessee's obtaining all governmental permits and approvals, including but not limited to the prior approval of the City of Newark, including without limitation any approval which may be required by the City of Newark under the Basic Lease; and without limiting any term or provision of the Lease the Lessee shall promptly submit to the Port Authority true and complete executed copies of all such governmental permits and approvals prior to the Lessee's performance of any such work, and such other and further information as the Port Authority may require or request. Without limiting Sections 10, 33, 93 or any other term, covenant, condition or provision of the Lease, the Lessee hereby expressly assumes all risks, costs and expenses in connection with the letting hereunder of the said Adams Ditch Area to the Lessee including without limitation the risk that the City of Newark may not grant approval to any construction or use or alteration by the Lessee of the said Adams Ditch Area or for any proposed replacement, relocation or rerouting for said Adams Ditch and the risks that the City of Newark or any other governmental authority may not grant to the Lessee any necessary permits or approvals for the construction, filling in or use or alteration by the Lessee of the said Adams Ditch Area. Without limiting the foregoing, the Lessee shall consult with the Port Authority in the application for

the required individual freshwater wetland permits and stream encroachment permits.

(e) The additional areas added to the premises under subparagraphs (a) and (b) of this Paragraph 1 shall be subject to the height limitations set forth in paragraph (b) of Section 1 of the Lease, and further subject to the restrictions on construction and to the construction obligations of the Lessee under Section 93 of the Lease, as herein amended.

(f) Subject to the terms and provisions of the Lease and the terms and conditions stated herein, the Port Authority hereby grants to the Lessee the temporary right to access those portions of Non-Exclusive Area D-2 (as defined in Section 3 (i) of the Lease) which are located directly behind (airside) of Passenger Terminal Building C solely for the purposes of performing those certain parts of the Expansion Construction Work (as defined in Section 93 of the Lease) which when completed would extend above the said portions of Area D-2 subject to the approval of, and as approved by, the Port Authority in accordance with Section 93 of the Lease; provided that said temporary right of access shall not continue beyond the period allowed to the Lessee for its performance of the Expansion Construction work under Section 93 of the Lease; that the Lessee shall not construct, install or place any permanent improvements, equipment or facilities in any portion of said Area D-2; that any temporary construction equipment or devices may be placed by the Lessee on said portions of Area D-2 only in accordance with the prior approval of the Port Authority, and that any and all of the same shall be immediately removed by the Lessee upon the completion by the Lessee of the aforesaid parts of the Expansion Construction Work and in any event not later than the Expansion Construction Work Completion Date as defined in paragraph (n) (2) of Section 93 of the Lease; that in its exercise of said right of access the Lessee shall comply with the terms and provisions of the Lease, including without limitation Sections 3, 8, 14 and 93 thereof, and all Port Authority requirements given in connection with the applicable Construction Application(s) (as defined in Section 93 of the Lease); that, without limiting paragraph (j) of Section 93 of the Lease or any other term or provision of the Lease, the Lessee shall not perform any construction or other activity on said Area D-2 which shall impede, restrict, prevent, or impair the flow of traffic therein or thereon or the use of the said Area C-2 by the other Airline Lessees in the Central Terminal Area Complex or by other persons, as such use is described in Subdivision II of Section 8 of the Lease, or which shall endanger any person or property therein or thereon; that the Lessee expressly hereby assumes all risks in connection with its exercise of said temporary right of access; and that nothing herein nor any Port Authority approval or requirement given in connection with said temporary right of access shall release or relieve the Lessee from its obligations, liabilities and indemnities under the Lease or otherwise.

(g) With respect to the portion of Added Area 1 shown in diagonal hatch on Exhibit A-1 hereof and the portion of Added Area 4 shown in diagonal hatch on Exhibit B-1, it is expressly understood and agreed that the same are let to the Lessee subject to the right of the Port Authority, its officers, employees, agents, representatives and contractors to enter upon the same at any time and from time to time to construct thereon and therein, and to maintain, all appropriate access stairways and other access facilities (which shall not become part of the premises hereunder) sufficient to provide ingress and egress to and from the parking garage structure presently contemplated by the Port Authority to be constructed in the area generally located in the front of, and outside of, said portions of the premises; such right of entry for said purposes shall be deemed included in and exercised pursuant to and in accordance with Section 22 of the Lease. The reservation of the said right of entry and the exercise thereof by the Port Authority, its officers, employees, agents, representatives and contractors shall not be or be construed to be an eviction of the Lessee nor be made the grounds for any abatement of rental nor any claim or demand for damages, consequential or otherwise.

2. (a) Effective as of the Effective Date, the term of the letting of the Area C-3 portion of the premises under the Lease, as said Area C-3 is defined in Paragraph 1 of Supplement No. 8 of the Lease and including the additional areas added or to be added to Area C-3 of the premises pursuant to subparagraph (a) of Paragraph 1 above, is hereby extended for the period ending on March 31, 2028, unless sooner terminated, at the Area C-3 rentals in accordance with Paragraph 3 below and upon all the terms, covenants, provisions and conditions of the Lease, as hereby amended.

(b) It is expressly understood and agreed that the extension of the term of Area C-3 covered by the foregoing subparagraph (a) of this Paragraph 2 does not and shall not include the C-1 and C-2 portions of the premises (as defined above) or any other part of the premises or any other area. It is also recognized that the expiration date of the letting of all portions

of the premises hereunder, other than Area C-3, is and shall remain March 31, 2013 as set forth in Section 4 (b) of the Lease as amended by paragraph 2 of Supplement No. 7 of the Lease and that said expiration date is not being extended by this Seventeenth Supplemental Agreement, and, further, that upon the said expiration date of March 31, 2013 the term of the letting under the Lease of all portions of the premises hereunder other than Area C-3 shall expire.

3. Paragraph 12 of Supplement No. 15 of the Lease is hereby amended to read as follows:

"I. It is hereby agreed that, from and after the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof) and continuing up to and including the expiration date of the term of the letting of the Area C-3 portion of the premises (March 31, 2028), in addition to the Base Annual Rental under Section 5 of the Lease and in addition to all other rentals, fees and charges under the Lease, the Lessee shall pay to the Port Authority rental for Area C-3 as follows:

Area C-3 rental: For the period commencing on the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof) to and including December 31, 2003, rental for Area C-3 at an annual rate consisting of (i) a Facility Factor, as hereinafter defined, consisting of the sum of (x) the amount of Seven Million Nine Hundred Ninety-eight Thousand One Hundred Forty-five Dollars and No Cents (\$7,998,145.00) plus (y) effective as of the Added Area 3 Effective Date the Added Area 3 Amount as hereinafter defined, plus (ii) the Airport Services Factor, as the same shall then have been adjusted in accordance with Schedule A attached to the Lease, as herein amended, based upon a 1998 final Airport Services Factor in the amount of (x) One Million Eight Hundred Thirty-five Thousand One Hundred Nineteen Dollars and No Cents (\$1,835,119.00) plus (y) effective as of the Added Area 3 Effective Date, Six Hundred Twenty Thousand Two Hundred Forty-two Dollars and No Cents (\$620,242.00), which annual rate shall be increased from time to time as provided in subdivision II below and Schedule A of the Lease, as herein amended, ("Area C-3 rental"). The Lessee shall pay the Area C-3 rental, as the same shall then have been determined based upon the aforesaid adjustments, monthly in advance on the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof) and on the first day of each and every succeeding month in equal installments until such time as the aforesaid annual rate has been further increased in accordance with subdivision II below and Schedule A of the Lease, as herein amended, which adjusted annual rate shall remain in effect until the next adjustment and the monthly installments payable after each such adjustment shall be equal to one-twelfth (1/12th) of said annual rate as so adjusted.

"Added Area 3 Amount" shall mean the component of the Facility Factor of the Area C-3 rental which shall be included therein effective as of the Added Area 3 Effective Date at the initial annual rate of Four Hundred Thirty Four Thousand Dollars and No Cents (\$434,000.00), subject to the increases pursuant to subdivision II below; provided, however, that in the event said Added Area 3 Effective Date occurs subsequent to December 31, 2003 said Added Area 3 Amount shall commence at the annual rate equal to the aforesaid initial rate increased in accordance with subdivision II below and subject to the further increases called for therein. The said initial rate of the Added Area 3 Amount is also subject to adjustment based on the Port Authority's determination of the final metes and bounds of Added Area 3 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease.

The Area C-3 rental amounts set forth above and in subdivision II below are also subject to the adjustments based on the Port Authority's determination of the final metes and bounds of Added Area 1, Added Area 2 and Added Area 3 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease.

II. (a) For the aforesaid period from the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof) to and including December 31, 2003, the Area C-3 rental payable under subdivision I of this Paragraph 3 is made up of two factors, one, a variable factor herein called the "Facility Factor", presently represents sum of (x) the amount of Seven Million Nine Hundred Ninety-eight Thousand One Hundred Forty-five Dollars and No Cents (\$7,998,145.00) plus (y) the Added Area 3 Amount, as above defined of the aforesaid annual rentals and the other, a variable factor herein called the "Airport Services Factor", represents the Airport Services Factor under the Lease, as the same shall have then been adjusted in accordance with Schedule A, as herein amended, based upon a total 1998 final Airport Services Factor in the amount of (x) One Million Eight Hundred Thirty-five Thousand One Hundred Nineteen Dollars and No Cents (\$1,835,119.00) plus (y) effective as of the Added Area 3 Effective Date, Six Hundred Twenty Thousand Two Hundred Forty-two Dollars and No Cents (\$620,242.00), of the total aforesaid annual rentals.

(b) On January 1, 2004 and on each succeeding fifth (5th) anniversary of said date, the Facility Factor (each component) of the Area C-3 rental payable by the Lessee under subdivision I above shall be increased by multiplying the Facility Factor (each component) in effect on December 31, 2003 and on each succeeding fifth (5th) anniversary of said date, as the case may be, by a percentage equal to 21.6653% plus 100%. Accordingly,

(i) for the period from January 1, 2004 to and including December 31, 2008, the Facility Factor of the Area C-3 rental payable under subdivision I of this Paragraph 3, shall represent the sum of (x) the amount of Nine Million Seven Hundred Thirty Thousand Nine Hundred Sixty-seven Dollars and No Cents (\$9,730,967.00), plus (y) the Added Area 3 Amount in effect on December 31, 2003 increased by multiplying the same by a percentage equal to 21.6653% plus 100%; and

(ii) for the period from January 1, 2009 to and including December 31, 2013, the Facility Factor of the Area C-3 rental payable under subdivision I of this Paragraph 3 shall represent the sum of (x) the amount of Eleven Million Eight Hundred Thirty-nine Thousand Two Hundred Ten Dollars and No Cents (\$11,839,210.00), plus (y) the Added Area 3 Amount in effect on December 31, 2008 increased by multiplying the same by a percentage equal to 21.6653% plus 100%; and

(iii) for the period from January 1, 2014 to and including December 31, 2018, the Facility Factor of the Area C-3 rental payable under subdivision I of this Paragraph 3 shall represent the sum of (x) the amount of Fourteen Million Four Hundred Four Thousand Two Hundred Ten Dollars and No Cents (\$14,404,210.00), plus (y) the Added Area 3 Amount in effect on December 31, 2013 increased by multiplying the same by a percentage equal to 21.6653% plus 100%; and

(iv) for the period from January 1, 2019 to and including December 31, 2023, the Facility Factor of the Area C-3 rental payable under subdivision I of this Paragraph 3 shall represent the sum of (x) the amount of Seventeen Million Five Hundred Twenty-four Thousand Nine Hundred Twenty-five Dollars and No Cents (\$17,524,925.00), plus (y) the Added Area 3 Amount in effect on December 31, 2018 increased by multiplying the same by a percentage equal to 21.6653% plus 100%.

(v) for the period from January 1, 2024 to and including March 31, 2028, the Facility Factor of the Area C-3 rental payable under subdivision I of this Paragraph 3 shall represent the sum of (x) the amount of Twenty-one Million Three Hundred Twenty-one Thousand Seven Hundred Fifty-two Dollars and No Cents (\$21,321,752.00), plus (y) the Added Area 3 Amount in effect on December 31, 2023 increased by multiplying the same by a percentage equal to 21.6653% plus 100%.

(c) After December 31, 1998 and after the close of each calendar year, thereafter, the Port Authority will continue to adjust the Airport Services Factor of the Area C-3 rental payable by the Lessee under subdivision I of this Paragraph 3, such adjustment to be made as provided in Schedule A, as herein amended.

(d) The Lessee shall pay the total Area C-3 rentals payable by the Lessee under this Paragraph 3, as the same have been adjusted in accordance with subparagraphs (b) and (c) of this subdivision II of this Paragraph 3, monthly in advance on the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof) and on the first day of each and every succeeding month in equal installments until such time as the said total Area C-3 rentals have been further adjusted in accordance with this Paragraph 3 and Schedule A, as herein amended, which adjusted total annual rentals shall remain in effect until the next adjustment and the monthly installments payable after each such adjustment shall be equal to one-twelfth (1/12th) of said total annual rentals as so adjusted.

The Area C-3 rental amounts set forth above in subdivision I above and in this subdivision II are also subject to the adjustments based on the Port Authority's determination of the final metes and bounds of Added Area 1, Added Area 2 and Added Area 3 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease.

(e) In the event the term of the letting of Area C-3 shall expire on a day other than the last day of a month, the monthly installment of rentals for Area C-3 for said month shall be the monthly installment prorated on a daily basis using the actual number of days in the said month.

(f) The Lessee understands and agrees that, while the term of the letting of Area C-3 of the premises under the Lease as extended under this Seventeenth Supplemental Agreement shall expire on March 31, 2028, the final Airport Services Factor for the year 2028 will

not be determined for some months after such expiration and that the Lessee's obligation to pay any deficiency in the Area C-3 rental for the year 2028 or the Port Authority's obligation to pay a refund in said rentals resulting from the determination of the final Airport Services Factor for the year 2027 or the year 2028 shall survive such expiration of the Lease and shall remain in full force and effect until such deficiency or refund, if any, is paid. The Lessee hereby specifically acknowledges that neither the survival of the obligation with respect to any such deficiency or refund nor any other provision of this Supplemental Agreement shall grant or shall be deemed to grant any rights whatsoever to the Lessee to have the term of the letting of Area C-3 under the Lease, or any portion of the premises thereunder, extended for any period beyond March 31, 2028 or affect in any way the Port Authority's right to terminate the Lease, or any portion of the premises thereunder, as provided therein.

(g) If any installment of Area C-3 rental payable hereunder shall be for less than a full calendar month, then the Area C-3 rental payment for the portion of the month for which said payment is due shall be the monthly installment prorated on a daily basis using the actual number of days in that said month.

(h) Upon any termination of the letting hereunder (even if stated to have the same effect as expiration), the Lessee shall within twenty (20) days after the effective date of such termination, make a payment of the Area C-3 rental computed as follows: if the letting hereunder is terminated effective on a date other than the last day of a month the rental for the portion of that month in which the letting remains effective shall be the amount of the monthly installment of rental prorated on a daily basis, and if the monthly installment due on the first day of that month has not been paid the Lessee shall pay the prorated part of the amount of that installment; if the monthly installment has been paid, then the excess thereof shall be credited to the Lessee's obligations.

(i) Nothing contained in the foregoing shall affect the survival obligations of the Lessee as set forth in Section 27 hereof.

(j) For purposes of subparagraph (f) above with respect to any deficiency or refund, any termination of the Lease, other than a termination under Section 24 hereof, shall be deemed to have the same effect as the expiration thereof.

3A. It is expressly recognized and agreed that Exhibits A-1 and B-1 attached to this Supplement No. 17 of the Lease are preliminary exhibits, and are marked "Preliminary," and that said Exhibits are based on a preliminary description of the areas (Added Area 1, Added Area 2, Added Area 3 and Added Area 4, as defined in Paragraph 1 of this Supplement No. 17) shown thereon and do not contain precise and final metes and bounds descriptions of said areas. The Port Authority and the Lessee hereby expressly agree that upon the Port Authority's determination of the actual, final metes and bounds of the said Added Area 1, Added Area 2, Added Area 3 and Added Area 4, final versions of said Exhibits A-1 and B-1 shall be prepared by the Port Authority and shall replace the preliminary versions of the same attached hereto. The said final versions of the said Exhibits A-1 and B-1 shall be attached to a further supplemental agreement to the Lease, which supplemental agreement shall also set forth adjustments of the Area C-3 rental amounts under the Lease (stated in Paragraph 3 above) on the basis of said determination of the final metes and bounds of said Added Area 1, Added Area 2 and Added Area 3 and adjustments of the Base annual Rental under the Lease (stated in Paragraph 7 below) on the basis of said determination of the final metes and bounds of said Added Area 4 and appropriate adjustments to Schedule A of the Lease (as described in paragraph 4 (c) hereof); said supplemental agreement and said adjustments to have retroactive effect to the Effective Date of this Supplement No. 17, except as to Added Area 3 for which the adjustment shall be effective on the Added Area 3 Effective Date. The said supplemental agreement shall be prepared by the Port Authority and submitted to the Lessee for its execution and the Lessee shall, and hereby agrees to, provide that the information set forth therein is accurate and the supplemental agreement modifies the Lease for the aforesaid changes and adjustments and no other modifications (but may also include such other provisions which also relate to the finalization of the metes and bounds of the aforesaid areas), execute the said supplemental agreement and deliver the same to the Port Authority not later than ten (10) business days after the Port Authority's sending of the same to the Lessee; provided, however, that, in the event the Lessee shall for any reason fail to so execute and deliver the said supplemental agreement to the Port Authority, said supplemental agreement and the said adjustments of the Area C-3 rental amounts and said adjustments of the Base Annual Rental and of Schedule A shall be deemed effective notwithstanding any such failure of the Lessee to so execute and deliver the same.

4. Schedule A attached to the Lease, as the same has been

heretofore amended, shall be deemed further amended as follows:

(a) The second sentence of the first (1st) paragraph thereof (as set forth in Paragraph 14 (a) of Supplement No. 15 of the Lease) shall be deemed amended to read as follows:

"The Lessee shall pay the rentals for Area C-3 at the rates and times stated in Paragraph 3 of Supplement No. 17 of the Lease until the said rates are adjusted as hereinafter provided".

(b) The last six (6) lines of said first (1st) paragraph of Schedule A as the same are set forth in Paragraph 14 (b) of Supplement No. 15 of the Lease shall be deemed amended to read as follows:

"further, after the close of calendar year 1998 and after the close of each calendar year thereafter, the Port Authority will adjust the Airport Services Factor of the Area C-3 rental set forth in Paragraph 3 of Supplement No. 17 of the Lease, upwards or downwards, as follows:"

(c) Paragraph III of Schedule A of the Lease as previously amended shall be further amended by adding at the end thereof the following:

"For the calendar year 1999 adjustment it is hereby agreed that the denominator representing the actual percentage of total developed land occupied by the Lessee's premises excluding Area C-3 shall be 4.304%; and that the denominator representing the actual percentage of total developed land occupied by the Area C-3 portion of the Lessee's premises shall be 2.498%. The said percentages are subject to the adjustments based on the Port Authority's determination of the final metes and bounds of Added Area 1, Added Area 2, Added Area 3 and Added Area 4 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease. The aforesaid percentage to be used for the Lessee's premises excluding Area C-3 shall be increased to reflect the addition to the said Lessee's premises of the Added Area 3 (as defined in Paragraph 1(a) of Supplement No. 17 of the Lease) effective from and after the Added Area 3 Effective Date (as defined in Paragraph 1(a) of Supplement No. 17 of the Lease)."

5. Subparagraph (e) (1) of Paragraph 3 of Supplement No. 8 of the Lease, as previously amended, shall be deemed further amended to read as follows:

"(e) (1) Effective from and after the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof), in the event the Lessee shall at any time by the provisions of this Agreement become entitled to an abatement of the Area C-3 rentals, the Facility Factor of the Area C-3 rental for each square foot of floor space of the portion of the Passenger Terminal Building which falls within Area C-3 shall be reduced for each calendar day or major fraction thereof the abatement remains in effect, the use of which is denied the Lessee, by the following amounts: (it being understood that there shall be no abatement of Area C-3 rental under the Lease for any portion of Area C-3 or for any portion of the term except as specifically provided in this Agreement):

(i) for each square foot of floor space in said portion of Area C-3 at the following daily rate:

(aa) for the portion of the term of the letting of Area C-3 from the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof) to and including December 31, 2003 at the daily rate of \$0.1095890.

(bb) for the portion of the term of the letting of Area C-3 from January 1, 2004 to and including December 31, 2008 at the daily rate of \$0.1333318.

(cc) for the portion of the term of the letting of Area C-3 from January 1, 2009 to December 31, 2013 at the daily rate of \$0.1622186.

(dd) for the portion of the term of the letting of Area C-3 from January 1, 2014 to December 31, 2018 at the daily rate of \$0.1973637.



(ee) for the portion of the term of the letting of Area C-3 from January 1, 2019 to December 31, 2023 at the daily rate of \$0.2401231.

(ff) for the portion of the term of the letting of Area C-3 from January 1, 2024 to March 31, 2028 at the daily rate of \$0.2921464.

(ii) with respect to the Area D portion of Area C-3 (as described in Paragraph 1 (a) (vi) of Supplement No. 8 of the Lease): Any such abatement shall be made on an equitable basis giving effect to the amount and character of the said Area D portion of Area C-3 the use of which is denied to the Lessee as compared with the entire Area C-3.

For the purpose of this Agreement, the measurement of interior building space in the aforesaid portion of Area C-3 shall be computed (i) from the inside surface of outer walls of the structure of which Area C-3 forms a part; (ii) from the center of partitions separating Area C-3 from areas occupied from or used by others."

6. The following new Section 93 shall be deemed inserted after Section 92A of the Lease to read as follows:

"Section 93. The Expansion Construction Work by the Lessee

(a) The Lessee shall, prior to its submission to the Port Authority of the plans and specifications hereinafter provided for, submit to the Port Authority for its consent, the Lessee's comprehensive plan for the Expansion Construction Work, as hereinbelow defined, including but not limited to renderings, layouts, locations, models, estimated commencement and completion dates, and preliminary functional plans ("Comprehensive Plan"). The Lessee shall keep the aforesaid Comprehensive Plan covering all portions of the Expansion Construction Work up to date and shall submit to the Port Authority for its prior approval any amendments, revisions, or modifications thereof, other than field changes (except field changes relating to the relocation of Adams Ditch and any work affecting the peripheral drainage ditch known as Peddie Ditch.)

(b) (1) Without limiting the above, the Lessee agrees that said Comprehensive Plan shall include the design and construction by the Lessee in, on and under the premises and off the premises, where required, of the following:

(i) All construction and installation of, and other appropriate, necessary or required work for, airline terminal facility capital improvements to Passenger Terminal Building C to complete and decorate a completed passenger concourse facility in Area C-3 of the premises (said Area C-3 being defined in Paragraph 1 of Supplement No. 8 of the Lease and including the areas added to Area C-3 pursuant to Paragraph 1 of the Seventeenth Supplemental Agreement to the Lease) appropriate, necessary or required for the expansion of all of the areas thereof and sufficient to handle both domestic and international airline passenger traffic, including but not limited to the installation of lavatories, stairwells, stairways, escalators, elevators (including freight elevators) ("Area C-3 Concourse") and any alterations of and additions to Passenger Terminal Building C required or appropriate in connection with Area C-3 Concourse, and including without limitation an expansion of the portion of Area D located in Area C-3 so as to add thereto a minimum of twelve (12) new aircraft gate positions for wide bodied aircraft;

(ii) The construction and installation of additions and modifications to the Fuel System (as defined in Section 54 hereof), including but not limited to Distribution Facilities and Terminal Distribution Units (as such terms are defined in Section 54 hereof) and underground pipelines, fuel mains, and stubs necessary or required to tie into the Fuel System at the Airport to accommodate and serve Area C-3 Concourse and all aircraft gate positions located or to be located thereat including without limitation all of the aforesaid new aircraft gate positions to be located in the portion of Area D located in Area C-3, and also including all necessary, required, or appropriate work to make said additions and modifications fully operational as part of the Fuel System;

(iii) The construction and installation of a new

baggage handling system, including all related necessary or appropriate work, sufficient to handle the entire Passenger Terminal Building C including Concourse C-1, Concourse C-2 and Area C-3 Concourse;

(iv) The construction and installation in the Area C-3 Concourse of, including all appropriate, necessary or required work for, United States government inspection areas (as described in Section 95 hereof) sufficient to handle therein at least 1,500 international passengers per hour (the "FIS facilities");

(v) INTENTIONALLY OMITTED

(vi) The construction and installation of all appropriate lines, pipes, mains, cables, manholes, wires, tubes, ducts, assemblies, conduits and other facilities required in connection with or relating to the mechanical, utility, electrical, storm sewer, sanitary sewer, water, telephone, fire alarm, fire protection, gas, heating, ventilation and air conditioning, steam, drainage, refrigerating, communications, and other systems needed for the Expansion Construction Work and necessary or required to tie the foregoing into the utility access stubs now existing at or within the Passenger Terminal Building C, which include water, electrical power, and sanitary service lines, including all necessary valves and other equipment and accessories necessary to the use and operation of the heating, electrical, water and other utility systems which are to serve the premises;

(vii) All necessary or appropriate terminal frontage improvements sufficient to align with the new roadway configuration planned by the Port Authority for the CTA; airside ground roadways; airside ramps; and also sidewalks, vehicular service areas, and pedestrian circulation areas, together with all related and associated areas and facilities;

(viii) All grading and paving of ground areas, including without limitation, all appropriate, necessary and required work for the full-depth paving of all unpaved portions of the aircraft maneuvering areas in the Area C-3 portion of the premises, and for the design and appropriate landscaping together with all related and associated work;

(ix) All work necessary or required to construct additional concession areas (as defined in Section 66 hereof) in the Area C-3 Concourse to be made available for consumer services as more fully set forth in Section 66 hereof including the construction and installation of utility lines which are to serve said concession areas;

(x) All work necessary or required to tie into Port Authority supply lines for high temperature hot water for heating and domestic use purposes only and chilled water for air-conditioning purposes only, and in accordance with the requirements and specifications as set forth in Section 49 hereof, including all work necessary or required to tie into the contemplated expansion of the Port Authority's Central Heating and Refrigeration Plant (the "Central Plant");

(xi) The grading and paving within Area C-3 of twelve (12) aircraft gate positions and aircraft ramp and apron areas, all taxilanes and all associated and related areas and facilities (all of the foregoing to be and form part of the Area D portion of Area C-3 under the Lease);

(xii) Construction and installation of all necessary or required blast fences;

(xiii) All other appropriate or necessary work in connection with or required by or for the foregoing including without limitation all relamping in the premises, all painting, all borings, surveys, route markers, signs, obstruction lights and material inspections and all tie-ins to utility lines and roadway access stubs;

(xiv) Subject to, and only if, and only to the extent, expressly permitted by, all applicable governmental permits and approvals, including but not limited to the prior approval of the City of Newark, all of which the Lessee shall, at its sole cost and expense, obtain, maintain and comply with, without limiting any other Section, term, provision, condition or covenant of this Lease, all work necessary, required or appropriate to reroute the flow of drainage and water of the Adams Ditch Area, including without limitation the filling in of the Adams Ditch Area, all associated relocations, all

associated disposal, remediation and treatment services, and the construction of new drainage and facilities and systems on the premises and off the premises and the construction of such other facilities, systems and improvements as may be required by and in accordance with all Environmental Requirements and as may be required by the City of Newark (and/ or any other governmental authority) for its or their initial or continuing approval of all of the said work; provided that the Lessee shall submit to the Port Authority true and complete executed copies of all such governmental permits and approvals (the Lessee agreeing to consult with the Port Authority in the application for the required individual freshwater wetland permits and stream encroachment permits) prior to the Lessee's performance of any such work, and such other and further information as the Port Authority may require or request;

(xv) As to all of the foregoing and any and all other portions of the Expansion Construction Work, subject to Section 12(p)(2) of the Lease, all appropriate, necessary or required demolition, treatment, disposal, and removal work, and including without limitation all removal, clean-up and remediation and off-Airport disposal, and all appropriate, required or necessary related work, in accordance with all Environmental Requirements, of all soil, asbestos, lead and other Hazardous Substances, and including the handling, transporting and off-Airport disposal thereof in accordance with all Environmental Requirements (including, if required, disposal of asbestos in an off-Airport long-term asbestos-only disposal facility).

(2) All of the foregoing work shall be constructed by the Lessee in, on and under the premises and outside of the premises where required, and where constructed in the premises shall be and become a part of the premises under the Lease (except for the items covered in item (ii) of subparagraph (1) above which shall not become part of the premises).

(c) (1) The Lessee agrees at its sole cost and expense to design and to construct all of the foregoing described in paragraph (b) above, such design and construction being herein collectively referred to as the "Expansion Construction Work".

(2) Prior to the commencement of the Expansion Construction Work, the Lessee shall submit to the Port Authority for the Port Authority's approval complete plans and specifications therefor. The Port Authority may refuse to grant approval with respect to the Expansion Construction Work if, in its opinion, any of the proposed Expansion Construction Work as set forth in said plans and specifications (all of which shall be in such detail as may reasonably permit the Port Authority to make a determination as to whether the requirements hereinafter referred to are met) would:

(i) Be unsafe, unsound, hazardous or improper for the use and occupancy for which it is designed, or

(ii) Not comply with the Port Authority's requirements for harmony of external architecture of similar existing or planned future improvements at the Airport, or

(iii) Not comply with the Port Authority's requirements with respect to external and interior building materials and finishes of similar existing or future improvements at the Airport, or

(iv) Not provide for sufficient clearances for taxiways, runways and apron areas, or

(v) Be designed for use for purposes other than those authorized under the Lease, or

(vi) Set forth ground elevations or heights other than those prescribed by the Port Authority, or

(vii) Not provide adequate and proper roadways and pedestrian circulation areas, or

(viii) Not be at locations or not be oriented in accordance with the Lessee's approved Comprehensive Plan, or

(ix) Not comply with the provisions of the Basic Lease, including without limiting the generality thereof, those provisions of the Basic Lease providing the Port Authority will conform to the enactments, ordinances, resolutions and regulations of the City of Newark and its various departments, boards and bureaus in regard to the construction and maintenance of buildings and structures and

in regard to health and fire protection which would be applicable if the Port Authority were a private corporation to the extent that the Port Authority finds it practicable so to do, or

(x) Be in violation or contravention of any other provisions and terms of this Lease, or

(xi) Not comply with all applicable governmental laws, ordinances, enactments, resolutions, rules and orders, or

(xii) Not comply with all applicable requirements of the National Board of Fire Underwriters and the Fire Insurance Rating Organization of New Jersey, or

(xiii) Not comply with the Port Authority's requirements with respect to landscaping, or

(xiv) Not comply with Port Authority's requirements and standards with respect to noise, air pollution, water pollution or other types of pollution, or

(xv) Not comply with the construction limitations set forth in Exhibits A-1 and B-1 attached to Supplement No. 17 of the Lease, if any; or

(xvi) Not comply with the Port Authority's plans and policies with respect to ground transportation and traffic control and frontage control and planned roadway improvements within the Central Terminal Area of the Airport;

(xvii) Be in violation of the requirement for the prior approvals and permits of governmental authorities, including but not limited to the approval of the City of Newark, or would not conform or comply with any of the foregoing, with respect to the use, construction, alteration, rerouting, filling in or other work involving or in connection with Added Area 2 (Adams Ditch) or any proposed replacement or relocation thereof;

(xviii) Be in violation of any requirements of, the Federal Aviation Administration (and/or any other governmental authority(ies) with respect to the C-1 C-2 Addition (as defined in Paragraph 1 (b) of Supplement No. 17 of the Lease.

(3) With respect to the Lessee's submission of its comprehensive plan, plans and specifications and any other submission in connection with the Expansion Construction Work, after the Port Authority has been satisfied that any such submission is complete, including, but not limited to, the submission of all information requested by the Port Authority in connection therewith, the Port Authority shall conduct its review of such submission in a manner which takes into account the fact that the Port Authority has in the Lease imposed upon the Lessee the obligation to complete the Expansion Construction Work within a particular timeframe.

(d) All Expansion Construction Work shall be done in accordance with the following terms and conditions:

(1) As between the Lessee and the Port Authority, the Lessee hereby assumes the risk of loss or damage to all of the Expansion Construction Work prior to the completion thereof and the risk of loss or damage to all property of the Port Authority or others arising out of or in connection with the performance of the Expansion Construction Work including without limitation, subject to Section 12(p)(2) of the Lease, any and all Environmental Requirements and Environmental Damages. In the event of such loss or damage, the Lessee shall forthwith repair, replace and make good the Expansion Construction Work and the property of the Port Authority or others without cost or expense to the Port Authority or others. The Lessee shall itself and shall also require its contractors to indemnify and hold harmless the Port Authority, its Commissioners, officers, agents and employees from and against all claims and demands, just or unjust, of third persons (including employees, officers, and agents of the Port Authority) arising or alleged to arise out of the performance of the Expansion Construction Work and for all expenses incurred by it and by them in the defense, settlement or satisfaction thereof, including without limitation thereto, claims and demands for death, for personal injury or for property damage, direct or consequential, whether they arise from the acts or omissions of the Lessee, of any contractors of the Lessee, of the Port Authority, or of third persons, or from acts of God or of the public enemy, or otherwise, (including claims of the City of Newark against the Port Authority pursuant to the provisions of the Basic Lease whereby the Port Authority has agreed to indemnify the City

against claims), excepting only claims and demands which result solely from the willful misconduct, or the sole negligence, of the Port Authority, its Commissioners, officers, agents and employees with respect to the Expansion Construction Work.

If so directed, the Lessee shall at its own expense defend any suit based upon any such claim or demand (even if such suit, claim or demand is groundless, false or fraudulent), and in handling such it shall not, without obtaining express advance written permission from the General Counsel of the Port Authority, raise any defense involving in any way the jurisdiction of the tribunal over the person of the Port Authority, the immunity of the Port Authority, its Commissioners, officers, agents or employees, the governmental nature of the Port Authority, or the provisions of any statutes respecting suits against the Port Authority.

(2) (i) Prior to engaging or retaining an architect or architects for the Expansion Construction Work, the name or names of said architect or architects shall be submitted to the Port Authority for its approval. The Port Authority shall have the right to disapprove any architect who may be unacceptable to it. All Expansion Construction Work shall be done in accordance with plans and specifications to be submitted to and approved by the Port Authority prior to the commencement of the Expansion Construction Work, and until such approval has been obtained the Lessee shall continue to resubmit plans and specifications as required. Upon approval of such plans and specifications by the Port Authority, the Lessee shall proceed diligently at its sole cost and expense to perform the Expansion Construction Work. All Expansion Construction Work, including workmanship and materials, shall be of first class quality. The Lessee shall re-do, replace or construct at its own cost and expense, any Expansion Construction Work not done in accordance with the approved plans and specifications, the provisions of this Section 93 or any further requirements of the Port Authority.

(ii) The Lessee shall expend not less than Four Hundred Million Dollars and No Cents (\$400,000,000.00) with respect to the Expansion Construction Work. If the Lessee demonstrates to the satisfaction of the Port Authority that it can perform and has performed the Expansion Construction Work for an amount less than the above amount, doing so shall not be a breach of this Agreement.

(iii) The Lessee shall complete all of the Expansion Construction Work no later than June 30, 2002; provided, however, that with respect to Added Area 3 (as defined in Paragraph 1 of Supplement No. 17 to this Lease) the Lessee shall complete the portion of the Expansion Construction Work to be performed by the Lessee thereon by the later of June 30, 2002 or the last day of the fourth (4th) consecutive month following the Added Area 3 Effective Date.

(3) Prior to entering into a contract for any part of the Expansion Construction Work, the Lessee shall submit to the Port Authority for its approval the names of the contractors to whom the Lessee proposes to award said contracts. The Port Authority shall have the right to disapprove any contractor who may be unacceptable to it. The Lessee shall include in all such contracts such provisions and conditions as may be reasonably required by the Port Authority. Without limiting the generality of the foregoing all of the Lessee's construction contracts shall provide as follows: "If (i) the Contractor fails to perform any of his obligations under the Contract, including his obligation to the Lessee to pay any claims lawfully made against him by any materialman, subcontractor or workman or other third person which arises out of or in connection with the performance of the Contract or (ii) any claim (just or unjust) which arises out of or in connection with the Contract is made against the Lessee or (iii) any subcontractor under the Contract fails to pay any claims, lawfully made against him by any materialman, subcontractor, workman or other third persons which arises out of or in connection with the Contract or if in the Lessee's opinion any of the aforesaid contingencies is likely to arise, then the Lessee shall have the right, in its discretion, to withhold out of any payment (final or otherwise and even though such payments have already been certified as due) such sums as the Lessee may deem ample to protect it against delay or loss or to assume the payment of just claims of third persons, and to apply such sums in such manner as the Lessee may deem proper to secure such protection or satisfy such claims. All sums so applied shall be deducted from the Contractor's compensation. Omission by the Lessee to withhold out of any payment, final or otherwise, a sum for any of the above contingencies, even though such contingency has occurred at the time of such payment, shall not be deemed to indicate

that the Lessee does not intend to exercise its right with respect to such contingency. Neither the above provisions for rights of the Lessee to withhold and apply monies nor any exercise, or attempted exercise of, or omission to exercise such rights by the Lessee shall create any obligation of any kind to such materialmen, subcontractors, workmen or other third persons. Until actual payment is made to the Contractor, his right to any amount to be paid under the Contract (even though such amount has already been certified as due) shall be subordinate to the rights of the Lessee under this provision."

The Lessee shall file with the Port Authority a copy of its contracts with its contractors prior to start of the Expansion Construction Work.

(4) The Lessee shall furnish or require its architect to furnish a full time resident engineer during the construction period. The Lessee shall require certification by a licensed engineer of all pile driving data and of all controlled concrete work and such other certifications as may be requested by the Port Authority from time to time.

(5) As between the Lessee and the Port Authority, the Lessee agrees to be solely responsible for any plans and specifications used by it and for any loss or damages resulting from the use thereof, notwithstanding that the same have been approved by the Port Authority and notwithstanding the incorporation therein of Port Authority recommendations or requirements. Notwithstanding the requirement for approval by the Port Authority of the contracts to be entered into by the Lessee or the incorporation therein of Port Authority requirements or recommendations, and notwithstanding any rights the Port Authority may have reserved to itself hereunder, the Port Authority shall have no liabilities or obligations of any kind to any contractors engaged by the Lessee or for any other matter in connection therewith and the Lessee hereby releases and discharges the Port Authority, its Commissioners, officers, representatives and employees of and from any and all liability, claims for damages or losses of any kind whether legal or equitable, or from any action or cause of action arising or alleged to arise out of the performance of any Expansion Construction Work pursuant to the contracts between the Lessee and its contractors, except for any of the foregoing which results solely from the willful misconduct, or the sole negligence of, the Port Authority, its Commissioners, officers, agents and employees. Any warranties contained in any construction contract entered into by the Lessee for the performance of the Expansion Construction Work hereunder shall be for the benefit of the Port Authority as well as the Lessee, and the contract shall so provide.

(6) The Port Authority shall have the right, through its duly designated representatives, to inspect the Expansion Construction Work and the plans and specifications thereof, at any and all reasonable times during the progress thereof and from time to time, in its discretion, to take samples and perform testing on any part of the Expansion Construction Work.

(7) The Lessee agrees that it shall deliver to the Port Authority two (2) sets of "as built" drawings of the Expansion Construction Work. One set of drawings shall be printed on Mylar transparencies with the image of the New Jersey seal of the Lessee's Architect or Engineer of Record on each drawing. The associated Architect's or Engineer's signature can also be imaged or signed in pencil on each drawing. The second set of drawings shall consist of blue line paper prints, each with the raised embossed New Jersey seal of the Architect or Engineer of Record appropriately signed in ink. The Lessee shall during the term of this Lease keep said drawings current showing thereon any changes or modifications which may be made. No changes or modifications shall be made without prior Port Authority consent.

(8) The Lessee shall, if requested by the Port Authority, take all reasonable measures to prevent erosion of the soil and the blowing of sand during the performance of the Expansion Construction Work, including but not limited to the fencing of the premises or portions thereof or other areas and the covering of open areas with asphaltic emulsion or similar materials as the Port Authority may direct.

(9) Any soil, dirt, sand or other matter (hereinafter in this item (9) collectively called "the matter") excavated by the Lessee during the course of the Expansion Construction Work and not used by the Lessee at the premises in the Expansion Construction Work shall be delivered and deposited by the Lessee in accordance with all Environmental Requirements at its expense to any location on the Airport as may be designated by the Port Authority prior

to the time of removal thereof from the Airport. The entire proceeds, if any, of the sale or other disposition of the matter shall belong to the Port Authority. Notwithstanding the foregoing the Port Authority may elect by prior written notice to the Lessee to waive any rights it may have hereunder as to all or portions of the matter in which event the Lessee at its sole expense shall, in accordance with all Environmental Requirements, dispose of the same without further instruction from the Port Authority.

(10) The Lessee shall pay or cause to be paid all claims lawfully made against it by its contractors, subcontractors, materialmen and workmen, and all claims lawfully made against it by other third persons arising out of or in connection with or because of the performance of the Expansion Construction Work, and shall cause its contractors and subcontractors to pay all such claims lawfully made against them provided, however, that nothing herein contained shall be construed to limit the right of the Lessee to contest any claim of a contractor, subcontractor, materialman, workman and/or other person and no such claim shall be considered to be an obligation of the Lessee within the meaning of this Section unless and until the same shall have been finally adjudicated. The Lessee shall use its best efforts to resolve any such claims and shall keep the Port Authority fully informed of its actions with respect thereto. Nothing herein contained shall be deemed to constitute consent to the creation of any liens or claims against the premises nor to create any rights in said third persons against the Port Authority or the Lessee.

(11) (i) The Lessee in its own name as insured and including the Port Authority as an additional insured shall procure and maintain Commercial General Liability insurance, including but not limited to premises-operations, products liability-completed operations, explosion, collapse and underground property damages, bodily injury (including death), personal injury and independent contractors, with a broad form property damage endorsement and with a contractual liability endorsement covering the obligations assumed by the Lessee pursuant to subparagraphs (1) and (5) of this paragraph (d), Comprehensive Automobile Liability insurance covering owned, non-owned and hired vehicles, and automatically covering newly acquired vehicles, and Environmental Liability Insurance. The said Commercial General Liability insurance policy shall have a limit of not less than \$100,000,000 combined single limit per occurrence for bodily injury (including death) and property damage liability, said Comprehensive Automobile Liability policy shall have a limit of not less than \$25,000,000 combined single limit per accident for bodily injury (including death) and property damage liability, and said Environmental Liability Insurance shall have a limit of not less than \$3,000,000.

Without limiting the provisions hereof, in the event the Lessee maintains the foregoing insurance in limits greater than aforesaid, the Port Authority shall be included therein as an additional insured to the full extent of all such insurance in accordance with all the terms and provisions hereof.

The foregoing shall be in addition to all policies of insurance otherwise required by this Agreement, or the Lessee may provide such insurance by requiring each contractor engaged by it for the Expansion Construction Work to procure and maintain such insurance including such contractual liability endorsement, said insurance, whether procured by the Lessee or by a contractor engaged by it as aforesaid, not to contain any exclusion for bodily injury to or sickness, disease or death of any employee of the Lessee or of any of its contractors which would conflict with or in any way impair coverage under the contractual liability endorsement. All of the aforesaid policy or policies of insurance shall also provide or contain an endorsement providing that the protections afforded the Lessee thereunder with respect to any claim or action against the Lessee by a third person shall pertain and apply with like effect with respect to any claim or action against the Lessee by the Port Authority, and shall also provide or contain an endorsement providing that the protections afforded the Port Authority thereunder with respect to any claim or action against the Port Authority by the Lessee or its contractor(s) shall be the same as the protections afforded the Lessee thereunder with respect to any claim or action against the Lessee by a third person as if the Port Authority were the named insured thereunder; but such provision or endorsement shall not limit, vary or affect the protections afforded the Port Authority thereunder as an additional insured.

(ii) The Lessee shall also procure and maintain

in effect, or cause to be procured and maintained in effect Workers' Compensation Insurance and Employer's Liability Insurance in accordance with and as required by law.

(iii) The insurance required hereunder in this subparagraph (11) shall be maintained in effect during the performance of the Expansion Construction Work. As to the said insurance a certified copy of the certificate or certificates or binders, evidencing the existence thereof, shall be delivered by the Lessee to the Port Authority upon execution of the Seventeenth Supplemental Agreement to this Lease and delivery thereof by the Lessee to the Port Authority. Each policy, certificate or binder delivered as aforesaid shall bear the endorsement of or be accompanied by evidence of payment of the premium thereon. In the event a binder is delivered, it shall be replaced within thirty (30) days by a certified copy of the policy or a certificate. Each such copy or certificate shall contain a valid provision or endorsement that the policy may not be cancelled, terminated, changed or modified without giving thirty (30) days' written advance notice thereof to the Port Authority. Each such copy or certificate shall contain an additional endorsement providing that the insurance carrier shall not, without obtaining express advance permission from the General Counsel of the Port Authority, raise any defense involving in any way the jurisdiction of the tribunal over the person of the Port Authority, its Commissioners, officers, agents, or employees, the immunity of the Port Authority, its Commissioners, officers, agents or employees, the governmental nature of the Port Authority or the provisions of any statutes respecting suits against the Port Authority. Any renewal policy or certificate shall be delivered to the Port Authority prior to the expiration of each expiring policy, except for any policy expiring after the date of expiration of the term of this Agreement. The aforesaid insurance shall be written by a company or companies approved by the Port Authority, the Port Authority agreeing not to withhold its approval unreasonably. If at any time any of the insurance policies shall be or become unsatisfactory to the Port Authority as to the form or substance or if any of the carriers issuing such policies shall be or become unsatisfactory to the Port Authority, the Lessee shall promptly obtain a new and satisfactory policy in replacement, the Port Authority covenanting and agreeing not to act unreasonably hereunder; the Port Authority agreeing to provide written notice to the Lessee, upon the written request of the Lessee, of the reasons it finds such policies or carriers unsatisfactory. If the Port Authority at any time so requests, a certified copy of each of the policies shall be delivered to the Port Authority, provided that the Port Authority shall keep such policies and the contents thereof confidential except to the extent (i) required to respond to a loss, damage, claim or suit or otherwise required by law or Port Authority policy approved by its Board of Commissioners from time to time, or (ii) that the policies or the contents thereof are otherwise available in the public domain.

(12) The Lessee shall be under no obligation to reimburse the Port Authority for expenses incurred by the Port Authority in connection with its normal review and approval of the original plans and specifications submitted by the Lessee pursuant to this Section, which review and approval process is generally described in the booklet entitled "Tenant Construction Review Manual", dated March 1997, a copy of which the Lessee hereby acknowledges it has received from the Port Authority. The Lessee however agrees to pay to the Port Authority upon its demand the expenses incurred by the Port Authority in connection with any additional review for approval of any substantial changes in scope or design to the approved, plans and specifications which may be proposed by the Lessee for the Port Authority's approval. The expenses of the Port Authority for any such additional review and approval shall be computed on the basis of direct payroll time expended in connection therewith plus 100%. Wherever in this Lease reference is made to "direct payroll time", costs computed thereunder shall include a prorata share of the cost to the Port Authority of providing employee benefits, including, but not limited to, pensions, hospitalization, medical and life insurance, vacations and holidays. Such computations shall be in accordance with the Port Authority's accounting principles as consistently applied prior to the execution of this Lease.

(13) The Lessee shall prior to the commencement of construction and at all times during construction submit to the Port Authority all engineering studies with respect to construction and samples of construction materials as may be required at any time and from time to time by the Port Authority.

(14) The Lessee shall procure and maintain Builder's Risk (All Risk) Completed Value Insurance covering the Expansion Construction Work during the performance thereof



including material delivered to the site but not attached to the realty. Such insurance shall name the Port Authority, the City of Newark, the Lessee and its contractors and subcontractors as additional assureds and such policy shall provide that the loss shall be adjusted with and that the proceeds shall be payable to the Lessee. Such proceeds shall be used by the Lessee for the repair, replacement or rebuilding of the Expansion Construction Work and any excess shall be paid over to the Port Authority. The policies or certificates representing insurance covered by this paragraph (14) shall be delivered by the Lessee to the Port Authority at least thirty (30) days prior to the commencement of construction of the Expansion Construction Work, and each policy or certificate delivered shall bear the endorsement of or be accompanied by evidence of payment of the premium thereof and, also, a valid provision obligating the insurance company to furnish the Port Authority and the City of Newark thirty (30) days' advance notice of the cancellation, termination, change or modification of the insurance evidenced by said policy or certificate. Renewal policies or certificates shall be delivered to the Port Authority at least thirty (30) days before the expiration of the insurance which such policies are to renew.

The insurance covered by this paragraph (14) shall be written by companies approved by the Port Authority, the Port Authority covenanting and agreeing not to withhold its approval unreasonably. If at any time any of the insurance policies shall be or become unsatisfactory to the Port Authority as to the form or substance or if any of the carriers issuing such policies shall be or become unsatisfactory to the Port Authority, the Lessee shall promptly obtain a new and satisfactory policy in replacement, the Port Authority covenanting and agreeing not to act unreasonably hereunder; the Port Authority agreeing to provide written notice to the Lessee, upon the written request of the Lessee, of the reasons it finds such policies or carriers unsatisfactory. If at any time the Port Authority so requests, a certified copy of each of the said policies shall be delivered to the Port Authority, provided that the Port Authority shall keep such policies and the contents thereof confidential except to the extent (i) required to respond to a loss, damage, claim or suit or otherwise required by law or Port Authority policy approved by its Board of Commissioners from time to time, or (ii) that the policies or the contents thereof are otherwise available in the public domain.

(15) The Lessee shall at the time of submitting the Comprehensive Plan to the Port Authority as provided in paragraph (a) hereof submit to the Port Authority its forecasts of the number of people who will be working at various times during the term of the Lease at the premises or other areas of the Expansion Construction Work, the expected utility demands of the premises, noise profiles and such other information as the Port Authority may require from time to time and at any time. The Lessee shall continue to submit its latest forecasts and such other information as may be required as aforesaid as the Port Authority shall from time to time and at any time request.

(16) The Lessee shall execute and submit for the Port Authority's approval a Tenant Construction or Alteration Application or Applications in the form prescribed by the Port Authority covering the Expansion Construction Work or portions thereof (hereinafter collectively called "Construction Application" or "Construction Applications"). The Lessee shall comply with all the terms and provisions of the approved Construction Applications. In the event of any inconsistency between the terms of any Construction Application and the terms of the Lease, the terms of this Lease shall prevail and control.

(17) Nothing contained in this Lease shall grant or be deemed to grant to any contractor, architect, supplier, subcontractor or any other person engaged by the Lessee or any of its contractors in the performance of any part of the Expansion Construction Work any right or action or claim against the Port Authority, its Commissioners, officers, agents and employees with respect to any work any of them may do in connection with the Expansion Construction Work. Nothing contained herein shall create or be deemed to create any relationship between the Port Authority and any such contractor, architect, supplier, subcontractor or any other person engaged by the Lessee or any of its contractors in the performance of any part of the construction and the Port Authority shall not be responsible to any of the foregoing for any payments due or alleged to be due thereto for any work performed or materials purchased in connection with the Expansion Construction Work.

(18) (i) Without limiting any of the terms and

conditions of this Lease, the Lessee understands and agrees that it shall put into effect prior to the commencement of any Expansion Construction Work an affirmative action program and Minority Business Enterprise (MBE) program and Women-owned Business Enterprise (WBE) program in accordance with the provisions of Schedule E (attached to the Seventeenth Supplemental Agreement to this Lease) and hereby made a part hereof. As used in Schedule E the term 'construction work' shall be deemed to include the Expansion Construction Work. The provisions of said Schedule E of this Lease shall be applicable to the Lessee's contractor or contractors and subcontractors at any tier of construction as well as to the Lessee itself and the Lessee shall include the provisions of said Schedule E within all of its construction contracts so as to make said provisions and undertakings the direct obligation of the construction contractor or contractors and subcontractors at any tier of construction. The Lessee shall and shall require its said contractor, contractors and subcontractors to furnish to the Port Authority such data, including but not limited to compliance reports relating to the operation and implementation of the affirmative action, Minority Business Enterprise (MBE) and Women-owned Business Enterprise (WBE) programs called for hereunder as the Port Authority may request at any time and from time to time regarding the affirmative action, Minority Business Enterprises (MBE) and Women-owned Business Enterprises (WBE) programs of the Lessee and its contractor, contractors, and subcontractors at any tier of construction, and the Lessee shall and shall also require that its contractor, contractors and subcontractors at any tier of construction make and put into effect such modifications and additions thereto as may be directed by the Port Authority pursuant to the provisions hereof and said Schedule E to effectuate the goals of affirmative action and Minority Business Enterprise (MBE) and Women-owned Business Enterprise (WBE) programs.

(ii) In addition to and without limiting any terms and conditions of this Lease, the Lessee shall provide in its contracts and all subcontracts covering the Expansion Construction Work or any portion thereof, that:

(aa) The contractor shall not discriminate against employees and applicants for employment because of race, creed, color, national origin, sex, age, disability or marital status, and shall undertake or continue existing programs of affirmative action to ensure that minority group persons are afforded equal employment opportunity without discrimination. Such programs shall include, but not be limited to, recruitment, employment, job assignment, promotion, upgrading, demotion, transfer, layoff, termination, rates of pay or other forms of compensation, and selections for training or retraining, including apprenticeships and on-the-job training;

(bb) At the request of either the Port Authority or the Lessee, the contractor shall request such employment agency, labor union, or authorized representative of workers with which it has a collective bargaining or other agreement or understanding and which is involved in the performance of the contract with the Lessee to furnish a written statement that such employment agency, labor union or representative shall not discriminate because of race, creed, color, national origin, sex, age, disability or marital status and that such union or representative will cooperate in the implementation of the contractor's obligations hereunder;

(cc) The contractor will state, in all solicitations or advertisements for employees placed by or on behalf of the contractor in the performance of the contract, that all qualified applicants will be afforded equal employment opportunity without discrimination because of race, creed, color, national origin, sex, age, disability or marital status;

(dd) The contractor will include the provisions of subparagraphs (aa) through (cc) of this paragraph in every subcontract or purchase order in such a manner that such provisions will be binding upon each subcontractor or vendor as to its work in connection with the contract;

(ee) "Contractor" as used herein shall include each contractor and subcontractor at any tier of construction.

(19) (i) The Lessee understands that there may be communications and utility lines and conduits located on or under the areas of the Expansion Construction Work which do not, and may not in the future, serve the premises. The Lessee agrees at its sole cost and expense, if directed by the Port Authority so to do:

(A) within a reasonable period of time following notice to or from the Port Authority of the existence thereof (with respect to those of which the Lessee notifies the Port Authority or the Port Authority notifies the Lessee), but in no event later than the issuance of the certificate called for in paragraph (n) (1) hereof;

(B) prior to the issuance of the certificate called for in paragraph (n) (1) hereof (with respect to those of which the Lessee does not have knowledge prior to the issuance of the certificate called for in paragraph (n)(1) hereof); or

(C) within a reasonable period of time following the Port Authority becoming aware of the existence thereof (with respect to those of which the Lessee has knowledge prior to the issuance of the certificate called for in paragraph (n)(1) hereof but does not notify the Port Authority;

to relocate and reinstall such communication and utility lines and conduits on the premises or off the premises as directed by the Port Authority and to restore all affected areas (such work being hereinafter collectively called "the relocation work"); provided that nothing in this subparagraph (i) shall limit the provisions of the following subparagraph (ii). The Lessee shall perform the relocation work subject to and in accordance with all the terms and provisions of this Section 93 and the relocation work shall be and become a part of the Expansion Construction Work, it being understood, however, that the relocation work shall not be or become a part of the premises hereunder.

(ii) Prior to the commencement of any of the Expansion Construction Work, the Lessee shall coordinate the Expansion Construction Work with the Location of Subsurface Utilities toll free information service (1-800-272-1000) and ascertain the location of underground utilities, if any, at the premises or other area of any Expansion Construction Work. The Lessee shall provide the Port Authority with written evidence of such coordination.

(e) [INTENTIONALLY OMITTED]

(f) The Lessee may wish to commence construction of portions of the Expansion Construction Work prior to the approval by the Port Authority of its plans and specifications pursuant to paragraph (c) hereof, and if it does it shall submit a written request to the Port Authority setting forth the work it proposes then to do. The Port Authority shall have full and complete discretion as to whether or not to permit the Lessee to proceed with any portion of the Expansion Construction Work. If the Port Authority has no objection to the Lessee's proceeding with any of the aforementioned work, it shall do so by writing a letter to the Lessee to such effect. If the Lessee performs the work covered by said letter it agrees all such work shall be performed subject to and in accordance with all of the provisions of the approval letter and subject to and in accordance with the following terms and conditions:

(1) The performance by the Lessee of the work covered by any request as aforesaid will be, as between the Lessee and the Port Authority, at the Lessee's sole risk and if for any reason the plans and specifications for the Expansion Construction Work are not approved by the Port Authority or if the approval thereof calls for modifications or changes in the work undertaken by the Lessee under any approval granted by the Port Authority pursuant to this paragraph (f), the Lessee will, as directed by the Port Authority, at its sole cost and expense, either restore the area affected to the condition existing prior to the commencement of any such work or make such modifications and changes in any such work as may be required by the Port Authority.

(2) Nothing contained in any approval hereunder shall constitute a determination or indication by the Port Authority that the Lessee has complied with the applicable governmental laws, ordinances, enactments, resolutions, rules and orders, including but not limited to those of the City of Newark, which may pertain to the work to be performed.

(3) The approved work will be performed in accordance with and subject to the terms, indemnities and provisions of the Lease covering the Expansion Construction Work and with the terms and conditions of any Construction Application which the Port Authority may request the Lessee to submit even though such Construction Application may not have,

at the time of the approval under this paragraph (f), been approved by the Port Authority. In the event of any inconsistency between the terms of any Construction Application and the terms of this Lease, the terms of this Lease shall prevail and control.

(4) No work under any such approval shall affect or limit the obligations of the Lessee under all prior approvals with respect to its construction of the Expansion Construction Work.

(5) The Lessee shall comply with all requirements, stipulations and provisions as may be set forth in the letters of approval.

(6) In the event that the Lessee shall at any time during the construction of any portion of the Expansion Construction Work under the approval granted by the Port Authority pursuant to this paragraph (f) fail, in the opinion of the General Manager of the Airport, to comply with all of the provisions of this Lease with respect to the Expansion Construction Work, the Construction Application or the approval letter covering the same or be, in the opinion of the General Manager, in breach of any of the provisions of this Lease, the Construction Application or the approval letter covering the same, the Port Authority shall have the right, acting through said General Manager to cause the Lessee to cease all or such part of the Expansion Construction Work as is being performed in violation of this Lease, the Construction Application or the approval letter. Upon such written direction from the General Manager specifying such non-compliance or breach (and without limiting any other rights or remedies of the Port Authority hereunder or otherwise) the Lessee shall promptly cease construction of the portion of the Expansion Construction Work specified. The Lessee shall thereupon submit to the Port Authority for its written approval the Lessee's proposal for making modifications, corrections or changes in or to the Expansion Construction Work that has been or is to be performed so that the same will comply with the provisions of this Lease, the Construction Application and the approval letter covering the Expansion Construction Work. The Lessee shall not commence construction of the portion of the Expansion Construction Work that has been halted until such written approval has been received.

(7) It is hereby expressly understood and agreed that neither the field engineer covered by paragraph (g) hereof nor the Resident Engineer of the Port Authority at the Airport has any authority to approve any plans and specifications of the Lessee with respect to the Expansion Construction Work, to approve the construction by the Lessee of any portion of the Expansion Construction Work or to agree to any variation by the Lessee from compliance with the terms of this Lease, or the Construction Application or the approval letter with respect to the Expansion Construction Work. Notwithstanding the foregoing, should the field engineer or the Resident Engineer give any directions or approvals with respect to the Lessee's performance of any portion of the Expansion Construction Work which are contrary to the provisions of this Lease, the Construction Application or the approval letter, said directions or approvals shall not affect the obligations of the Lessee as set forth herein nor release or relieve the Lessee from the strict compliance therewith. It is hereby further understood and agreed that the Port Authority has no duty or obligation of any kind whatsoever to inspect or police the performance of the Expansion Construction Work by the Lessee and the rights granted to the Port Authority hereunder shall not create or be deemed to create such a duty or obligation. Accordingly, the fact that the General Manager has not exercised the Port Authority's right to require the Lessee to cease its construction of all or any part of the Expansion Construction Work shall not be or be deemed to be an agreement or acknowledgment on the part of the Port Authority that the Lessee has in fact performed such portion of the Expansion Construction Work in accordance with the terms of the Lease, the Construction Application or the approval letter nor shall such fact be or be deemed to be a waiver by the Port Authority from the requirement of strict compliance by the Lessee with the provisions of the Lease, the Construction Application and the approval letter with respect to the Expansion Construction Work.

(8) Without limiting the discretion of the Port Authority hereunder, the Port Authority hereby specifically advises the Lessee that even if the Port Authority hereafter in the exercise of its discretion wishes to grant approvals under this paragraph (f), it may be unable to do so, so as to permit the Lessee to continue work without interruption following its completion of the work covered by any prior approval hereunder. The Lessee hereby acknowledges that if it

commences work pursuant to this paragraph (f), it shall do so with full knowledge that there may not be continuity by it in the performance of its Expansion Construction Work under the procedures of this paragraph (f).

(9) No prior approval of any work in connection with the Expansion Construction Work shall create or be deemed to create any obligation on the part of the Port Authority to permit subsequent work to be performed in connection with such Expansion Construction Work prior to the approval by the Port Authority of the Lessee's complete plans and specifications thereof. It is understood that no such prior approval shall release or relieve the Lessee from its obligation to submit complete plans and specifications for the Expansion Construction Work and to obtain the Port Authority's approval of the same as set forth in paragraph (c) hereof. It is further understood that in the event the Lessee elects not to continue to seek further approval letter(s) pursuant to this paragraph (f), the obligations of the Lessee to restore the area and to make modifications and changes as set forth in subparagraph (1) above shall be suspended until the Lessee's submission of its complete plans and specifications in accordance with paragraph (c) hereof.

(g) The Lessee will give the Port Authority fifteen (15) days' notice prior to the commencement of construction. The Port Authority will assign to the Expansion Construction Work a full time field engineer or engineers. The Lessee shall pay to the Port Authority for the services of said engineer or engineers the sum of Seven Hundred Dollars and No Cents (\$700.00) for each day that the engineer or engineers are so assigned during the 1999 calendar year, and for each and every calendar year thereafter, the rate that the Port Authority shall charge Aircraft Operators, or others, for the services of such engineer or engineers during such calendar years for each day or part thereof that the engineer or engineers are so assigned. Nothing contained herein shall affect any of the provisions of paragraph (n) hereof or the rights of the Port Authority hereunder. This agreement for the services of said field engineer may be revoked at any time by either party on thirty (30) days' written notice to the other, but if revoked by the Lessee it shall continue during the period construction under any partial approvals pursuant to paragraph (f) hereof is performed.

(h) The Expansion Construction Work shall be constructed in such a manner as to minimize (considering the nature of the Lessee's operations and the Expansion Construction Work) air pollution, water pollution or any other type of pollution and noise emanating from, arising out of or resulting from the operation, use or maintenance thereof by the Lessee and from the operations of the Lessee under this Agreement. Accordingly, and in addition to all other obligations imposed on the Lessee under this Agreement and without diminishing, limiting, modifying or affecting any of the same, the Lessee shall be obligated to construct as part of the Expansion Construction Work hereunder such structures, fences, equipment, devices and other facilities as may be reasonably necessary or appropriate to accomplish the foregoing and each of the foregoing shall be and become a part of Expansion Construction Work it affects and all of the foregoing shall be covered under the Comprehensive Plan of the Lessee submitted under paragraph (a) hereof and shall be part of the Expansion Construction Work hereunder. The obligations assumed by the Lessee under this paragraph (h) are a special inducement and consideration to the Port Authority in granting this Lease to the Lessee.

(i) Title to the Expansion Construction Work which is located within the territorial limits of the City of Newark shall pass to the City of Newark as the same or any part thereof is erected upon or under or affixed to the land or to any existing structures and the Expansion Construction Work shall be and become part of the premises under the Lease if located within the premises hereunder (except for the items covered in subparagraph (b) (1) (ii) of this Section 93 which shall become part of the Fuel System, and except for any personal property of the Lessee as described in Section 34 hereof); and title to such part, if any, of the Expansion Construction Work which is located within the territorial limits of the City of Elizabeth shall vest in the Port Authority as the same or any part of thereof is erected upon or under or affixed to the land or to any existing structures and said Expansion Construction Work shall be and become part of the premises under the Lease if located within the premises hereunder (except for the items covered in subparagraph (b) (1) (ii) of this Section 93 which shall become part of the Fuel System, and except for any personal property of the Lessee as described in Section 34 hereof); provided, however, that title to the Schedule 1 Terminal Fixtures shall pass to the Port Authority as provided in paragraph 53 of Supplement

(j) The parties acknowledge that the Lessee will be continuing its operations at the existing premises under the Lease during the period of time it is performing the Expansion Construction Work hereunder. The Lessee further acknowledges that this may involve among other things inconvenience, noise, dust, interference and disturbance to the Lessee in its operations at the premises as well as to its customers, patrons, invitees and employees and possibly other risks as well. As between the Lessee and the Port Authority, the Lessee hereby expressly assumes all of the foregoing risks and agrees that there will be no reduction or abatement of any of the rentals, fees or charges payable by the Lessee under the Lease or otherwise on account of its performance of the Expansion Construction Work and that the performance of the Expansion Construction Work shall not constitute an eviction or constructive eviction of the Lessee nor be grounds for any abatement of rentals, fees or charges payable by the Lessee under the Lease or otherwise nor give rise to or be the basis of any claim or demand by the Lessee against the Port Authority, its Commissioners, officers, employees or agents for damages, consequential or otherwise, under this Lease or otherwise.

(k) (1) The Lessee acknowledges that the Port Authority as well as other users, lessees, tenants, airport patrons and invitees and others will be continuing their airport operations in other portions of the Central Terminal Area of the Airport ("CTA") during the period of time the Lessee is performing the Expansion Construction Work hereunder and that this will involve among other things inconvenience, noise, dust, interference and disturbance to said airport operations and possibly other risks as well. As between the Lessee and the Port Authority, the Lessee hereby expressly assumes all of the foregoing risks. Without limiting the foregoing, the Lessee shall and expressly hereby agrees to perform, and to require each of its contractors and subcontractors to perform, the Expansion Construction Work and each portion thereof in such a manner so as to minimize the impact and any disruption resulting therefrom on said airport operations and on passenger and traffic control and passenger and traffic flow in the CTA. The Lessee shall, without limiting any other term or provision hereof, communicate and cooperate (and require each of its contractors to communicate and cooperate) with the Port Authority and with each of the affected CTA users, lessees, tenants, airport patrons, invitees and others in all aspects of the Expansion Construction Work, and the Lessee shall coordinate and work in harmony with all said persons and Port Authority contractors. The Lessee shall include in each of its contracts and subcontracts covering the Expansion Construction Work or any portion thereof the foregoing requirements for minimization of disruption and for contractor cooperation, harmony and coordination.

(2) Without limiting the foregoing or any other term or provision of this Agreement, with respect to those portions of the Expansion Construction Work which will or may affect or impact the Fuel System, the Lessee hereby expressly recognizes the importance of the Fuel System to the operation of the Airport and to all aircraft operations thereat and the critical need to protect the same and the integrity of the fuel in the Fuel System, and the Lessee shall use the highest degree of safety and care in its design and performance of the portions of the Expansion Construction Work which will or may affect or impact the Fuel System, and the Lessee shall use its best efforts and the highest degree of care and safety, and shall require its contractors to use the highest degree of care and safety and their best efforts, to coordinate and work in harmony with the Port Authority and the Port Authority's independent contractor who operates the Fuel System, as described in Section 55 hereof, and to take all such actions, precautionary measures and procedures, in addition to all Environmental Requirements, so as to protect and safeguard the structure, integrity, contents, safety, and operations of the Fuel System. In addition to all other requirements, the Lessee shall also include the foregoing requirements in each of its applicable contracts and subcontracts covering the Expansion Construction Work.

(l) [INTENTIONALLY OMITTED]

(m) In addition to any easements and rights as may be elsewhere granted herein, the Port Authority hereby, subject to the terms, conditions, covenants and provisions of this Lease, grants to and agrees to make available to the Lessee, as needed and as identified in the Construction Application approval process by the Lessee and approved by the Port Authority, temporary and permanent (but not beyond the applicable expiration date or earlier termination of this Lease) utility accesses to

those parts of the Airport (subject to the right of the Port Authority to substitute such other reasonable accesses as may be necessary because of future construction and development of the Airport (which substitution, together with the actual relocation of the utilities thereto, shall as between the Lessee and the Port Authority be at the Port Authority's sole cost and expense if the Lessee shall have commenced to utilize the accesses which it was permitted by the Port Authority to utilize) and subject to the rights of others with respect thereto) necessary to carry out the Lessee's Expansion Construction Work as identified in the Construction Application approval process and approved by the Port Authority and, as to the permanent utility accesses, those necessary to the Lessee to operate the premises.

(n) (1) When the Expansion Construction Work is substantially completed and ready for use the Lessee shall advise the Port Authority to such effect and shall deliver to the Port Authority a certificate signed by an authorized officer of the Lessee certifying that the Expansion Construction Work has been constructed to substantial completion strictly in accordance with the approved plans and specifications and the provisions of this Lease and in compliance with all applicable laws, ordinances and governmental rules, regulations and orders, and in addition, a certificate signed by either the Lessee's architect licensed and registered in the State of New Jersey or by the Lessee's engineer licensed and registered in the State of New Jersey that the Expansion Construction Work has been constructed to substantial completion in strictly in accordance with the approved plans and specifications and in compliance with all applicable laws, ordinances and governmental rules, regulations and orders. Thereafter, the Expansion Construction Work will be inspected by the Port Authority and if the same has been constructed to substantial completion as certified by the Lessee and the Lessee's licensed architect or engineer, as aforesaid, a certificate to such effect shall be delivered to the Lessee, subject to the condition that, as between the Lessee and the Port Authority, all risks thereafter with respect to the construction and installation of the same and any liability therefor for negligence or other reason shall be borne by the Lessee. The Lessee shall not use or permit the use of the Expansion Construction Work or any portion thereof for the purposes set forth in the Lease until such certificate is received from the Port Authority and the Lessee shall not use or permit the use of the Expansion Construction Work or any portion thereof even if such certificate is received if the Port Authority states in any such certificate that the same cannot be used until other specified portions are completed.

(2) The term "Expansion Construction Work Completion Date" for the purposes of this Lease shall mean the date appearing on the certificate issued by the Port Authority pursuant to subparagraph (1) of this paragraph.

(3) In addition to and without affecting the obligations of the Lessee under the preceding subparagraphs (1) and (2), when an integral and material portion of the Expansion Construction Work is substantially completed and is properly usable the Lessee may advise the Port Authority to such effect and may deliver to the Port Authority a certificate signed by an authorized officer of the Lessee and also signed by the Lessee's licensed architect or engineer certifying that such portion of the Expansion Construction Work has been constructed in accordance with the approved plans and specifications and the provisions of this Lease and in compliance with all applicable laws, ordinances and governmental rules, regulations and orders, and specifying that such portion of the Expansion Construction Work can be properly used even though the Expansion Construction Work has not been completed and that the Lessee desires such use. The Port Authority may in its sole discretion deliver a certificate to the Lessee with respect to each such portion of the Expansion Construction Work permitting the Lessee to use such portion thereof for the purposes set forth in the Lease. In such event the Lessee may use such portion subject to the condition that all risks thereafter with respect to the construction and installation of the same and any liability therefor for negligence or other reason shall be borne by the Lessee, and subject to the risks as set forth in paragraph (f) hereof in the event that the Port Authority shall not have then approved the complete plans and specifications for the Expansion Construction Work. Moreover, at any time prior to the issuance of the certificate required in subparagraph (1) above for the Expansion Construction Work, the Lessee shall promptly upon receipt of a written notice from the Port Authority setting forth the reasons therefor cease its use of such portion of the Expansion Construction Work which it had been using pursuant to permission granted in this subparagraph

(3).

(4) In addition to and without affecting the obligations of the Lessee under the preceding subparagraphs (1), (2) and (3), the Lessee may request that the Port Authority issue a final certificate under subparagraph (1) above with respect to any distinct and separate component of the Expansion Construction Work which has been substantially completed and which can be used independently from any portion of the Expansion Construction Work for which the Port Authority shall not have issued a certificate under this paragraph (n). Such request shall be accompanied by certificates from the Lessee, signed by an authorized officer of the Lessee and also signed by the Lessee's licensed architect or engineer, certifying, with respect to said component, all of the matters as described in the preceding subparagraph (3). In the event that the Port Authority agrees with the Lessee's determination that such distinct and separate component of the Expansion Construction Work can be used independently from any portion of the Expansion Construction Work for which the Port Authority shall not have theretofore issued a certificate under this subparagraph (n), said component of the Expansion Construction Work will be inspected by the Port Authority and, if the same has been constructed to substantial completion as certified by the Lessee and the Lessee's licensed architect or engineer, the Port Authority shall deliver to the Lessee a final certificate under and subject to the provisions of paragraph (n)(1) hereof with respect to such component of the Expansion Construction Work permitting the use thereof for the purposes set forth in the Lease. In such event the Lessee may use such component subject to the condition that all risks thereafter with respect to the construction and installation of the same and any liability therefor for negligence or other reason shall be borne by the Lessee, and subject to the risks as set forth in paragraph (f) hereof in the event that the Port Authority shall not have then approved the complete plans and specifications for the Expansion Construction Work."

7. Section 5 of the Lease, as previously amended, is hereby further amended as follows:

(a) The phrase "Base Annual Rental for the premises" as used in Section 5 of the Lease and elsewhere in the Lease shall be deemed amended to read "Base Annual Rental for the premises (exclusive of Area C-3 and the Area C-3 rental)".

(b) Subparagraphs (3) and (4) of paragraph (b) of Section 5 of the Lease, as previously amended and as set forth in Supplement No. 7 of the Lease shall be deemed amended to read as follows:

"(3) (i) For the portion of the term of the Lease commencing on August 1, 1996 to the day preceding the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof), a Base Annual Rental for the premises (exclusive of Area C-3 and the Area C-3 rental) at an annual rate consisting of two factors, one a constant factor in the amount of Thirty-three Million Five Hundred Eighty-Five Thousand Three Hundred Forty-eight Dollars and No Cents (\$33,585,348.00) subject to adjustment as provided in paragraph (c) hereof, and the other the Airport Services Factor which shall consist of the Airport Services Factor in the amount set forth in subparagraph (1) above as the same shall have been adjusted in accordance with paragraph (c) hereof for each calendar year preceding the commencement date of the portion of the term specified in this subparagraph (3), and which shall be the Airport Services Factor in effect on the date of the commencement of the Base Annual Rental provided for in this subparagraph (3) and which shall be subject to further adjustment as provided in paragraph (c) hereof.

(ii) For the portion of the term of the Lease commencing on the Effective Date of Supplement No. 17 of the Lease (as said Effective Date is set forth on the first page thereof) to November 30, 2004, a Base Annual Rental for the premises (exclusive of Area C-3 and the Area C-3 rental) at an annual rate consisting of two factors, one a constant factor in the amount of Thirty-three Million Nine Hundred Sixty Thousand Four Hundred Forty-eight Dollars and No Cents (\$33,960,448.00) subject to adjustment as provided in paragraph (c) hereof, and the other the Airport Services Factor in the amount of Three Million Sixty-four Thousand Eight Hundred Sixteen



Dollars and No Cents (\$3,064,816.00), and which shall be the Airport Services Factor in effect on the date of the commencement of the Base Annual Rental provided for in this subparagraph (3)(ii) and which shall subject to further adjustment as provided in paragraph (c) hereof.

The Base Annual Rental amounts (constant factor and Airport Services Factor) set forth in this subparagraph (b) (3) (ii) are also subject to the adjustments based on the Port Authority's determination of the final metes and bounds of Added Area 4 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease.

"(4) For the portion of the term of the Lease commencing on December 1, 2004 to March 31, 2013 (the expiration date of the term of the letting of the premises exclusive of Area C-3) a Base Annual Rental for the premises (exclusive of Area C-3 and the Area C-3 rental) at an annual rate consisting of two factors, one a constant factor in the amount of Thirty-nine Million Six Hundred One Thousand Two Hundred Seventy-nine Dollars and No Cents (\$39,601,279.00) subject to adjustment as provided in paragraph (c) hereof, and the other the Airport Services Factor which shall consist of the Airport Services Factor in the amount set forth in subparagraph (3)(ii) above as the same shall have been adjusted in accordance with paragraph (c) hereof for each calendar year preceding the commencement date of the portion of the term specified in this subparagraph (4), and which shall be the Airport Services Factor in effect on the date of the commencement of the Base Annual Rental provided for in this subparagraph (4) and which shall subject to further adjustment as provided in paragraph (c) hereof.

The Base Annual Rental amounts (constant factor and Airport Services Factor) set forth in this subparagraph (b)(4) above are also subject to the adjustments based on the Port Authority's determination of the final metes and bounds of Added Area 4 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease."

(c) (i) The following sentence shall be deemed inserted after the second sentence of subparagraph (1) of paragraph (c) of Section 5 of the Lease:

"For the calendar year 1999 and for each and every calendar year thereafter the Airport Services Factor set forth in subparagraphs (b)(3)(ii) and (b)(4) above shall be adjusted in accordance with said Schedule A."

(ii) The last five (5) lines of subparagraph (1) of paragraph (c) of Section 5 of the Lease, as previously amended and as set forth in Supplement No. 7 of the Lease shall be amended to read as follows:

"of the term specified in subparagraph (b)(3)(i) above the constant factor of \$33,585,348 shall remain unchanged; and for the portion of the term specified in subparagraph (b)(3)(ii) above the constant factor of \$33,960,448.00, after the adjustment of the same based on the Port Authority's determination of final metes and bounds for the Added Area 4 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease, shall remain unchanged; and for the portion of the term specified in subparagraph (b)(4) above the constant factor of \$39,601,279.00 after the adjustment of the same based on the Port Authority's determination of final metes and bounds for the Added Area 4 as more fully described in Paragraph 3A of Supplement No. 17 of the Lease, shall remain unchanged."

(d) Subparagraph (2)(iii) of paragraph (c) of Section 5 shall be deemed amended as follows: The amount set forth therein as "Three Million Five Hundred Ninety-four Thousand Dollars and No Cents (\$3,594,000.00)" shall be deemed amended to read "Three Million Nine Hundred Sixty-nine Thousand One Hundred Dollars and No Cents (\$3,969,100.00)".

(e) Subparagraph (2)(iv) of paragraph (c) of Section 5 shall be deemed amended as follows: The amount set forth therein as

"Three Million Five Hundred Ninety-four Thousand Dollars and No Cents (\$3,594,000.00)" shall be deemed amended to read "Four Million Fifty Thousand Three Hundred Sixty-seven Dollars and No Cents (\$4,050,367.00)".

8. Paragraph (a) of Subdivision I of Section 8 of the Lease is hereby amended as follows:

(a) Subparagraph (vii) thereof is hereby amended to read as follows:

"(vii) For the storage of repair parts, supplies and other personal property of the Lessee used by the Lessee in connection with its operations permitted hereunder and for the performance of reasonable minor repairs to said personal property of the Lessee."

(b) Subparagraph (ix) thereof is hereby amended by adding at the end thereof the following:

"and the occasional and temporary storage of said air cargo transported or to be transported on aircraft operated by the Lessee, provided said air cargo is properly secured."

(c) New subparagraph (xiv) shall be deemed added at the end of said paragraph (a) reading as follows;

"(xiv) With respect to the FIS facilities (as defined in Section 93 hereof), for federal inspection services by federal agencies (if the United States Government makes the same available to the Lessee) or others permitted by law to perform such functions.

9. Paragraph (g) of subdivision I of Section 8 of the Lease shall be deemed amended to read as follows:

"(g) It is understood and agreed that in order to use Flight Station B-3 located at Passenger Terminal B, it will be necessary from time to time for the various Aircraft Operators in Flight Station B-3 to pass over those portions of Area D which lie between Concourse C-1 and said Flight Station B-3, and the same are hereby made expressly subject to such right of access of such users. Similarly, it is understood and agreed that in order to use portions of Area D, it will be necessary for the Lessee to pass over the aircraft maneuvering areas associated with Flight Station B-3 which lie between Concourse C-1 and said Flight Station B-3 and the said areas shall be subject to such right of access of the Lessee. In the exercise of the use and rights of access hereunder, the Lessee and the Airline Lessees in Flight Station B-3 shall operate with due regard to the rights and needs of all users of such areas."

10. Section 10 of the Lease is hereby amended as follows:

(a) Paragraph (a) thereof is hereby amended to read as follows:

"(a) The Lessee shall promptly comply with, observe and execute all laws and ordinances and governmental rules, regulations and orders now or at any time during the term of this Agreement which as a matter of law are applicable to or which affect (i) the premises, (ii) the operations of the Lessee at the premises hereunder or the Airport, (iii) the occupancy or use of the premises or (iv) subject to Section 12(p)(2) of the Lease, with regard to Environmental Requirements only, property outside the premises as a result of the Lessee's use and occupancy of the premises or a migration of Hazardous Substances from the premises. The Lessee shall, in accordance with and subject to the provisions of Section 23 hereof, make any and all structural and non-structural improvements, alterations or repairs of the premises and, subject to Section 12(p)(2) of the Lease, perform all remediation work and clean up of Hazardous Substances required in order to fully satisfy the compliance obligations set forth herein, including without limitation, the removal, containment, control or other action with respect to asbestos-containing material. The Lessee shall have the right to perform such structural and non-structural improvements, alterations or repairs that are required by any such law, rule, regulation, order or direction; provided, however, that the same

shall be performed in compliance with and subject to the terms, provisions, and conditions of this Agreement including without limitation the procedures set forth in Section 23 hereof."

(b) Paragraph (b) thereof shall be deemed amended by adding at the end thereof the following:

"The Port Authority agrees to cooperate, if it may lawfully do so, with the Lessee in the Lessee's procurement of such consents, licenses, certificates, permits or other authorization; such cooperation by the Port Authority shall be limited to furnishing the Lessee and the governmental authority with appropriate information."

(c) Paragraph (d) thereof shall be deemed amended by adding at the end of the first (1st) paragraph after the word "regulation" the following:

", and the Lessee shall have no indemnity obligation with respect to the aforementioned claims, actions, damages, liabilities, fines, penalties, costs and expenses."

11. Section 11 of the Lease is hereby amended by adding at the end thereof the following new paragraph:

"(e) Failure of the Lessee to observe and obey (and to require its officers, employees, guests, invitees, and those doing business with it to observe and obey) the Port Authority Rules and Regulations shall not be a breach of this Agreement as and to the extent compliance therewith would constitute a violation of any governmental law, rule, regulation, requirement, order or direction."

12. (a) The first two (2) lines of paragraph (d) of Section 12 of the Lease shall be deemed amended to read as follows:

"The Lessee shall have the right and the obligation to exercise reasonable control over the vehicular traffic (including, but not limited to, vehicles operated by Port Authority contractors and permittees) on the roadways or other areas within the".

(b) The twenty-fourth (24th) through thirtieth (30th) lines of paragraph (k) of Section 12 of the Lease shall be deemed amended to read as follows:

" as set forth in the first sentence of this paragraph. All locations, the manner, type and method of construction and the size of any of the foregoing shall be determined by the Port Authority with the Lessee to have an opportunity to consult with the Port Authority with respect to the foregoing. In making a judgment as to whether any particular structures, fences, equipment, devices or other facilities may be so necessary or appropriate, the Port Authority shall take into account the cost, among other factors, of such facility in comparison to the expected benefits to be derived from the construction thereof. The Lessee shall submit for Port Authority approval its plans and specifications covering the required work and upon receiving such approval shall proceed diligently to construct the same."

(c) Section 12 of the Lease is hereby further amended by adding at the end thereof the following new paragraphs "(o)" and "(p)":

"(o) Without limiting any other of the Lessee's obligations under the Lease, the Lessee shall provide the General Manager of the Airport at the cost and expense of the Lessee with such information, documentation, records, correspondence, notices, reports, tests, results, and certifications and any other information as the Port Authority may request in connection with any Environmental Requirements or Environmental Damages, and the Lessee shall promptly acknowledge, swear to, sign or otherwise fully execute the same. The Lessee agrees that any of the foregoing may be filed by the Port Authority with the appropriate governmental authority on behalf of the Lessee at the Lessee's cost and expense. Further, the Lessee agrees unless directed otherwise by the Port Authority, to provide the General Manager of the Airport with copies of all information, documentation, records, correspondence, notice, certifications, reports, test results and all other submissions provided by the Lessee to a governmental authority and by a governmental authority to the Lessee within two (2) business days that the same are made available to or received by the Lessee with respect to any Environmental Requirements. Without limiting the foregoing or any other term or provision of this Agreement, the Lessee

expressly understand and agrees that the foregoing shall include without limitation the requirement that, with respect to the Adams Ditch Area the Lessee shall submit to the Port Authority true and complete executed copies of all governmental permits and approvals (the Lessee agreeing to consult with the Port Authority in the application for the required individual freshwater wetlands permits and stream encroachment permits), including but not limited to the approval of the City of Newark, prior to the Lessee's performance of any operations, filling in or any other construction activities or work involving or related to said Adams Ditch Area, and such other and further information as the Port Authority may require or request.

(p) (1) In addition to and without limiting the generality of the obligations of the Lessee set forth above and elsewhere in the Lease, the Lessee shall at its sole cost and expense and in accordance with and subject to the provisions of Section 23 hereof, upon notice from the Port Authority, promptly take all actions to completely remove, clean-up and remediate all Hazardous Substances on the premises or the Airport which result from the Lessee's use and occupancy of the premises or, subject to Section 12(p)(2) of the Lease, from the Lessee's performance of any construction work or which have been disposed of, released, discharged or otherwise placed on, under or about the premises during the term of the letting hereunder, and, subject to Section 12(p)(2) of the Lease, to cleanup and remediate all other Hazardous Substances on, about or under the premises or which have migrated from the premises to any adjoining property, which any federal, state or local governmental agency or political subdivision or any Environmental Requirement or any violation thereof require to be remediated, and to cleanup and remediate all Hazardous Substances necessary to mitigate Environmental Damages. The foregoing obligations of the Lessee shall include without limitation the investigation of the environmental condition of the area to be remediated, the presentation of feasibility studies, reports and remedial plans, and the performance of any cleanup, remediation, containment, operation, maintenance, monitoring or restoration work; the standard for any of the foregoing to be the applicable standard as required under Environmental Requirements and, in the event that any Environmental Requirement sets forth more than one standard, the standard to be applied shall be that which requires the lowest level of a Hazardous Substance unless the Port Authority consents to a different standard being applied. Any actions of the Lessee under the foregoing shall be performed in a good, safe and workmanlike manner and shall minimize any impact on activities off the premises. The Lessee shall promptly provide to the Port Authority all copies of test results and reports generated in connection with such actions. Promptly upon completion of such investigation and remediation, the Lessee shall seal or cap all monitoring wells and test holes, remove all associated equipment and restore the remediated property.

(2) Notwithstanding anything to the contrary in the Lease as herein amended, it is hereby agreed that, during the performance of the Expansion Construction Work under Section 93 hereof and during the remainder of the letting hereunder, the following specific limitations to the Lessee's environmental obligations shall apply:

(i) the Lessee shall not be responsible for contamination of soil and groundwater on, about or under the premises caused by the acts or omissions of the Port Authority;

(ii) the Lessee shall not be responsible for contamination of soil or groundwater to the extent that the same is caused by the flow of groundwater or the leaching of soil from outside the premises if the Lessee proves to the satisfaction of the Port Authority that any such contamination was not caused by the Lessee or by its, employees, agents, contractors, sublessees, subtenants, invitees or by others using or occupying the premises under this Agreement, it being understood that the Lessee shall have the burden of proof to establish that any migration of a Hazardous Substance or said contamination to the premises was not the result of the Lessee's (or any of aforesaid other persons') use and occupancy of the premises or any other areas at the Airport; and

(iii) the Lessee shall not be responsible for remediation and the cost of remediation of Non-Hydrocarbon Contamination (as hereinafter defined) in excess of the Non-Hydrocarbon Obligation Amount (as hereinafter defined) provided that the Lessee proves to the satisfaction of the Port

Authority that such Non-Hydrocarbon Contamination was not caused by the Lessee or its employees, agents, contractors, sublessees, subtenants, invitees or others using or occupying the premises under this Agreement, it being understood that the Lessee shall have the burden of proof to establish the same; and provided, further, however, that all costs and expenses of or associated with the removal, cleanup and any remediation of (aa) any and all Hazardous Substances or any contamination (other than Non-Hydrocarbon Contamination) other than any caused by the acts or omissions of the Port Authority; (bb) storage tanks for which the Lessee is responsible, except as expressly provided in paragraph (j) of Section 95 of the Lease; (cc) lead and asbestos during any demolition, alteration or construction on the premises; or (dd) any and all contamination of any type whatsoever or any and all Hazardous Substances in, on or under or from the Adams Ditch area shall not apply against the Non-Hydrocarbon Obligation Amount and the Lessee shall be fully and solely responsible for the same without such limitation. For purposes of this clause (iii), the term "Non-Hydrocarbon Contamination" shall mean contamination of soil or groundwater the remediation of which is performed due to the presence of Hazardous Substances other than, or the methods for remediation of which exceed those which would be required for the remediation of, petroleum hydrocarbons; and the term "Non-Hydrocarbon Obligation Amount" shall mean the amount of Eight Million Dollars and No Cents (\$8,000,000.00). The Port Authority shall be responsible for the remediation of Non-Hydrocarbon Contamination in excess of the Non-Hydrocarbon Obligation Amount, which obligation shall survive the expiration or termination of this Agreement.

Anything to the contrary in the foregoing notwithstanding, it is expressly understood that with respect to the said Adams Ditch area the Lessee shall be fully responsible for all remediation, whether of hydrocarbon contamination, Non-Hydrocarbon Contamination or otherwise, and the cost of all remediation and all Environmental Requirements and Environmental Damages.

(3) Nothing herein shall limit, modify, waive or otherwise alter the rights, claims and remedies which the Port Authority or the Lessee may have against third parties or persons, whether at law, equity or otherwise."

13. Section 13 of the Lease shall be deemed amended as follows:

(a) There shall be deemed added at the end of paragraph (h) thereof the following:

"unless expressly approved by the Port Authority in writing pursuant to Section 23 hereof and a tenant Alteration Application signed and submitted by the Lessee which has been fully approved by the Port Authority."

(b) There shall be deemed added at the end of paragraph (l) thereof the following:

"except in accordance with Port Authority Rules and Regulations."

(c) Paragraph (n) thereof shall be deemed amended by inserting at the end of the sixth (6th) line thereof after the words "ramp equipment" the following:

"(except as otherwise expressly allowed in Section 8 hereof)".

(d) Paragraph (n) thereof shall be deemed further amended by inserting at the end of the seventh (7th) line thereof after the word "than" the following:

"emergency or".

(e) There shall be deemed added at the end of said Section 13 a new paragraph (r) reading as follows:

"(r) The Lessee shall not dispose of, release or discharge nor permit anyone to dispose of, release or discharge any Hazardous Substance on or from the premises or at the Airport. In addition to and without limiting any other term, provision covenant or condition hereof, any Hazardous Substance disposed of, released or

discharged by the Lessee (or permitted by the Lessee to be disposed of, released or discharged) on or from the premises or at the Airport, shall upon notice by the Port Authority to the Lessee and subject to the provisions of this Agreement, be removed, cleaned-up and/or remediated by the Lessee at the Lessee's sole cost and expense. The obligations of the Lessee pursuant to this paragraph shall survive the expiration or termination of this Agreement."

14. Section 15 of the Lease, as previously amended, shall be deemed further amended as follows:

(a) There shall be deemed added at the end of paragraph (a) thereof the following:

"The foregoing shall not be deemed to waive any rights or claims that the Lessee or the Port Authority may have against third parties."

(b) Subparagraph (3) of paragraph (b) thereof shall be amended by replacing the first four (4) lines thereof with the following:

"(3) Take good care of the premises and maintain the same at all times in good condition, except for reasonable wear and tear resulting from the use of the premises to the extent permitted elsewhere in this Agreement or conditions solely due to the aging of the premises, which reasonable wear and tear or aging do not adversely affect in any material manner the efficient utilization thereof and do not adversely affect the proper utilization thereof;"

(c) Subparagraph (5) of paragraph (b) thereof shall be deemed amended by inserting the word "reasonably" before the word "require" on the last line thereof.

(d) There shall be deemed added at the end of subparagraph (7) of paragraph (b) thereof the following:

"the foregoing not to be deemed to prohibit the Lessee from recovering the cost of any such repairs against any third party who has responsibility therefor;"

(e) The last two (2) lines of paragraph (e) thereof shall be deemed amended to read as follows:

"at such locations, or take other appropriate measures as may be directed by the General Manager of the Airport, to insure the safety of the work performed thereat."

(f) The word and number "twenty (20)" appearing on the fourth (4th) line of paragraph (f) thereof shall be deemed changed to "thirty (30)".

15. Section 17 of the Lease, as previously amended and set forth in Supplement No. 8 of the Lease, shall be deemed further amended to read as follows:

(a) The words "nuclear property losses and" shall be deemed deleted from the eighteenth (18th) line of paragraph (a) thereof.

(b) The following shall be deemed added at the end of paragraph (a) thereof:

", provided that such insurance for this peril is available within the commercial insurance marketplace at the time of the Port Authority's request."

(c) The fourth (4th) line of the second (2nd) subparagraph of paragraph (c) shall be deemed amended to read as follows:

"16; and the word "insurance" and all other references to insurance in".

(d) The second (2nd) sentence of the third (3rd) subparagraph of paragraph (c) shall be deemed amended to read as follows:

"If at any time any of the said companies issuing the policies shall be or become unsatisfactory to the Port Authority or if at any time any of the insurance policies shall be or become unsatisfactory to the Port Authority as to form or substance, the Lessee shall promptly obtain a new and satisfactory in replacement, the Port Authority agreeing to

provide written notice to the Lessee, upon the written request of the Lessee, of the reasons it finds such policies or companies unsatisfactory and further covenanting and agreeing not to act unreasonably hereunder."

(e) The following new paragraph (d) shall be added at the end thereof:

"(d) With respect to the insurance required to be carried pursuant to subparagraph (14) of paragraph (d) of Section 93 of the Lease and this Section 17, the Lessee recognizes that the Port Authority is obligated under the Basic Lease, to use the proceeds of such insurance in the manner set forth in Section 16 of the Lease. In the event that there shall be a casualty and (i) it shall become legally impossible to rebuild all or any portion of the Expansion Construction Work, or (ii) the Port Authority or the Lessee shall be enjoined from or restricted under the terms of any contract, law, judgment, ruling, rule, regulation, or order of any Governmental Authority or court of competent jurisdiction from rebuilding all or any portion of the Expansion Construction Work, or (iii) the Port Authority and the Lessee shall determine that all or any portion of the Expansion Construction Work cannot be rebuilt, the Port Authority shall deliver to and only to the Trustee (as defined in Section 96), to the extent of available insurance proceeds which the Port Authority is entitled to retain as its own, if any, under the Basic Lease, or which the City of Newark consents to the Port Authority retaining or utilizing for such purpose, an amount which, together with any reserves or similar amounts available for such purpose, would be sufficient to redeem at that time the then-outstanding Bonds and Additional Bonds (as such terms are defined in Section 96) issued in connection with the Expansion Construction Work, in proportion to the portion of the Expansion Construction Work that cannot be so rebuilt, were such Bonds and Additional Bonds to be redeemed at that time, which amount shall be applied against such Bonds and Additional Bonds in accordance with their payment terms; provided, however, that the provisions of the Indenture (as defined in Section 96) shall govern as to whether the Bonds and Additional Bonds or any portion thereof are required actually to be redeemed at that time."

16. (a) Paragraph (a) of Section 18 of the Lease, as previously amended by Supplement No. 6 of the Lease, shall be deemed further amended by inserting after the word "Airport" which appears on the fifteenth (15th) line thereof the following:

"(excepting only claims and demands which result solely from the willful misconduct, or the sole negligence, of the Port Authority);".

(b) The sentence preceding the last sentence of paragraph (c) of Section 18 of the Lease shall be deemed amended to read as follows:

"If at any time any of the said companies issuing the policies shall be or become unsatisfactory to the Port Authority or if at any time any of the insurance policies shall be or become unsatisfactory to the Port Authority as to form or substance, the Lessee shall promptly obtain a new and satisfactory in replacement, the Port Authority agreeing to provide written notice to the Lessee, upon the written request of the Lessee, of the reasons it finds such policies or companies unsatisfactory and further covenanting and agreeing not to act unreasonably hereunder."

17. Paragraph (b) of Section 19 of the Lease shall be deemed amended by inserting after the word "Airport" on the fourth (4th) line thereof the following:

"pertaining to the premises hereunder".

18. Paragraph (a) of Section 22 of the Lease shall be deemed amended by inserting at the end thereof the following:

"The Port Authority shall, except in emergencies, spot inspections or other cases of immediate need of the Port Authority, give prior notice to the Lessee of such entry by the Port Authority into areas of the premises not open to the general public or to air passengers."

19. Paragraph (b) of Section 22 of the Lease shall be deemed amended by inserting at the end of the next-to-last sentence thereof the following:

"; and provided further, however, that the Lessee shall not be responsible (notwithstanding any other provision of the Lease as herein amended) for remediation of contamination associated with or encountered in connection with any such activities, unless the same was caused by the Lessee"

20. Paragraph (a) of Section 23 of the Lease shall be deemed amended by inserting after the word "Authority" on the tenth (10th) line thereof the following:

", which may consist of, inter alia, the submission by the Lessee to the Port Authority for its approval of a tenant Alteration Application in the form prescribed by the Port Authority".

21. (a) Subparagraph (3) of paragraph (a) of Section 24 of the Lease shall be deemed amended by changing the word and number "thirty (30)" appearing in the ninth (9th) line thereof to "sixty (60)".

(b) Subparagraph (4) of paragraph (a) of Section 24 of the Lease shall be deemed amended by inserting after the word "operations" on the third (3rd) line thereof the following:

"(the term "operations" meaning any activities which are permitted or required under this Agreement)"

(c) Subparagraph (4) of paragraph (a) of Section 24 of the Lease shall be deemed amended by changing the word and number "thirty (30)" appearing in the fifth (5th) line thereof to sixty (60).

(d) Subparagraph (4) of paragraph (a) of Section 24 of the Lease shall be deemed amended by inserting after the word "Lessee" on the last line thereof the following:

", unless the same shall be or would become, with the passage of time, an event on the basis of which the Lessee may terminate this Agreement pursuant to Section 61(a)(1) hereof".

(e) Subparagraph (5) of paragraph (a) of Section 24 of the Lease shall be deemed amended by changing the word and number "thirty (30)" appearing in the fourth (4th) line thereof to "sixty (60)".

(f) Subparagraph (7) of paragraph (a) of Section 24 of the Lease shall be deemed amended by changing the word and number "thirty (30)" appearing in the fifth (5th) line thereof to sixty (60)".

(g) The word and number "twenty (20)" appearing at the end of the second (2nd) line and the beginning of the third (3rd) line of the last subparagraph of paragraph (a) of Section 24 shall be deemed changed to "thirty (30)".

(h) Subparagraph (8) of paragraph (a) of Section 24 of the Lease shall be deemed amended to read as follows:

"(8) If either (i) the Lessee shall, without the prior written approval of the Port Authority, become a merged (non-surviving) corporation in a merger, a constituent corporation in a consolidation, or a corporation in dissolution, except as otherwise expressly permitted in paragraph (a) of Section 77 hereof, or (ii) the Lessee shall, without the prior written approval of the Port Authority, become a possessor (surviving) corporation in a merger without complying with the provisions of subparagraph (2) of paragraph (a) of Section 77 hereof;"

(i) Paragraphs (c) and (d) of Section 24 of the Lease shall be deemed deleted therefrom and the following new paragraph (c) shall be deemed inserted in lieu thereof:

"(c) No failure by the Port Authority to insist upon the strict performance of any agreement, term, covenant or condition of the Lease or to exercise any right or remedy consequent upon a breach or default thereof, and no extension, supplement or amendment of the Lease during or after a breach thereof, unless expressly stated to be a waiver, and no acceptance by the Port Authority of rentals, fees, charges or other payments in whole or in part after or during the continuance of any such breach or default, shall constitute a waiver of any such breach or default of such agreement, term, covenant



or condition. No agreement, term, covenant or condition of the Lease to be performed or complied with by the Lessee, and no breach or default thereof, shall be waived, altered or modified except by a written instrument executed by the Port Authority. No waiver by the Port Authority of any default or breach on the part of the Lessee in performance of any agreement, term, covenant or condition of this Lease shall affect or alter the Lease, but each and every agreement, term, covenant and condition thereof shall continue in full force and effect with respect to any other then existing or subsequent breach or default thereof."

(j) Paragraph (e) of Section 24 shall be deemed redesignated as paragraph "(d)".

22. Section 27 of the Lease, as previously amended, shall be deemed further amended as follows:

(a) Subparagraph (1) of paragraph (b) thereof is hereby amended by inserting after the word "and" at the end thereof the following

"on account of the constant factor or the Facility Factor, as the case may be, of the Area C-3 annual rental obligations of the Lessee, the amount of the total of the constant factor or the Facility Factor, as the case may be, of all annual Area C-3 rentals, less the amount attributable to the constant factor or the Facility Factor, as the case may be, in the installments of said Area C-3 rental payable prior to the effective date of the termination except that the credit to be allowed for the amount attributable to the constant factor or the Facility Factor, as the case may be, in the installment payable on the first day of the month in which the termination is effective shall be prorated for the part of the month the letting remains in effect; on the basis of the actual number of days in the month; and".

(b) Subparagraph (2) of paragraph (b) thereof is hereby amended by inserting after the word "and" at the end thereof the following:

"on account of the Airport Services Factor of the Lessee's Area C-3 annual rental obligation, an amount equal to the product resulting from multiplying the tentative Airport Services Factor in effect at the time such termination or cancellation (or re-entry, regaining or resumption of possession) occurs by the number of full years remaining in the balance of the term, provided, however, that if only a portion of a year in addition to a number of full years remains in the balance of the term, an amount shall be added to the product determined hereinabove which amount shall be equal to the product resulting from multiplying the aforementioned tentative Airport Services Factor by a fraction the numerator of which is the number of days in such portion of a year and the denominator of which is the actual number of days in the year, and".

(c) Subparagraph (3) of paragraph (b) of Section 27 of the Lease shall be deemed amended by inserting after the word "expenses" on the fifth (5th) line thereof the following:

"(including but not limited to the cost to the Port Authority of in-house legal services)".

(d) A new subparagraph (4) of paragraph (b) of said Section 27 shall be deemed inserted immediately following subparagraph (3) thereof (as renumbered in Supplement No. 6 of the Lease) to read as follows:

"(4) On account of the Lessee's obligations to pay the Cost of Assumable Maintenance and Repair set forth in Section 85 hereof, an amount equal to the total sum of the Capital Cost under Section 85 hereof less the amount thereof payable prior to the effective date of termination, except that the credit to be allowed for the amount attributable to the installment payable on the first day of the month in which the termination is effective shall be prorated for the part of the month the letting remains in effect or the actual number of days in such month."

(e) Section 27 of the Lease is hereby further amended by

adding at the end thereof the following new paragraphs "(c)" "(d)" and "(e)" reading as follows:

"(c) In addition to and without limiting the foregoing or any other right, claim or remedy of the Port Authority, legal or equitable, under this Lease or otherwise, in the event this Lease shall be terminated pursuant to Section 24 hereof and the Lessee shall not have completed the Expansion Construction Work, as defined in Section 93 hereof, or any portion thereof, within the time period(s) specified in paragraph (d) (2) of Section 93 hereof, the Lessee shall and hereby agrees to pay to the Port Authority any and all amounts, costs and expenses, of any type whatsoever, paid or incurred by the Port Authority by reason of the failure of the Lessee so to complete the Expansion Construction Work, or any portion thereof, including without limitation all interest, completion and other costs, damages, direct, indirect and consequential, losses and penalties, and all of the same shall survive the expiration or termination of this Agreement and shall be deemed treated as survived damages hereunder in addition to the foregoing.

(d) Notwithstanding anything to the contrary herein contained, all of the obligations of the Lessee under this Lease with respect to Environmental Damages and Environmental Requirements shall survive the expiration or termination of this Agreement.

(e) Without limiting any of the foregoing, the Port Authority may at any time bring an action to recover all the damages as set forth above not previously recovered in separate actions, or it may bring separate actions to recover the items of damages set forth in subparagraphs (1), (2), (3) and (4) of paragraph (b) above and separate actions periodically to recover from time to time only such portion of the damages set forth in subparagraphs (1) and (2) of paragraph (b) above as would have accrued as Base Annual Rental and Area C-3 rental up to the time of the action if there had been no termination or cancellation. In any such action the Lessee shall be allowed a credit against its survived damages obligations equal to the amounts which the Port Authority shall have actually received from any tenant, licensee, permittee or other occupier of the premises or a part thereof during the period for which damages are sought, and if recovery is sought for a period subsequent to the date of suit a credit equal to the market rental value of the premises during such period (discounted to reflect the then present value thereof). If at the time of such action the Port Authority has used and occupied or relet the premises, the rental for the premises obtained through such use and occupancy or reletting shall be deemed to be the market rental value of the premises or be deemed to be the basis for computing such market rental value if less than the entire premises were used or occupied or relet. In no event shall any credit allowed to the Lessee against its damages for any period exceed the then present value of the annual rental which would have been payable under this Agreement during such period if a termination or cancellation had not taken place."

23. The last three (3) lines of Section 30 of the Lease shall be deemed amended to read as follows:

"promptly and in as good condition as of the commencement of the letting thereof (such commencement in the case of new construction being as of the completion thereof), except for (1) reasonable wear and tear resulting from the use of the premises to the extent permitted elsewhere in this Agreement or (2) conditions solely due to the aging of the premises, which reasonable wear and tear or aging do not adversely affect in any material manner the efficient utilization of the premises or adversely affect the proper utilization of the premises for the purposes permitted hereunder or the water-tightness or structural integrity of the premises), but not resulting from any delay or failure to maintain and repair hereunder. In addition, all of the premises shall be free and clear of all liens, encumbrances, and security interests created by the Lessee, its sublessees, contractors, subcontractors, or other persons acting through, under or on behalf of the Lessee.

In addition to and without limiting the

foregoing, it is recognized the expiration date of the Area C-3 portion of the premises (as set forth in Supplement No. 17 of the Lease) is March 31, 2028 and that the expiration date of the C-1 and C-2 portions of the premises is March 31, 2013, and it is hereby understood and agreed, with respect to any systems serving or common to both Area C-3 and the C-1 and C-2 portions of the premises, that it shall be the obligation of the Lessee, at its sole cost and expense, to perform and complete, prior to said March 31, 2013 expiration date, all alteration and other work necessary or appropriate (subject to Section 23 hereof) to separate each such system so as to enable each such system to operate independently in Area C-3, and that the Port Authority will require any new tenant or lessee in the C-1 and C-2 portions of the premises to perform such work in its leasehold in the C-1 and C-2 portions of the premises. "

24. Section 33 of the Lease shall be deemed amended by adding at the end thereof the following two (2) new subparagraphs reading as follows:

"The Port Authority agrees that during the term of the letting hereunder the Port Authority will not take any action the taking of which, or omit to take any action the failure of which to take, would amount to or have the effect of canceling, surrendering, terminating, modifying or amending the Basic Lease prior to the date specified in the Basic Lease for its expiration insofar as such cancellation, surrender, termination, modification, or amendment would in any manner deprive the Lessee of any of its rights, licenses or privileges under this Agreement.

Nothing herein shall prevent the Port Authority from entering into an agreement with the City of Newark pursuant to which the Basic Lease is surrendered, cancelled or terminated provided that the City of Newark, at the time of such agreement, assumes the obligations of the Port Authority under this Agreement."

25. Paragraph (d) of Section 36 of the Lease shall be deemed amended by inserting at the end thereof the following:

"Subject to Section 12(p)(2) of the Lease, the Lessee hereby further agrees to relieve the Port Authority from and to assume all responsibility for any and all risks, costs and expenses of any kind whatsoever caused by, arising out of or in connection with, the condition of the premises and all parts thereof whether any aspect of such condition existed prior to, on or after the applicable effective date of the letting of each part of the premises hereunder, including without limitation all Environmental Requirements and Environmental Damages, and to indemnify and hold harmless the Port Authority for all such risks, responsibilities, costs and expenses. If so directed, the Lessee shall at its own expense defend any suit based upon any such claim or demand (even if such suit, claim or demand is groundless, false or fraudulent), and in handling such it shall not, without obtaining express advance written permission from the General Counsel of the Port Authority, raise any defense involving in any way the jurisdiction of the tribunal over the person of the Port Authority, the immunity of the Port Authority, its Commissioners, officers, agents or employees, the governmental nature of the Port Authority, or the provisions of any statutes respecting suits against the Port Authority. It is hereby understood and agreed that whenever reference is made in this Lease to the condition of the premises as of the commencement of the term thereof, the same shall be deemed to mean the condition of the premises as of the applicable commencement date of the letting of each part of the premises under this Lease, and as to the improvements made and the alteration work performed during the term of the Lease in the condition existing after the completion of the same. All the obligations of the Lessee under this Section with respect to responsibilities, risks, costs and expenses assumed by the Lessee shall survive the expiration or termination of this Lease."

26. The last three (3) sentences of Section 37 of the Lease, as previously amended, are hereby further amended to read as

follows:

"Until further notice, the Port Authority hereby designates its Executive Director, and the Lessee designates its Vice President of Corporate Real Estate (or such other authorized officer as may be designated by the Lessee by written notice to the Port Authority) as their officers upon whom notices and requests may be served, and the Port Authority designates its office at One World Trade Center, New York, New York 10048, and the Lessee designates its office at Continental Airlines, Inc., 1600 Smith Street, Houston, Texas 77002, as their respective offices where notices and requests may be served. The Port Authority shall for informational purposes only send a copy by regular first class mail of all such notices and requests to the Lessee's General Counsel at Continental Airlines, Inc., P.O. Box 4607, HQSEO, Houston, Texas 77210-4607. Failure on the part of the Port Authority to send the informational copy shall not however be or be deemed to be a breach of this Agreement, or impair or affect the validity of the notice or request actually given."

27. Paragraph (c) of Section 38 of the Lease shall be deemed amended by inserting after the word "Authority" on the eighth (8th) line thereof the following:

"(except where fulfillment of the Lessee's compliance obligations hereunder requires activity over a period of time, and the Lessee shall have commenced to perform whatever may be required for fulfillment within twenty (20) days after receipt of notice and continues such performance without interruption)".

28. Section 41 of the Lease is hereby amended by adding at the end thereof the following new paragraph (c) reading as follows:

"(c) If any clause, provision or section of this Agreement shall be ruled invalid by any court of competent jurisdiction, the invalidity of such clause, provision or section or sections shall not affect any of the remaining clauses, provisions or sections hereof."

29. Paragraph (d) of Section 49 of the Lease, as previously amended, shall be deemed further amended by changing the "1998" in the seventh (7th) and ninth (9th) lines thereof to "2018" and by changing the "1999" in the last line thereof to "2019".

30. Section 53 of the Lease, as previously amended, shall be deemed further amended as follows:

(a) The date appearing on the third (3rd) line of paragraph (a) (1) thereof (as set forth in Supplement 15 of the Lease) as "March 31, 2013" shall be deemed amended to read "December 31, 2018".

(b) Subparagraph (2) of paragraph (a) of Section 53 of the Lease, as previously amended, shall be deemed further amended to read as follows:

"(2) It is recognized that pursuant to Paragraph 2 of Supplement No. 17 to the Lease the term of the letting of only the Area C-3 portion of the premises is extended to March 31, 2028, and that flight fee provisions contained in Schedule C are effective through December 31, 2018. It is hereby agreed that for the portion of the term of the letting of said Area C-3 hereunder subsequent to December 31, 2018, the Port Authority and the Lessee shall negotiate in good faith toward the establishment of provisions covering the determination of the flight fees payable by the Lessee for the portion of the term of said Area C-3 commencing January 1, 2019 through the expiration date of the term of the letting of said Area C-3 hereunder (March 31, 2028), and upon the establishment of the same the Lessee shall pay flight fees in accordance with said provisions for said portion of the term. If the parties do not reach such agreement, the Lessee shall pay flight fees in accordance with the Port Authority's Schedule of Charges for said portion of the term of said Area C-3 commencing January 1, 2019."

31. The last line of the seventh (7th) subparagraph of paragraph (a) of Section 54 of the Lease is hereby amended to read as follows:

"additions, and also including the modifications and additions to the Fuel System which the Lessee shall perform as part of the Expansion Construction Work

under Section 93 hereof, shall be and become part of the Fuel System."

32. Section 56 of the Lease, as previously amended, shall be deemed further amended to as follows:

(a) The date appearing on the second (2nd) line of paragraph (a) thereof (as set forth in Supplement 15 of the Lease) as "March 31, 2013" shall be deemed amended to read "December 31, 2018".

(b) The second (2nd) subparagraph of paragraph (a) of Section 56 of the Lease, as previously amended, shall be deemed further amended to read as follows:

"It is recognized that pursuant to Paragraph 2 of Supplement No. 17 to the Lease the term of the letting of only the Area C-3 portion of the premises is extended to March 31, 2028, and that the fuel gallonage fee provisions contained in Schedule D are effective through December 31, 2018. It is hereby agreed that for the portion of the term of the letting of said Area C-3 hereunder subsequent to December 31, 2018, the Port Authority and the Lessee shall negotiate in good faith toward the establishment of provisions covering the determination of the fuel gallonage fees payable by the Lessee for the portion of the term of said Area C-3 commencing January 1, 2019 through the expiration date of the term of the letting of said Area C-3 hereunder (March 31, 2028), and upon the establishment of the same the Lessee shall pay fuel gallonage fees in accordance with said provisions for said portion of the term. If the parties do not reach such agreement, the Lessee shall pay fuel gallonage fees in accordance with the Port Authority's Schedule of Charges for said portion of the term of said Area C-3 commencing January 1, 2019."

33. Paragraph (a) of Section 59 of the Lease shall be deemed amended to add the following at the end thereof:

"Notwithstanding the foregoing, the Lessee, utilizing a vendor holding a permit from the Port Authority to perform such services at the Airport (which permit shall, among its other terms, contain the obligation of such vendor to pay to the Port Authority the Port Authority's then-prevailing fee for such activities), may install, maintain or operate, or permit the installation, maintenance or operation, in the non-public areas of the premises of vending-machines or devices designed to dispense or sell food, beverages, tobacco, and tobacco products, solely for its employees and the employees of others doing business with the Lessee."

34. Paragraph (c) of Section 61 of the Lease shall be deemed amended by adding at the end thereof before the final period the following:

"provided that the Lessee shall not have the right to terminate the Lease as to the Mortgaged Premises (as defined in Section 96 hereof) without the consent of the Leasehold Mortgagee (as defined in Section 96 hereof) so long as the Leasehold Mortgage or the Reletting Rights (as defined in said Section 96) of the Leasehold Mortgagee remain in effect".

35. The Lease is hereby amended to add the following Section 61A immediately following Section 61 of the Lease as herein amended:

"Section 61A. Effect of Termination by Lessee

(a) If the Lessee terminates the letting pursuant to the provisions of Section 61(a)(1), subject to the proviso at the end of Section 61(c) hereof, then the Port Authority may, at its option, pay to the Lessee the amount of the Lessee's investment in the premises (excluding any investment by the Port Authority and further excluding any personal property) arising out of the performance of the Expansion Construction Work pursuant to and as set forth in Section 93 of the Lease, after deducting therefrom an amount equivalent to an allowance for depreciation and amortization to be computed on a straight-line basis over a period equal to the applicable lease term hereunder, not taking into consideration the effect of any accelerated amortization granted to or taken by the Lessee on its books or otherwise under any applicable law (for purposes of this Section 61A, the "Unamortized Capital Investment"). For purposes of this Section 61A, the Lessee's

investment in the premises arising out of the performance of the Expansion Construction Work shall be limited to that portion of the amount of the Bonds (as defined in Section 96(a)(8) of the Lease) allocated to the Expansion Construction Work and the Lessee's out-of-pocket payments to third parties and other direct costs relating to the Expansion Construction Work. Such option shall be evidenced by notice in writing to the Lessee by the Port Authority within sixty (60) days after the Lessee has given notice of termination. The failure of the Port Authority to exercise the said option will impose no obligation upon it to relet the premises.

(b) If the Lessee terminates the letting pursuant to the provisions of Section 61(a)(2), subject to the proviso at the end of Section 61(c), then the Port Authority may, at its option, pay to the Lessee the Unamortized Capital Investment, if any. Such option shall be evidenced by notice in writing to the Lessee by the Port Authority within sixty (60) days after the Lessee has given notice of termination. If the Port Authority fails to exercise such option, then the Port Authority shall use commercially reasonable efforts to relet the premises.

(c) Subject to Section 96 hereof, if the Port Authority relets the premises prior to the date upon which this Agreement would have expired but for such termination, then the net rent paid by the new tenant(s) to the Port Authority (after deducting any costs or expenses incurred by the Port Authority in securing said new tenant(s) and in complying with the terms of this Agreement to such tenant(s), including but not limited to the costs of alteration and decoration of such premises, in the event of termination pursuant to the provisions of Section 61(a)(1), and after deducting any costs or expenses incurred by the Port Authority for any new improvements to said premises made by the Port Authority prior to the date of such termination, the maintenance of said premises, or services furnished to the new tenant, and after deducting the amounts which would have been payable as rent by the Lessee but for such termination) shall be paid over by the Port Authority to the Lessee until said amounts paid over equal the Unamortized Capital Investment of the Lessee in the premises as of the date of termination. The obligation of the Port Authority to pay over to the Lessee any net rent received from such new tenant(s) shall endure only while such new tenant(s) continues to pay rent and occupy such premises, and only while the Unamortized Capital Investment of the Lessee in such premises is unamortized, and in no event is such obligation to pay over to endure beyond the date upon which this Agreement would have expired but for such termination.

(d) The Lessee shall, with respect to its investment in the premises arising out of the performance of the Expansion Construction Work, maintain at all times during the term of this Agreement and for two (2) years after the termination thereof, in accordance with accepted accounting practice, records and books of account, such records and books to be available for audit and inspection by the Port Authority, its representatives and employees upon request at all reasonable times and to be kept at all times in the Port of New York District; provided, however, that the Lessee may produce all such records and books to the satisfaction of the Port Authority in the Port of New York District, or, on the condition that the Lessee shall pay to the Port Authority all travel costs and expenses as determined by the Port Authority for Port Authority auditors and other representatives in connection with an audit at locations outside the Port of New York District, the Lessee may maintain said records and books and make them available to the Port Authority at the Lessee's principal office, which currently is located at 1600 Smith Street, Houston, Texas 77002."

36. Section 62 of the Lease shall be deemed amended as follows:

(a) The words "at its option" shall be added following the word "Lessee" in the eighth (8th) line thereof.

(b) The word "The" at the beginning of the last sentence thereof shall be replaced by the words "In the event that the Lessee shall exercise such option, the".

37. The second (2nd), third (3rd) and fourth (4th) sentences of Section 63 of the Lease shall be deemed amended to read as follows:

"The Lessee agrees that any food, alcoholic or non-alcoholic beverages and similar items sold or furnished to the passengers, guests or invitees of the Lessee in any such rooms or space shall, where a charge or other money payment for such item or items is imposed on or collected from such passengers,

guests or invitees, be obtained by the Lessee from an Operator who has been authorized by the Port Authority to operate establishments for the sale of food, alcoholic and non-alcoholic beverages and similar items for consumption in passenger terminal facilities at the Airport; provided that as to any such item which is supplied to said passengers, guests or invitees in such club rooms and at no charge by the Lessee (or any sublessee) or the operator, no fee shall apply to such item. All monies paid or payable to the Operator for such sales shall be included in the gross receipts of the Operator. In the event the Lessee wishes to use its own personnel for serving food, alcoholic or non-alcoholic beverages and similar items it may do so; provided that where a charge or other money payment for such item or items is imposed on or collected from such passengers, guests or invitees the food, alcoholic and non-alcoholic beverages are obtained by the Lessee from an Operator authorized by the Port Authority and provided that monies paid therefor, in that event, shall be included in the gross receipts of the Operator. If the Lessee uses its own personnel for serving food, alcoholic or non-alcoholic beverages and similar items where a charge or other money payment for such item or items is imposed on or collected from its passengers, guests or invitees, the Lessee will pay a fee to the Port Authority as shall be specified by the Port Authority which will not be greater than the fee that would be retained by the Port Authority if the food, alcoholic or non-alcoholic beverages and similar items were served by the Operator."

38. Paragraph (a) of Section 64 of the Lease shall be deemed amended by inserting at the end thereof the following:

"or under Section 62 hereof".

39. Subparagraph (i) of paragraph (g) of Section 66 of the Lease, as previously amended, shall be deemed further amended by deleting the words "at present" in the fourth (4th) line thereof.

40. Section 69 of the Lease shall, as previously amended, be deemed further amended to read as follows:

(a) (1) The title of said Section 69 shall be deemed amended to read "Section 69. Rights of Accommodation by the Port Authority".

(2) Paragraph (a) thereof, as previously amended, shall be deemed further amended as follows:

(i) The number appearing (as set forth in Supplement No. 6 of the Lease) as "57,200" shall be deemed amended to read "36,000, increased to 46,800 effective on the Expansion Construction Work Completion Date, (each of the said numbers during the said respective periods of time being hereinafter called "the Lessee's Commencement Basic Schedules" and the number 10,800 being hereinafter called "the Lessee's Concourse C-3 Commencement Basic Schedule")".

(ii) The following shall be deemed added at the end thereof:

"The Lessee's FIS Basic Schedule shall be calculated as thirty percent (30%) of the Lessee's Concourse C-3 Commencement Basic Schedule."

(b) Paragraphs (c) and (d) of said Section 69 are hereby amended to read as follows:

"(c) (1) (i) As of January 1, 1999 and as of January 1 of each succeeding calendar year in the event that for reasons within the Lessee's control the Lessee's Basic Schedules for the immediately preceding calendar year for the Airport are less than sixty percent (60%) of the Lessee's Commencement Basic Schedules or (ii) as of January 1, 1999 and as of January 1 of each succeeding calendar year in the event that because of reasons beyond the control of the Lessee the Lessee's Basic Schedules for the immediately preceding two calendar years are less than sixty percent (60%) of the Lessee's Commencement Basic Schedules, or (iii) as of January 1, 1999 in the event that for any reason whatsoever, other than an event of force majeure as covered by Section 64 hereof, the Lessee fails to operate a minimum of three (3) aircraft flight turnaround operations per aircraft gate position at the premises each and every calendar day for the immediately preceding three (3) calendar months (with aircraft no smaller than jet aircraft capable of utilizing the loading bridges thereat with a minimum

seating capacity of 43 seats), then in any of such events and without limiting each and every other right of the Port Authority under this Agreement or otherwise, the Port Authority shall have the right, upon six (6) months' prior written notice to the Lessee, to require the Lessee, and the Lessee hereby agrees, to make available Gate Accommodations (as hereinafter defined) at the premises as directed by the Port Authority, to Scheduled Aircraft Operators (as said term is defined in Section 72 hereof) and also including Scheduled Commuter Aircraft Operators (hereinafter in this Section 69 collectively called the "Scheduled Aircraft Operators"). For purposes of this Section 69, upon the expiration or termination of the term of the letting of the C-1 and C-2 portions of the premises under the Lease, the term "Lessee's Commencement Basic Schedules" shall be replaced by the term "Lessee's Concourse C-3 Commencement Basic Schedule."

(2) The Lessee shall make such Gate Accommodations available from time to time during the entire period commencing on the effective date set forth in the aforesaid notice and ending when the Lessee's Basic Schedules for a calendar year, determined in accordance with the foregoing shall have been sixty percent (60%) or more of the Lessee's Commencement Basic Schedules (hereinafter called "a period of underutilization"). The term "Gate Accommodations" as used in this Section 69 shall mean aircraft ramp and gate position capacity and related passenger terminal facilities including, but not limited to passenger ticketing, passenger check-in, baggage handling systems and flight information systems, passenger lounge and waiting areas and appropriate signage and public identification. Such Gate Accommodations may be accomplished by the Lessee by making available and providing non-exclusive use of gate positions and other related facilities to Scheduled Aircraft Operators pursuant to handling agreements (as described in Section 72 (o) hereof) between the Lessee and any such Scheduled Aircraft Operator (hereinafter called 'the Handled Airline').

(3) As of the first (1st) day of the seventh (7th) calendar month following the issuance of the certificate called for in paragraph (n)(1) of Section 93 of the Lease, in the event that the daily average number of passengers processed through the FIS facilities for the immediately preceding six (6) calendar months is less than sixty percent (60%) of the Lessee's FIS Basic Schedule, then the Port Authority shall have the right, upon six (6) months' prior written notice to the Lessee, to require the Lessee, and the Lessee hereby agrees, to make available FIS Accommodations (as hereinafter defined; Gate Accommodations and FIS Accommodations being sometimes collectively referred to herein as "Accommodations") at the premises as directed by the Port Authority, to Scheduled Aircraft Operators (as said term is defined in Section 72 hereof) and also including Scheduled Commuter Aircraft Operators (hereinafter in this Section 69 collectively called the 'Scheduled Aircraft Operators').

(4) The Lessee shall make such FIS Accommodations available from time to time during the entire period commencing on the effective date set forth in the aforesaid notice and ending when the Lessee's daily average number of passengers processed through the FIS facilities for the immediately preceding six (6) calendar months shall have been sixty percent (60%) or more of the Lessee's FIS Basic Schedules (hereinafter called "a period of underutilization"). The term "FIS Accommodations" as used in this Section 69 shall mean aircraft ramp and gate position capacity and related passenger terminal facilities including, but not limited to use of the FIS facilities, passenger ticketing, passenger check-in, baggage handling systems and flight information systems, passenger lounge and waiting areas and appropriate signage and public identification. Such FIS Accommodations may be accomplished by the Lessee by making available and providing non-exclusive use of gate positions and other related facilities to Scheduled Aircraft Operators.

(5) The Lessee shall negotiate in good faith the terms of any such Accommodations with the Handled Airline; provided, however, in no event shall the Lessee be required to provide Accommodations for a rental that is less than the total costs (including a pro rata share of construction, financing and operations and maintenance costs) of providing such Accommodations. Without limiting any other term or provision of this Lease, each such handling agreement shall be subject to the prior and continuing approval of the Port Authority and the execution among the Port Authority, the Lessee, and the Handled Airline of a form of consent agreement prepared by the Port Authority. Moreover, and without limiting the foregoing, the Lessee will at all times keep the Port Authority informed and advised and will consult with the Port Authority from time



to time as to all aspects of its Accommodations of Scheduled Aircraft Operators hereunder.

(6) It is understood furthermore that the Accommodations contemplated hereunder may involve the use of subleases of exclusive areas of the premises in addition to or in lieu of handling agreements. Without limiting any other term or provision of this Lease, any sublease with a Scheduled Aircraft Operator (hereinafter called a "Section 69 Sublessee Airline") will similarly be subject to the prior and continuing approval of the Port Authority and the execution of a consent agreement prepared by the Port Authority, and executed by the Port Authority, the Lessee and the Section 69 Sublessee Airline. Nothing contained herein shall in any way affect the discretion of the Port Authority in granting or withholding its consent to a handling agreement or a sublease with a Section 69 Sublessee Airline, proposed by the Lessee or directed by the Port Authority whether or not during a period of underutilization, and, without limiting Section 77 or any other term hereof, such consent may contain such terms and conditions including but not limited to such financial or other conditions which may include a fixed charge or a charge based upon a percentage of the Lessee's gross receipts arising therefrom, as the Port Authority may, at that time, elect, and all provisions of the Lease requiring the prior written consent or approval of the Port Authority and requiring the payment by the Lessee of the handling percentage fees and the subletting percentage fees shall in no way be waived, impaired, limited or affected.

(7) Notwithstanding anything to the contrary contained herein the Lessee understands and agrees that the Lessee shall not perform any services and functions pursuant to any handling agreement or sublease with a Handled Airline or a Section 69 Sublessee Airline with respect to which the Port Authority has specifically withheld consent and approval in the consent agreement to such handling agreement or sublease. The Handled Airline and the Section 69 Sublessee Airline may either perform said services and functions themselves or use the services of the authorized service organization, including but not limited to in-flight caterers, aircraft fuelers, and ramp handlers performing such services or functions at the Airport. The Lessee however may make the necessary arrangements with the authorized service organization performing such services and functions at the Airport to have such services and functions performed for the Handled Airline or the Section 69 Sublessee Airline.

(8) Without limiting any Section, term or provision of the Lease, the Lessee shall, with respect to each and every handling agreement, sublease or other agreement covering any Accommodations, maintain in accordance with accepted accounting practice during the term of this Agreement and for one year thereafter and for such period until the Lessee shall receive written permission from the Port Authority to do otherwise, records and books of account recording all transactions, at through or in anywise connected with said handling agreements, subleases and other agreements and shall use and maintain such systems for recording transactions under or in connection with the handling agreements and subleases all to the end that accurate and complete records of gross receipts be maintained including identification of the gross receipts of the Lessee pertaining to any particular handling agreement, sublease or other agreement, all of the foregoing to be kept at all times in the Port of New York District; provided, however, that the Lessee may produce all such records to the satisfaction of the Port Authority in the Port of New York District, or, on the condition that the Lessee shall pay to the Port Authority all travel costs and expenses as determined by the Port Authority for Port Authority auditors and other representatives in connection with any audit at locations outside the Port of New York District, the Lessee may maintain said records and books and make them available to the Port Authority at the Lessee's principal office, which currently is located at 1600 Smith Street, Houston, Texas 77002.

(9) Without limiting any Section, term, or provision of the Lease, the Lessee shall permit in ordinary business hours during the term of this Agreement and for one year thereafter and during such further period as is mentioned in the preceding subparagraph, the examination, inspection and audit by the officers, employees and representatives of the Port Authority of such books of account and systems mentioned above and also any records

and books of account, and systems of any company which is owned or controlled by the Lessee or by any partner of the Lessee, if said company performs services, similar to those performed by the Lessee anywhere in the Port of New York District. The Lessee shall furnish to the Port Authority from time to time (but not more often than once a month) statements of the Lessee setting forth its gross receipts as required hereunder, and such further itemization, details and information pertaining to the handling agreements and subleases as the Port Authority may from time to time request.

(10) The Lessee agrees that all handling agreements and subleases shall be at reasonable and at not discriminatory rates, fees and charges which shall be based upon the recovery by the Lessee of a pro rata share of the Lessee's costs of (i) operation and maintenance of the premises, (ii) the services provided to the Handled Airline or the Section 69 Sublessee Airline and (iii) the Lessee's investment in the premises not otherwise included in the above, provided, however, that it is understood and agreed that the following shall not be a reason for the Lessee to refuse a sublease or handling agreement or to impose any conditions or limitations on operations in connection therewith under this Section 69: (aa) possible or potential labor disharmony with a Handled Airline or sublessee, (bb) compatibility of schedules and operations between the Lessee or another user or occupant of the premises and a Handled Airline or sublessee, or (cc) competitive nature of the routes, schedules or type of air transportation service to be provided by a Handled Airline or sublessee, provided, further, however, that with respect to item (aa) above if, after notice from the Port Authority to provide Accommodations to a specific Scheduled Aircraft Operator, the Lessee shall, in good faith, believe that the operations of such specific Scheduled Aircraft Operator on the premises would cause significant, immediate and unremediable labor disharmony which would seriously affect the operations of the Lessee on the premises then, upon request by the Lessee to the Port Authority setting forth in specific detail satisfactory to the Port Authority the nature of the anticipated labor disharmony and requesting that the Lessee not be obligated under this Section to provide Accommodations for such specific Scheduled Aircraft Operator, the Port Authority shall, in good faith, consider the Lessee's request and if the Port Authority finds that the labor disharmony described by the Lessee is reasonably likely to result if the Lessee were to provide Accommodations to such Scheduled Aircraft Operator on the premises then the Port Authority shall notify the Lessee that the Port Authority's direction to provide Accommodations to such Scheduled Aircraft Operator is rescinded and, provided further, however, with respect to (bb) above the Lessee will not have to provide or continue to provide FIS Accommodations if doing so would result in a number of passengers being processed through the FIS facilities in excess of the design capacity of said facilities or if such FIS Accommodations would require Lessee to cancel or retime a scheduled international arriving flight. The Lessee's obligation to provide Accommodations to Scheduled Aircraft Operators shall be effective on the date set forth in a notice from the Port Authority to such effect, as aforesaid. Upon such notice the Lessee shall use its best efforts to secure an arrangement with a Scheduled Aircraft Operator as directed by the Port Authority for Accommodations in the terminal and shall in good faith negotiate with any such Scheduled Aircraft Operator as the Port Authority shall direct for Accommodations in the premises, all in accordance herewith.

(11) The Port Authority shall give thirty (30) days' prior notice of its intention to give the notice set forth above and it is expressly agreed that the Port Authority shall not exercise the aforesaid right with respect to any portion or portions of the premises if and for which the Lessee has submitted to the Port Authority definite plans for the utilization of said portion or portions of the premises by the Lessee provided the Lessee in fact commences such use of said portion or portions of the premises within thirty (30) days after the submission of the said plans.

(12) The failure of the Port Authority to exercise its rights under this Section 69 during any year in which it may have such a right, shall not affect, waive or limit its right to exercise said rights in any subsequent year."

(c) The third (3rd) and fourth (4th ) lines of paragraph (e) thereof are hereby amended to read as follows:

"do so as follows: based upon the Official Airline Guide or such other appropriate report of airline schedules as the Port Authority may substitute therefor (any such report being herein called "the Guide") the Port Authority shall ascertain the total"

(d) The seventeenth (17th) line of paragraph (e) thereof is hereby amended by adding after the word "Airlines" the words ", or are otherwise accommodated in the premises with the consent of the Port Authority,".

(e) Subparagraph (g) of Section 69 of the Lease (as set forth in Supplement No. 6 of the Lease) shall be deemed deleted from the Lease.

41. The last sentence of paragraph (a) of Section 71 of the Lease, as previously amended, shall be deemed further amended to read as follows:

"The Port Authority shall have the right upon prior notice to inspect and audit such books and records during regular business hours."

42. (a) The first (1st) line of paragraph (n) of Section 72 of the Lease is hereby amended to read as follows:

"(n) "Gross Receipts", for purposes of Sections 63 and 66 hereof, shall mean and include such".

(b) Section 72 of the Lease, as previously amended, is hereby further amended by adding at the end thereof the following new paragraphs:

"(AA) "Environmental Damages" shall mean any one or more of the following: (i) the presence on, about or under the premises of any Hazardous Substance and/or (ii) the disposal, release or threatened release of any Hazardous Substance from the premises, and/or (iii) the presence of any Hazardous Substance on, about or under other property at the Airport as a result of the Lessee's use and occupancy of the premises or a migration of a Hazardous Substance from the premises, and/or (iv) any personal injury (including wrongful death) or property damage arising out of or related to any such Hazardous Substance, and/or (v) the violation of any Environmental Requirements pertaining to any such Hazardous Substance, the premises and/or the activities thereon.

(BB) "Environmental Requirements" and "Environmental Requirement" shall mean all applicable present and future laws, statutes, enactments, resolutions, regulations, rules, ordinances, codes, licenses, permits, orders, approvals, plans, authorizations, concessions, franchises, requirements and similar items, of all governmental agencies, departments, commissions, boards, bureaus, or instrumentalities of the United States, states and political subdivisions thereof (other than the Port Authority) and all applicable judicial, administrative, and regulatory decrees, judgments, and orders relating to the protection of human health or the environment, and in the event that there shall be more than one compliance standard, the standard for any of the foregoing to be that which requires the lowest level of a Hazardous Substance unless the Port Authority consents to a different standard being applied, the foregoing to include without limitation:

(i) All requirements pertaining to reporting, licensing, permitting, investigation, and remediation of emissions, discharges, releases, or threatened releases of Hazardous Substances into the air, surface water, groundwater, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of Hazardous Substances; and

(ii) All requirements, pertaining to the protection of the health and safety of employees or the public arising out of or in connection with environmental conditions.

(CC) "Hazardous Substances" and "Hazardous Substance" shall mean and include without limitation any pollutant, contaminant, toxic or hazardous waste, dangerous substance, potentially dangerous substance, noxious substance, toxic substance, flammable, explosive, radioactive material, urea formaldehyde, foam insulation, asbestos, polychlorinated biphenyls (PCBs), chemicals known to cause cancer or reproductive toxicity, petroleum and petroleum products and other substances declared to be hazardous or toxic, or the removal of which is required, or the manufacture, preparation, production, generation, use, maintenance, treatment, storage, transfer, handling or ownership of which is restricted,

prohibited, regulated or penalized by any Environmental Requirement."

43. (a) The ninth (9th) through thirteenth (13th) lines of paragraph (b) of Section 73 of the Lease shall be deemed amended to read as follows:

"to and use good faith efforts to implement an extensive program of affirmative action, including specific affirmative action steps to be taken by the Lessee, to ensure maximum opportunities for employment and contracting by minorities and women, and by Minority Business Enterprises and Women-owned Business Enterprises. In meeting said commitment the Lessee agrees".

(b) Paragraph (c) of Section 73 of the Lease shall be deemed amended to read as follows:

"(c) (1) "Minority" as used herein includes:

(i) Black (all persons having origins in any of the Black African racial groups not of Hispanic origin);

(ii) Hispanic (all persons of Mexican, Puerto Rican, Dominican, Cuban, Central or South American culture or origin, regardless of race);

(iii) Asian and Pacific Islander (all persons having origins in any of the original peoples of the Far East, Southeast Asia, the Indian Subcontinent, or the Pacific Islands); and

(iv) American Indian or Alaskan Native (all persons having origins in any of the original peoples of North America and maintaining identifiable tribal affiliations through membership and participation or community identification).

(2) "Minority Business Enterprise" (MBE) as used herein shall mean any business enterprise which is at least fifty-one percentum owned by, or in the case of a publicly owned business, at least fifty-one percentum of the stock of which is owned by citizens or permanent resident aliens who are minorities and such ownership is real, substantial and continuing.

(3) "Women-owned Business Enterprise" (WBE) as used herein shall mean any business enterprise which is at least fifty-one percentum owned by, or in the case of a publicly owned business, at least fifty-one percentum of the stock of which is owned by women and such ownership is real, substantial and continuing.

(4) Good faith efforts to include meaningful participation by MBEs and WBEs shall include at least the following:

(i) Dividing the work to be subcontracted into smaller portions where feasible.

(ii) Actively and affirmatively soliciting bids for subcontracts from MBEs and WBEs, including circulation of solicitations to minority and female contractor associations. The Lessee shall maintain records detailing the efforts made to provide for meaningful MBE and WBE participation as called for in paragraph (b) above, including the names and addresses of all MBEs and WBEs contacted and, if any such MBE or WBE is not selected as a joint venturer or subcontractor, the reason for such decision.

(iii) Making plans and specifications for prospective work available to MBEs and WBEs in sufficient time for review.

(iv) Utilizing the list of eligible MBEs and WBEs maintained by the Port Authority or seeking minorities and women from other sources for the purpose of soliciting bids for subcontractors.

(v) Encouraging the formation of joint ventures, partnerships or other similar arrangements among subcontractors, where appropriate, to insure that the Lessee will meet its obligations hereunder.

(vi) Insuring that provision is made to provide progress payments to MBEs and WBEs on a timely basis.

(vii) Submitting quarterly reports to the Port Authority (Office of Business and Job Opportunity) detailing its compliance with the provisions hereof."

(d) Paragraph (d) of Section 73 of the Lease shall be deemed amended by inserting after the word "Authority" on the seventh (7th) line thereof the following:

"(except where fulfillment of the Lessee's compliance obligations hereunder requires activity over a period of time, and the Lessee shall have commenced to perform whatever may be required for fulfillment within twenty (20) days after receipt of notice and continues such performance without interruption)".

(e) Paragraph (d) of Section 73 of the Lease shall be deemed amended by inserting at the end thereof the following:

"The Lessee shall not be required to take any action, or omit to take any action, under this Section, Section 2 (c) (18), 38 or 39 or Schedule E hereof, to the extent that such action or omission would be in violation of any applicable law."

44. (a) The fourth (4th) and fifth (5th) lines of Section 76 of the Lease, as previously amended, shall be deemed further amended to read as follows:

"payment of Base Annual Rental, Area C-3 rental or other rental, fee".

(b) Section 76 of the Lease, as previously amended, shall be deemed further amended by inserting at the end thereof the following:

"No late charges shall be due under this Section 76 in the event the Lessee timely pays to the Port Authority amounts due to the Port Authority as stated in invoices from the Port Authority which amounts are thereafter adjusted by the Port Authority in accordance with the Lease. The foregoing, however, shall not be construed to prevent late charges on unpaid amounts owing to the Port Authority as a result of the adjustment in the event the Lessee then fails to timely pay the same or on amounts found to be due to the Port Authority as a result of an audit of the Lessee, as provided above."

45. Section 77 of the Lease, as previously amended, shall be deemed further amended to read as follows:

(a) Paragraph (a) thereof is hereby amended to read as follows:

"(a) (1) The Lessee covenants and agrees that it will not sell, convey, transfer, mortgage, pledge or assign this Agreement or any part thereof, or any rights created thereby or the letting thereunder or any part thereof without the prior written consent of the Port Authority; provided, however, that this Agreement may be assigned in its entirety (by operation of law or otherwise) without such consent to any successor in interest of the Lessee which is or is to be a Scheduled Aircraft Operator hereof, and into which the Lessee may merge or with which the Lessee may consolidate, or which may succeed to the assets of the Lessee or the major portion of its assets related to its air transportation system, if immediately following the merger, consolidation or assignment the entity which then is the Lessee has a financial standing at least as good as that of the Lessee immediately preceding the merger, consolidation or assignment (by which is meant that its current assets, its ratio of current assets to current liabilities, its ratio of fixed assets to fixed liabilities and its net worth shall each be at least as favorable as that of the Lessee immediately preceding the merger, consolidation or assignment) (the "Financial Tests"), or, in the event the Financial Tests are not satisfied, if the Lessee prior to the effectuation of such assignment submits to the Port Authority the Consent Security Deposit (as hereinafter defined); but in any of said events, such assignment shall not take effect before the assignee is actually engaged in the business of scheduled transportation by Aircraft; and provided, further that such succeeding entity or purchaser executes and delivers to the Port Authority an instrument in form satisfactory to the Port Authority assuming the obligations of the Lessee as if it were the original

tenant hereunder, including without limitation the submission of the Consent Security Deposit.

(2) In the event that the Lessee becomes the possessor (surviving) corporation in a merger without the prior written approval of the Port Authority and the Financial Tests are not satisfied, the Lessee shall submit to the Port Authority within five (5) days following such merger all appropriate information and documentation sufficient to allow the Port Authority to determine whether the Financial Tests are satisfied. Thereafter if the Port Authority determines that the Financial Tests are not satisfied the Port Authority shall by written notice advise the Lessee of the same and the Lessee shall submit the Consent Security Deposit to the Port Authority not later than five (5) business days following said notice from the Port Authority (the 'Consent Security Deposit Deliver Date'). The Consent Security Deposit required under this subparagraph (2) shall be subject to the following subparagraphs (i) and (ii) as well as to subparagraph (4) below:

(i) Upon the Consent Security Deposit Delivery Date, the Lessee shall deposit with the Port Authority and shall keep deposited throughout the term of this Agreement, the Consent Security Deposit (as defined in subparagraph (3) hereof) in cash, or bonds of the United States of America, or of the Port Authority of New York and New Jersey, having a market value of that amount, as security for the full, faithful and prompt performance of and compliance with, on the part of the Lessee, all of the provisions, terms, covenants and conditions of this Agreement on its part to be fulfilled, kept, performed or observed and as security for the payment of all other rentals, fees, charges and obligations owed or which may become due and owing to the Port Authority arising from the Lessee's operations at the Airport, whether covered by a written agreement or otherwise. Bonds qualifying for deposit hereunder shall be in bearer form but if bonds of that issue were offered only in registered form, then the Lessee may deposit such bond or bonds in registered form, provided, however, that the Port Authority shall be under no obligation to accept such deposit of a bond in registered form unless such bond has been reregistered in the name of the Port Authority (the expense of such re-registration to be borne by the Lessee) in manner satisfactory to the Port Authority. The Lessee may request the Port Authority to accept a registered bond in the Lessee's name and if acceptable to the Port Authority the Lessee shall deposit such bond together with a bond power (and such other instruments or other documents as the Port Authority may require) in form and substance satisfactory to the Port Authority. In the event the Consent Security Deposit is returned to the Lessee, any expenses incurred by the Port Authority in re-registering a bond to the name of the Lessee shall be borne by the Lessee. In addition to any and all other remedies available to it, the Port Authority shall have the right, at its option, at any time and from time to time, with or without notice to use the said Consent Security Deposit or any part thereof in whole or partial satisfaction of any of its claims or demands against the Lessee. There shall be no obligation on the Port Authority to exercise such right and neither the existence of such right nor the holding of the Consent Security Deposit itself shall cure any default or breach of the Agreement on the part of the Lessee. In the event that the Port Authority shall at any time or times so use the Consent Security Deposit, or any part thereof, or if bonds shall have been deposited and the market value thereof shall have declined below the above-mentioned amount, the Lessee shall, on demand of the Port Authority and within two (2) days thereafter, deposit with the Port Authority additional cash or bonds so as to maintain the Consent Security Deposit at all times to the full amount above stated, and such additional deposits shall be subject to all the conditions of paragraph (a)(2) of this Section. After the later to occur of (x) expiration or earlier termination of the Agreement or any extension thereof and (y) the cessation of activity of the Lessee at the Airport and upon condition that the Lessee shall then be in no wise in default under any part of the Agreement, as this Agreement may have been amended or extended, or other obligations to the Port Authority, and upon written request therefor by the Lessee, the Port Authority will return the said Consent Security Deposit to the Lessee less the amount of any and all unpaid claims and demands (including estimated damages) of the Port Authority by reason of any default or breach by the Lessee of this Agreement or any part thereof, or any of them, or any other obligation of the Lessee to Port Authority and less any other fees, charges and obligations owed to the Port Authority arising from the Lessee's operations at the Airport. The Lessee agrees that it will not assign or encumber the said Consent Security Deposit and any such assignment or encumbrances shall be void as to the Port Authority. The Lessee may collect or receive annually any interest or income

earned on bonds and interest paid on cash deposited in interest bearing bank accounts less any part thereof or amount which the Port Authority is or may hereafter be entitled or authorized by law to retain or to charge in connection therewith, whether as or in lieu of administrative expense or custodial charge, or otherwise, provided, however, that the Port Authority shall not be obligated by this provision to place or to keep cash deposited hereunder in interest bearing bank accounts. Without limiting the foregoing provisions of this Section, with respect to any bonds deposited by the Lessee, the Port Authority shall have the right, in order to satisfy any of its claims or demands against the Lessee, to sell the same in whole or in part, at any time and from time to time, with or without prior notice, at public or private sale, all as determined by the Port Authority together with the right to purchase the same at such sale free of any claims, equities or rights of redemption of the Lessee. The Lessee hereby waives all right to participate therein and all right to prior notice or demand of the amount or amounts of the Port Authority's claims or demands against the Lessee. The proceeds of any such sale shall be applied by the Port Authority first to the costs and expenses of the sale (including but not limited to any advertising or commission expenses) and then to the amounts due the Port Authority from the Lessee. Any balance remaining shall be retained in cash toward bringing the Consent Security Deposit to the sum specified in subparagraph (3) hereof provided that this shall not relieve the Lessee from maintaining the Consent Security Deposit in the full amount stated in subparagraph (3) hereof.

(ii) in lieu of the cash or bonds Consent Security Deposit described in subparagraph (i) hereof, the Lessee may, at its option cause to be delivered to the Port Authority on the Consent Security Deposit Delivery Date as security for the full, faithful and prompt performance of and compliance with, on the part of the Lessee, all of the provisions, terms, covenants and conditions of this Agreement on its part to be fulfilled, kept, performed or observed, and as security for the payment of all rentals, fees, charges and obligations owed or which may become due and owing to the Port Authority arising from the Lessee's operations at the Airport, whether covered by a written agreement or otherwise, a clean irrevocable letter of credit issued to and in favor of the Port Authority, by a banking institution having its main office within the Port of New York District and acceptable to the Port Authority, payable in the Port of New York District, the amount of the Consent Security Deposit. The form and terms of such letter of credit, as well as the institution issuing it, shall be subject to the prior and continuing approval of the Port Authority. Such letter of credit shall provide that it shall continue during the term of this Agreement and for a period of not less than six (6) months thereafter; such continuance may be by provision for automatic renewal or by substitution of a subsequent satisfactory clean irrevocable letter of credit. If requested by the Port Authority, said letter of credit shall be accompanied by a letter expressing the opinion of counsel for the banking institution that the issuance of said clean, irrevocable letter of credit is an appropriate and valid exercise the banking institution of the corporate power conferred upon it by law. Upon notice of cancellation of a letter of credit the Lessee agrees that unless, by a date twenty (20) days prior to the effective date of cancellation, the letter of credit is replaced by security in accordance with subparagraph (i) above or another letter of credit satisfactory to the Port Authority, the Port Authority may draw down the full amount thereof without statement of default and thereafter the Port Authority will hold the same as Consent Security Deposit under subparagraph (i) of this paragraph (a)(2) of this Section. Failure to provide such a letter of credit at any time during the term of this Agreement, valid and available to the Port Authority, including any failure of any banking institution issuing any such letter of credit previously accepted by the Port Authority to make one or more payments as may be provided in such letter of credit shall be deemed to be a breach of this Agreement on the part of the Lessee. Upon acceptance of such letter of credit by the Port Authority, and upon request by the Lessee made thereafter, the Port Authority will return the Consent Security Deposit, if any, theretofore made under and in accordance with the provisions of subparagraph (i) of this paragraph (a)(2) of this Section. The Lessee shall have the same rights to receive such Consent Security Deposit during the existence of a valid letter of credit as it would have to receive such sum upon expiration of the letting under this Agreement and fulfillment of the obligations of the Lessee hereunder and thereunder. If the Port Authority shall make any drawing under a letter of credit held by the Port Authority hereunder, the Lessee on demand of the Port Authority and within two (2) days thereafter, shall bring the letter of credit back up to its full amount. No action by the Port Authority pursuant to the terms of any letter of credit,

or receipt by the Port Authority of funds from any bank issuing any such letter of credit, shall be or be deemed to be a waiver of any default by the Lessee under the terms of this Agreement and all remedies of this Agreement and of the Port Authority consequent upon such default shall not be affected by the existence of a recourse to any such letter of credit.

(iii) For purposes of the foregoing, the Lessee hereby certifies that its I.R.S. Employee Identification No. is 74-2099724; and in the event of a change in said I.R.S. Employee Identification No. resulting from a merger the Lessee shall immediately certify its new I.R.S. Employee Identification No. in writing to the Port Authority.

(3) For purposes of this paragraph (a) the term 'Consent Security Deposit' shall mean an aggregate amount equal to (x) the sum of all of the monetary obligations (including without limitation rent, fees, and charges of any type whatsoever) payable to the Port Authority by the Lessee arising out of or in connection with or due from its activities, operations, leases, permits or other agreements at each and every Port Authority facility, during the twelve (12) month period immediately preceding the anticipated date of the merger, consolidation or assignment, such sum under this clause (x) being limited however to the aggregate of the three (3) highest monthly totals of said monetary obligations for any three (3) months during said twelve (12) month period with said sum to be determined by the Port Authority; plus (y) the sum of all of the monetary obligations (including without limitation rent, fees, and charges of any type whatsoever), if any, payable to the Port Authority by the entity with which the Lessee merges or consolidates or to which the Lease is assigned arising out of or in connection with or due to its activities, operations, leases, permits or other agreements, if any, at each and every Port Authority facility, during the twelve (12) month period immediately preceding the anticipated date of the merger, consolidation or assignment, such sum under this clause (y) being limited however to the aggregate of the three (3) highest monthly totals of said monetary obligations for any three (3) months during said twelve (12) month period, with said sum to be determined by the Port Authority. In the event the Consent Security Deposit is delivered pursuant to subparagraph (1) above, the terms, provisions and conditions governing the use of said Consent Security Deposit shall be set forth in the assumption instrument referred to therein.

(4) In the event that a Consent Security Deposit is required to be posted under this Lease and at any time thereafter the Lessee does satisfy the Financial Tests and provides to the Port Authority satisfactory evidence thereof, the Port Authority promptly shall refund the Consent Security Deposit to the Lessee, less any amounts that then may remain unpaid under the Lease beyond the due date thereof."

(b) Subparagraph (1) of paragraph (b) thereof, as previously amended in Supplement No. 6 of the Lease, is hereby further amended by inserting before the period at the end thereof the following:

"including the payment to the Port Authority of the then appropriate Port Authority fee(s) at the rates determined by the Port Authority."

(c) The first (1st) sentence of subparagraph (2) of paragraph (b) thereof (as previously amended and set forth in Supplement No. 6 of the Lease) is hereby further amended to read as follows:

"The Lessee hereby represents to the Port Authority that Continental Express, Inc. (a corporation of the State of Delaware, 'Continental Express') is the Lessee Affiliated Company as defined in Section 84 hereof. Notwithstanding any provision of this Lease and in addition thereto, and without the requirement for any permit, consent to sublease or other use agreement from the Port Authority, the Port Authority hereby grants its consent to the use of the premises by Continental Express in accordance with the terms and conditions of the Lease, such use being without payment of the Port Authority fee therefor for so long as Continental Express shall remain the Lessee's wholly owned subsidiary. In the event Continental Express shall cease to be the Lessee's wholly owned subsidiary, the Lessee shall immediately so inform the Port Authority and thereafter a document shall be prepared by the Port Authority and sent to Continental Express for its execution which document shall include, among other things, provisions which may be requested by the Lessee or Continental Express and agreed to by the Port Authority, the right of Continental Express to continue to use the premises on the terms and conditions



of the Lease, and the joint and several obligation of the Lessee and Continental Express to pay to the Port Authority the then appropriate Port Authority fee therefor."

I. Section 84 of the Lease (as set forth in Supplement No. 6 of the Lease) is hereby amended to read as follows:

(a) The words "The Lessee Affiliated Companies" in the heading thereof shall be deemed changed to read "The Lessee Affiliated Company".

(b) Paragraph (a) thereof is hereby amended to read as follows:

"(a) The Lessee hereby represents to the Port Authority that the Lessee is the absolute and unconditional owner of all of the issued and outstanding capital stock of Continental Express, Inc., a corporation of the State of Delaware (herein called 'Continental Express'). It is hereby agreed that for purposes of this Lease the term 'the Lessee Affiliated Company' shall mean solely Continental Express."

II. (a) Subdivision II of Section 85 of the Lease is hereby amended as follows:

(1) Paragraphs (a) and (b) thereof shall be deemed deleted therefrom and the following paragraph shall be deemed inserted in lieu thereof:

"The 'Assumable Maintenance and Repair Effective Date' shall be the date, from time to time, determined as follows:"

(2) The last sentence of subparagraph (ii) shall be deemed amended to read as follows:

"Such date as the same may be established from time to time shall be the 'Assumable Maintenance and Repair Effective Date'."

(3) Paragraph (c) thereof shall be deemed deleted therefrom.

(b) The word "on" appearing at the end of the third (3rd) line of paragraph (c) of Subdivision V of said Section 85 of the Lease shall be deemed amended to read "or".

(c) There shall be deemed inserted after Subdivision V of said Section 85 of the Lease a new subdivision VI reading as follows:

"Subdivision VI.  
Return of the Assumable Maintenance and Repair to the Lessee

At any time and from time to time after the Port Authority may have exercised its rights under Subdivision II to perform the Assumable Maintenance and Repair the Port Authority shall have the right, upon notice to the Lessee to return the obligation to perform the Assumable Maintenance and Repair to the Lessee commencing on a date to be specified in such notice which date shall be not less than thirty (30) nor more than ninety (90) days from the giving of such notice. Such date shall be 'the Return Date of the Assumable Maintenance and Repair'. From and after the Return Date of the Assumable Maintenance and Repair the Lessee shall perform the Assumable Maintenance pursuant to and in accordance with all the terms and provisions of the Lease including, but not limited to, this Section 85.

From and after the Return Date of the Assumable Maintenance and Repair the Lessee shall continue to pay the Cost of Assumable Maintenance and Repair, it being understood, that nothing herein shall release or be deemed to release the Lessee from the payment to the Port Authority of the Cost of Assumable Maintenance and Repair including that portion thereof consisting of the Annual Capital Cost in accordance with Subdivision IV hereof arising prior to the Return Date of the Assumable Maintenance and Repair; nor shall anything herein require the Port Authority to make any calculation or determination with respect to the Cost of Assumable Maintenance and Repair prior to the time specified therefor in Subdivision IV hereof."

48. The provisions of Section 88 and Section 91 of, and Exhibit X-1 to, the Lease as herein amended shall apply solely with respect to the C-1 and C-2 portions of the premises hereunder, and shall not apply in any manner to the Mortgaged Premises (as defined

in Section 96 of the Lease).

49. The Section of the Leased entitled "Entire Agreement" shall be deemed renumbered as Section 98 and the reference in the first sentence thereof to Section 93 shall be deemed amended to read "Section 98", and in addition to the Section added as new Section 93 in Paragraph 6 of this Seventeenth Supplemental Agreement, new Sections 94, 95, 96 and 97 are hereby added to the Lease reading as follows:

"Section 94. Federal Inspection

(a) The Lessee has advised the Port Authority that it intends to make available to the United States a portion or portions of the premises for the inspection of the passengers of the Lessee and their baggage by the United States for United States customs, immigration, public health and other governmental purposes, if the United States will accept and use the same. The Port Authority shall have no obligation or responsibility of any kind with respect to the foregoing or the arrangements that must be made by the Lessee with the United States and any agencies thereof having jurisdiction.

(b) From and after the Effective Date of Supplement No. 17 of the Lease, the Lessee shall be entitled to utilize the number of slots at the international arrivals facilities of Terminal B at the Airport held by, assigned to or utilized by the Lessee as of the Effective Date of Supplement No. 17 of the Lease. Further, the Lessee hereby expressly covenants and agrees that, following the issuance of the certificate called for in paragraph (n)(1) of Section 93 of the Lease, any requirement for slots above the number of slots held by, assigned to or utilized by the Lessee for its international air passenger operations at Terminal B at the Airport on the Effective Date of Supplement No. 17 of the Lease shall be handled by the Lessee at the FIS facilities at the premises hereunder at all times and only such operations that exceed the design capacity of the said FIS facilities at the premises may then be handled by additional slots of the Lessee at the international arrivals facilities of Terminal B at the Airport, if otherwise permitted.

Section 95. Storage Tanks

(a) All aboveground storage tanks and underground storage tanks, if any, installed in the premises as of the effective date of Supplement No. 17 to this Lease and its or their appurtenances, pipes, lines, fixtures and other related equipment, together with all aboveground storage tanks and underground storage tanks installed in the premises during the term of the letting subsequent to the said date and its or their appurtenances, pipes, lines, fixtures and other related equipment are hereinafter collectively called the 'Tanks' and singularly called a 'Tank'. The Lessee hereby agrees that title and ownership of the Tanks shall be and remain in the Lessee, notwithstanding anything to the contrary in any construction or alteration application. The Port Authority has made no representations or warranties with respect to the Tanks or their location and shall assume no responsibility for the Tanks. All Tanks installed subsequent to said date shall be installed pursuant to the terms and conditions of the Lease including without limitation Section 23 hereof and nothing in this Section 95 shall or shall be deemed to be permission or authorization to install any Tanks.

(b) Without limiting the generality of any of the provisions of the Lease, the Lessee agrees that it shall be solely responsible for maintaining, testing and repairing the Tanks. The Lessee shall not perform any servicing, repairs or non-routine maintenance to the Tanks without the prior written approval of the Port Authority.

(c) It is hereby agreed that title to and ownership of the Tanks shall remain in the Lessee until the earlier to occur of (1) receipt by the Lessee of notice from the Port Authority that title to the Tanks shall vest in the Port Authority or in the City of Newark or (2) receipt by the Lessee of notice from the Port Authority that the Port Authority waives its right to require the Lessee to remove the Tanks from the premises as set forth in paragraph (i) below. The vesting of title to the Tanks in the Port Authority or in the City of Newark, if at all, in accordance with the foregoing item (1) shall in no event relieve the Lessee from the obligation to remove the Tanks from and restore the premises in accordance with paragraph (i) below.

(d) Without limiting the generality of any other term or provision of the Lease, the Lessee shall at its cost and expense comply with all Environmental Requirements pertaining to the Tanks and any presence, pumping, pouring, venting, emitting, emptying, leakage, deposit, spill, discharge or

other release of Hazardous Substances from the Tanks or in connection with their use, operation, maintenance, testing or repair (any such presence, pumping, pouring, venting, emitting, emptying, leakage, deposit, spill, discharge or other release during the period the Lessee shall use or occupy the premises or use the Tanks being hereinafter called a 'Discharge') including without limitation registering and testing the Tanks, submitting all required clean-up plans, bonds and other financial assurances, performing all required clean-up and remediation of a Discharge and filing all reports, making all submissions to, providing all information required by, and complying with all requirements of, all governmental authorities pursuant to the Environmental Requirements.

Nothing in the foregoing shall be construed as a submission by the Port Authority to the application to itself of the Environmental Requirements, provided, however, no immunity or exemption of the Port Authority from the Environmental Requirements shall excuse the compliance therewith by the Lessee or shall be grounds for non-compliance therewith by the Lessee.

(e) Without limiting the terms and provisions of Section 18 of the Lease, the Lessee hereby assumes all risks arising out of or in connection with the Tanks and all Discharges whether or not foreseen or unforeseen and shall indemnify and hold harmless the Port Authority, its Commissioners, officers, agents and employees from and against (and shall reimburse the Port Authority for their costs and expenses including without limitation penalties, fines, liabilities, settlements, damages, attorney and consultant fees, investigation and laboratory fees, clean-up and remediation costs, court costs and litigation expenses), all claims and demands, just or unjust, of third persons (such claims and demands being hereinafter in this Section 95 referred to as 'Claims' and singularly referred to as a 'Claim') including but not limited to those for personal injuries (including death), property damages, or environmental impairment, arising or alleged to arise out of or in any way related to, the failure of the Lessee to comply with each and every term and provision of the Lease, or the Tanks, or any Discharge, or any lawsuit brought or threatened, settlement reached or any governmental order relating to the Tanks or a Discharge, or any violation of any Environmental Requirements or demands of any governmental authority based upon or in any way related to the Tanks or a Discharge, and whether such arise out of the acts or omissions of the Lessee or of customers or contractors of the Lessee or of third persons or out of the acts of God or the public enemy or otherwise including claims by the City of Newark against the Port Authority pursuant to the provisions of the Basic Lease (as defined in the Lease) whereby the Port Authority has agreed to indemnify the City against claims. It is understood the foregoing indemnity shall cover all claims, demands, penalties, settlements, damages, fines, costs and expenses of or imposed by any governmental authority under the Environmental Requirements.

If so directed the Lessee shall at its expense defend any suit based upon any such Claim (even if such Claim is groundless, false or fraudulent) and in handling such it shall not without first having express advance permission from the General Counsel of the Port Authority raise any defense involving in any way the jurisdiction of the tribunal over the person of the Port Authority, the immunity of the Port Authority, its Commissioners, officers, agents or employees, the governmental nature of the Port Authority or the provisions of any statutes respecting suits against the Port Authority.

(f) The Lessee's obligations under this Section 95 shall survive the expiration or earlier termination of the Lease.

(g) In addition to the requirements of Section 10 of the Lease and paragraph (d) hereof, the Port Authority shall have the right upon notice to the Lessee to direct the Lessee, at the Lessee's sole cost and expense, (i) to perform such reasonable testing of the Tanks as the Port Authority shall direct and to perform such testing of the soil, subsoil and ground water of the premises and of such surrounding area as the Port Authority shall direct, and (ii) to clean-up and remediate any Discharge, regardless of whether any Environmental Requirement or governmental authority shall require such testing, clean-up or remediation, which testing, clean-up and remediation shall be performed pursuant to an alteration application prepared by the Lessee and submitted to the Port Authority for the Port Authority's approval.

(h) In the Lessee's use and operation of the Tanks, the Lessee shall not permit any Hazardous Substance from entering the ground including without limitation (subject to Section 23

hereof) installing appropriate spill and overfill devices and placing an impervious material, such as asphalt or concrete, over the ground area above and in the vicinity of the Tanks.

(i) (1) The Lessee shall remove the Tanks from the premises on or before the applicable expiration date of the Lease and dispose of the Tanks off the Airport in accordance with all Environmental Requirements.

(2) Without limiting the foregoing or any other term or provision of this Agreement, any removal of the Tanks shall be performed pursuant to an alteration application prepared by the Lessee and submitted to the Port Authority for the Port Authority's approval and, in connection with such removal, the Lessee shall restore the premises to the same condition existing prior to the installation of the Tanks, shall perform such testing of the Tanks and of the soil, sub-soil and ground water in the vicinity of the Tanks as may be required by the Port Authority and shall clean-up and remediate contamination disclosed by said testing. In the event the Lessee does not remove the Tanks as required by subparagraph (1) above, the Port Authority may enter upon the premises and effect the removal and disposal of the Tanks, restoration of the premises and such remediation and the Lessee hereby agrees to pay all costs and expenses of the Port Authority arising out of such removal, disposal, restoration and remediation.

(j) Notwithstanding the foregoing or any other provision of the Lease to the contrary, (i) the costs of remediation of any Non-Hydrocarbon Contamination (as defined in Section 12(p) hereof) resulting from a Discharge from any Tank which was not installed by the Lessee shall count towards the Non-Hydrocarbon Obligation Amount (as defined in Section 12(p) hereof) except to the extent the substance(s) causing such costs was placed on or introduced to the premises by the Lessee, and the standard for remediation thereof shall be the applicable standard as required under Environmental Requirements and, in the event that any Environmental Requirement sets forth more than one standard, the standard to be applied shall be that which requires the lowest level of a Hazardous Substance unless the Port Authority consents to a different standard being applied; and (ii) the Lessee shall have no obligation or liability with respect to the cost of remediation of any Discharge caused by the acts or omissions of the Port Authority, and the Port Authority shall be responsible therefor; provided, however, that the Port Authority does not hereby waive any claims or rights which it may have against any third parties with respect to such costs of remediation.

#### Section 96. Reletting Rights-Leasehold Mortgagee

(a) As used in this Section 96 the following terms shall have the following meanings:

(1) "Act" shall mean Chapter 80 of the Pamphlet Laws of 1974 of the State of New Jersey, as amended and supplemented.

(2) "Activity Based Fees and Charges" shall mean and include flight fees, fuel gallonage fees, Monorail Fees, charges under Schedule B of this Agreement, in-flight meal fees pursuant to Section 60 hereof, all fees and charges payable by the Lessee under Sections 63, 76, and any other fees and charges under this Agreement which are based or calculated on the activities of the Lessee at the premises or the Airport.

(3) "Allocated Activity Based Fees and Charges" shall mean Activity Based Fees and Charges allocated to the Mortgaged Premises in accordance with paragraph (n)(2)(iii) of this Section.

(4) "Approved Successor Lessee" shall mean a major domestic or international Scheduled Aircraft Operator, or a consortium of such major domestic or international Scheduled Aircraft Operators each of which would be jointly and severally obligated to the Port Authority with respect to all of the consortium's obligations under this Lease, who shall each meet all of the requirements set forth in paragraphs (t) and (u) of this Section including but not limited to the entering into with the Port Authority of the Lease Assignment/Assumption and Consent Agreement (as defined in paragraph (t) of this Section), and thereby become the assignee/purchaser of this Lease with respect to the Mortgaged Premises resulting from the exercise by the Leasehold Mortgagee of its Reletting Rights whether by foreclosure and sale or by assignment in lieu of foreclosure.

(5) "Additional Bonds" shall mean bonds issued by the NJEDA pursuant to the Indenture subsequent and additional to the issuance of the Bonds, the proceeds of which are to be used for the payment of additional costs of the Expansion Construction Work (and associated personal property) with respect to the Mortgaged Premises under Section 93 hereof paid or incurred by the Lessee prior to the Expansion Construction Work Completion Date as defined in paragraph (n) of Section 93 hereof and for the payment of

issuance costs; provided that, for purposes of this Section, the amount of the Additional Bonds shall be limited to a maximum amount of \$150,000,000; "Additional Bond" shall mean any one of the Additional Bonds.

(6) "Bankruptcy Code" shall mean the United States Bankruptcy Reform Act of 1978, as amended, including without limitation amendments made by the Bankruptcy Reform Act of 1994, and as the same may be further amended or supplemented, or any federal bankruptcy law or laws replacing the foregoing.

(7) "Bankruptcy Rejection Date" shall have the meaning as defined in paragraph (r)(1)(i)(C) of this Section.

(8) "Bonds" shall mean the bonds issued by the NJEDA pursuant to the Indenture for the payment of the costs of the Expansion Construction Work (and associated personal property) under Section 93 hereof and issuance costs; "Bond" shall mean any one of the Bonds; after the issuance of Additional Bonds, the term "Bonds" shall include the Additional Bonds.

(9) "Bondholder" and "Bondholders" shall mean, respectively, each holder of the Bonds and the holders of all the Bonds.

(10) "Bonds Default" and "Bonds Default Date" shall have the meaning as defined in paragraph (m) of this Section.

(11) "Bond Resolution" shall mean the resolutions adopted by the NJEDA on December 8, 1998 and July 13, 1999 as the same may be modified or amended, authorizing the issuance and sale of the initial series of Bonds.

(12) "Deferred Reletting Fee" shall mean the fee payable by the Trustee or the Approved Successor Lessee to the Port Authority at the times and in the amounts as set forth in and pursuant to paragraph (u) of this Section.

(13) "Deferred Reletting Fee Rental" shall mean the additional rental payable by the Approved Successor Lessee to the Port Authority as set forth in and pursuant to paragraph (u)(4) of this Section; "Deferred Reletting Fee Rental Commencement Date", "Deferred Reletting Fee Rental Period" and "Monthly Factor" shall each have the respective meaning as set forth in paragraph (u)(4) of this Section.

(14) "Financing Documents" shall mean all the agreements and documents which relate to or are a part of the Financing Transaction including but not limited to the NJEDA Sublease Agreement, the Indenture, the Bonds, the Bond Resolution, the Lessee Guaranty, the Leasehold Mortgage, and the other documents as described in paragraph 1 (j) of the Port Authority Consent to NJEDA Subleases (but such term shall not include the Basic Lease, this Agreement, the Port Authority Consent to NJEDA Subleases or the Other Lease).

(15) "Financing Transaction" shall mean the financing transaction undertaken by the NJEDA, the Lessee and the Trustee with respect to the Bonds, the NJEDA Sublease Agreement and the NJEDA Subleases which are a part thereof.

(16) "Foreclosure Period" shall mean an initial period of 270 days subject to the conditions applicable to said initial period as set forth in paragraph (n) of this Section, and extendable to an aggregate total maximum period, including all such extensions, of seven hundred and twenty (720) days, subject to the conditions set forth in paragraph (n) of this Section, and which shall commence on the Reletting Election Notice Service Date after the first to occur of any of the following (i) the Notice of Termination Service Date (defined in paragraph (1)(2) of this Section); (ii) the Bankruptcy Rejection Date (defined in paragraph (r)(1)(i)(C) of this Section); and (iii) the Bonds Default Date (defined in paragraph (m) of this Section); and said Foreclosure Period shall expire, unless sooner terminated, on the earlier to occur of (x) the ninetieth consecutive day following such commencement if the conditions for the extension of the same under paragraph (n)(4) of this Section are not satisfied or, if there are one or more extensions thereof as provided in and subject and pursuant to subparagraphs (4), (5) and (6) of paragraph (n) of this Section, the last day of the final extension, or (y) the Lease Assignment/Assumption Commencement Date; the foregoing to be subject, however to the provisions set forth in paragraphs (r)(1) and (q) of this Section; provided, however, that the Foreclosure Period shall not in any event continue after the transfer of title to the Lessee's interest in the Mortgaged Premises under the Lease pursuant to the issuance of a final judgment of foreclosure by a court of competent jurisdiction or after any termination or expiration of the Leasehold Mortgage as provided in this Section; and provided that the Foreclosure Period shall be subject to earlier termination as provided in paragraph (o) of this Section. Notwithstanding anything herein to the contrary, if, during the

pendancy of any Foreclosure Period, the Bonds Default and/or Lease Default giving rise to such Foreclosure Period, or any subsequent Bonds Defaults or Lease Defaults thereafter occurring, are cured, or waived by the Port Authority, as applicable, in accordance with the applicable agreement(s) prior to the Lease Assignment/ Assumption Commencement Date and any pleading/proceedings based upon such Bonds Defaults or Lease Defaults are dismissed with prejudice, then such Foreclosure Period shall be deemed not to have occurred (provided that any fees or other amounts paid or owing to the Port Authority as of the date thereof shall be retained by, or continue to be owing to, the Port Authority, as applicable). In addition, as of the date and during the pendency of any Lessee Bankruptcy, notwithstanding anything herein to the contrary, the counting of days and the Leasehold Mortgagee's Foreclosure Period Obligations in connection with any then-pending Foreclosure Period shall be deemed suspended and held in abeyance until the earlier of (i) the conclusion of the Lessee Bankruptcy or (ii) the Bankruptcy Rejection Date.

(17) "Foreclosure Period Extension Fee" shall mean the fee payable to the Port Authority by the Trustee as Leasehold Mortgagee for each applicable extension, and collectively for any and all applicable extensions, of the Foreclosure Period at the times and in the amounts as set forth in and pursuant to paragraph (n) of this Section.

(18) "Indenture" shall mean that certain Indenture of Trust dated as of September 1, 1999 and entered into between NJEDA and the Trustee with respect to the Bonds.

(19) "Lease Assignment/Assumption and Consent Agreement" shall have the meaning as defined in paragraph (t)(2) of this Section.

(20) "Lease Assignment/Assumption Commencement Date" shall have the meaning as defined in paragraph (t)(2) of this Section.

(21) "Lease ANB-056" shall mean that certain agreement of lease dated August 1, 1999 and bearing Port Authority identification number ANB-056 (as the same has been or may be amended or supplemented) whereby the Port Authority leased to Continental Airlines, Inc. certain premises in Concourse A-2 at the Airport (as more specifically described therein) for a term commencing on August 1, 1999 and expiring on December 31, 2018.

(22) "Lease Termination" shall mean a breach of or default under the Lease for which the Port Authority has delivered a Notice of Termination in accordance with paragraph (1) of this Section 96.

(23) "Lessee Bankruptcy" shall mean the filing by the Lessee of a voluntary petition under the Bankruptcy Code or the filing of an involuntary petition against the Lessee under the Bankruptcy Code, and the pendency of proceedings pursuant thereto.

(24) "Lessee Guaranty" shall mean that certain agreement of guaranty dated as of September 1, 1999 entered into between the Lessee and the Trustee pursuant to which the Lessee guarantees the payment of the principal of, redemption premium, if any, and interest on the Bonds.

(25) "Leasehold Mortgage" shall mean a mortgage granted by the Lessee to the Trustee of (i) the Lessee's leasehold interest in the Mortgaged Premises under this Lease and (ii) the Lessee's subleasehold interests with respect to the Mortgaged Premises under the NJEDA Sublease Agreement, for an amount not to exceed the Mortgage Amount and for a term commencing on the date of the issuance of the initial Bonds and not to extend beyond the first to occur of (x) the date of the redemption, cancellation, defeasance, discharge or payment of all of the Bonds in accordance with the Indenture and (y) the expiration date of the term of the letting of the Mortgaged Premises as set forth in Paragraph 3 of Supplement No. 17 of this Lease, subject in any event to the termination provisions of paragraph (d) of this Section, and given by the Lessee as security for the Lessee's obligations under the Lessee Guaranty with respect to the payments by the Lessee of the principal of, redemption premium, if any, and interest on the Bonds. There shall only be one Leasehold Mortgage with respect to the Mortgaged Premises.

(26) "Leasehold Mortgagee" shall mean Chase Bank of Texas, National Association, appointed as the Trustee, and any Successor Trustee as defined in paragraph (f) of this Section, under the Indenture during such times as the Trustee, or such Successor Trustee, shall be the holder of the Leasehold Mortgage in accordance with the terms hereof.

(27) "Leasehold Mortgagee's Foreclosure Period Obligations" shall have the meaning as defined in paragraph (n) of this Section including but not limited to the Leasehold Mortgagee Foreclosure Period Payments.

(28) "Leasehold Mortgagee's Foreclosure Period Payments" shall mean the payments required to be made by the Leasehold Mortgagee to the Port Authority as set forth in paragraph (n) of this Section including the Leasehold Mortgagee's Foreclosure Period Commencement Payments, the Leasehold Mortgagee's Foreclosure Period Current Basis Payments, and the Foreclosure Period Extension Fees as defined and set forth in said paragraph (n).

(29) "Mortgage Amount" shall mean (i) the amount of Five Hundred Fifty Million Dollars and No Cents (\$550,000,000.00) which constitutes a portion of the proceeds of the initial Bonds issued for the payment of the costs of the Expansion Construction Work under Section 93 hereof to the extent located on the Mortgaged Premises, together with the costs of the baggage system (whether or not located on the Mortgaged Premises) plus (ii) subject to the prior written consent of the Port Authority, the additional amount of all or a portion of the proceeds of the Additional Bonds issued for the payment of costs of the Expansion Construction Work under Section 93 hereof to the extent located on the Mortgaged Premises provided that said additional amount shall not exceed \$150,000,000 and provided further that said additional amount is to be used for the payment of costs of the said Expansion Construction Work incurred or paid by the Lessee prior to the Expansion Construction Work Completion Date (as defined in paragraph (n) of Section 93 hereof); provided, however, that the Mortgage Amount shall not include (i) any of the costs associated with the construction work under the Other Lease or any costs associated with the C-1 and C-2 portions of the premises or any other areas at the Airport not specifically included as above provided, (ii) any bonds issued to refund the Bonds, or (iii) the costs of any personal property (other than the Schedule 1 Terminal Fixtures, as defined in paragraph 53 of Supplement No. 17 of the Lease, to the extent located on the Mortgaged Premises and the baggage system portion thereof whether or not located on the Mortgaged Premises).

(30) "Mortgaged Premises" shall mean solely that portion of the premises which constitutes Area C-3, including the areas added or to be added to said Area C-3 pursuant to Paragraph 3 of this Supplement No. 17, leased to the Lessee under this Lease and which Area C-3 shall constitute the subject premises of the Leasehold Mortgage.

(31) "NJEDA" shall mean the New Jersey Economic Development Authority, a public body corporate and politic created and existing under and by virtue of the Constitution and laws of the State of New Jersey.

(32) "NJEDA Sublease Agreement" shall mean that certain agreement dated September 1, 1999 and entered into between the Lessee and the NJEDA whereby (i) the Lessee subleases the Mortgaged Premises to the NJEDA and (ii) the NJEDA sub-sub-leases the Mortgaged Premises back to the Lessee subject to the Port Authority Consent to NJEDA Sublease Agreement ( (i) and (ii) collectively, "NJEDA Subleases").

(33) [INTENTIONALLY OMITTED]

(34) "Other Lease" shall mean Lease ANB-056.

(35) "Port Authority Consent to NJEDA Subleases" shall mean that certain agreement dated September 1, 1999 entered into among the Port Authority, the Trustee, the NJEDA and the Lessee whereby the Port Authority grants its consent to the NJEDA Sublease Agreement and the Leasehold Mortgage and whereby the Trustee expressly states its acknowledgment and agreement to the terms and provisions of this Section 96 with respect to its Reletting Rights as Leasehold Mortgagee and its rights and obligations with respect thereto, including without limitation its rights and obligations to perform the Leasehold Mortgagee's Foreclosure Period Obligations and to pay to the Port Authority the Leasehold Mortgagee's Foreclosure Period Payments, the Foreclosure Period Extension Fees and the Deferred Reletting Fee as set forth in this Section 96.

(36) "Reletting Election Notice" shall mean the written notice required to be given by the Leasehold Mortgagee to the Port Authority pursuant to paragraph (1)(2), (m)(1) or (r)(1)(i)(C) of this Section affirmatively stating the Leasehold Mortgagee's election to (i) exercise its Reletting Rights hereunder and (ii) to exercise its rights under the Leasehold Mortgage to foreclose upon the Leasehold Mortgage or to have the Lease with respect to the Mortgaged Premises assigned to an Approved Successor Lessee in accordance with the provisions of this Section.

(37) "Reletting Election Notice Service Date" shall mean the actual date of the service on the Port Authority by the Leasehold Mortgagee of its Reletting Election Notice provided that such service is duly and timely made in accordance with the terms and provisions of this Lease.

(38) "Reletting Election Period" shall mean the thirty (30) day period during which the Leasehold Mortgagee must decide

whether it shall exercise its Reletting Rights hereunder and serve its Reletting Election Notice on the Port Authority prior to the expiration thereof, and which shall commence on the earliest to occur of (i) the Notice of Termination Service Date, (ii) the Bankruptcy Rejection Date, and (iii) the Bonds Default Date and which shall expire on the thirtieth (30th) consecutive day following said commencement.

(39) "Reletting Rights" shall mean the rights of the Trustee as Leasehold Mortgagee with respect to the Mortgaged Premises and the Leasehold Mortgage to obtain an Approved Successor Lessee as provided in this Section.

(40) "Subsequent Notice of Termination" and "Subsequent Notice of Termination Date" shall have the meaning as set forth in paragraph (1) (3) of this Section.

(b) (1) The Lessee hereby represents to the Port Authority that the Lessee intends to finance (i) the costs of the Expansion Construction Work under this Lease (as defined in and required under Section 93 hereof) (together with associated personal property) and (ii) the costs of the construction work under the Other Lease as required under Section 4 thereof (together with associated personal property), with the proceeds of the Bonds issued by the NJEDA pursuant to the Financing Transaction, and that contemporaneously with the execution of Supplement No. 17 to the Lease and the Other Lease the Lessee will be executing the Financing Documents subject to the consent of the Port Authority and the execution by the Port Authority, the Trustee and the NJEDA of the Port Authority Consent to NJEDA Subleases.

(2) It is expressly acknowledged that the intent of the parties hereto is that the Leasehold Mortgage is to be granted by the Lessee to the Trustee pursuant to the provisions hereof solely for the purposes of allowing the Trustee in its capacity as Leasehold Mortgagee to exercise its Reletting Rights solely with respect to the Mortgaged Premises, as the implementation of the security afforded to the bondholders solely with respect to the Mortgaged Premises by virtue of the Leasehold Mortgage, and to obtain an Approved Successor Lessee during the Foreclosure Period if it elects to do so pursuant to this Section.

(c) Notwithstanding the provisions of Section 77 of this Agreement, and without otherwise limiting the generality thereof, the Lessee, as part of the Financing Transaction only and contemporaneously with its execution of Supplement No. 17 to this Lease, shall have the right (exercisable one time only) to make a single mortgage of the Lessee's leasehold interest in the Mortgaged Premises under this Agreement (including the Lessee's subleasehold interests with respect to the Mortgaged Premises under the NJEDA Sublease Agreement) in an amount not in excess of the Mortgage Amount under a Leasehold Mortgage to the Trustee approved by the Port Authority in advance. In determining whether to approve or disapprove a proposed Trustee, the Port Authority shall consider all relevant factors, including but not limited to, the following (but it is agreed that the Port Authority shall analyze all such factors in a reasonable manner):

(i) whether the proposed Trustee and each officer, director or partner thereof and each person, firm or corporation having an outright or beneficial interest in twenty percent (20%) or more of the monies invested in the proposed Trustee, if said Trustee is a corporation, association or partnership, by loans thereto, stock ownership therein or any other form of financial interest, has, as of the date of the proposed financing, a good reputation for integrity and financial responsibility and has not been convicted of or under current indictment for any crime within five (5) years preceding the date of the Financing Transaction and is not currently involved in civil anti-trust or fraud litigation (other than as a plaintiff);

(ii) whether the Port Authority has had any "unfavorable experience" with the proposed Trustee, or any of its officers, directors, or partners, or any person, firm or corporation (such officers, directors, partners, person, firm and corporation, being herein in this item (ii) individually and collectively referred to as a "Person") having an outright or beneficial interest in twenty percent (20%) or more of the monies invested in the proposed Trustee if said Trustee is a corporation, association or partnership, by loans thereto, stock ownership therein or any other form of financial interest; "unfavorable experience" as used herein shall mean any one or more of the following: (A) a material default by said proposed Trustee or any such Person of any obligation (monetary or non-monetary) to the Port Authority; (B) any assertion made by said proposed Trustee or any such Person against the Port Authority of any frivolous, false, malicious, or unsupportable claim, demand or allegation or suit or proceeding; (C) any act or omission of said proposed Trustee or any such Person causing or resulting in any loss, damage or



injury to the Port Authority or the imposition or threatened imposition of any fine or penalty on the Port Authority or the commencement or threatened commencement of any action, suit or proceeding against the Port Authority; (D) any failure or refusal of said proposed Trustee or any such Person to comply with any law, governmental order, directive, ordinance or requirement, including without limitation, Environmental Requirements, at any Port Authority facility; (E) any failure to comply with, or breach of, the Port Authority's Code of Ethics and Financial Disclosure by said proposed Trustee or any such Person; or (F) any breach by said proposed Trustee or any such Person of any fiduciary obligation, trust, confidence or other duty to the Port Authority or of any confidentiality agreement with the Port Authority;

(iii) whether the proposed Trustee or any officer, director or partner thereof or any person, firm or corporation having an outright or beneficial interest in twenty percent (20%) or more of the monies invested in the proposed Trustee, if said Trustee is a corporation, association or partnership, by loans thereto, stock ownership therein or any other form of financial interest is in conflict of interest, as defined under the laws of the States of New York and New Jersey or Port Authority policy, with any Commissioner of the Port Authority as of the date of the proposed financing;

(iv) whether there are liens of any kind on the Mortgaged Premises; and

(v) whether the Lessee shall be in default for non-payment of rent, fees or charges or other required payments under this Agreement or in default under any of the terms, covenants or provisions of this Agreement on its part to be performed, in either case remaining uncured after the expiration of any applicable notice and cure period(s), and whether this Agreement shall be in full force and effect and the Port Authority shall have served a notice of termination pursuant to Section 24 of this Agreement.

In addition, the Port Authority shall have delivered to the Lessee and the Trustee the fully executed Port Authority Consent to NJEDA Subleases and there shall not have been a previous assignment of this Agreement and the letting hereunder pursuant to Section 77 of this Agreement.

(d) Notwithstanding anything herein or in the Financing Documents, the Leasehold Mortgage or any consent or approval of the Port Authority thereto to the contrary, the Leasehold Mortgage and the Reletting Rights shall become effective only upon the issuance of the initial Bonds in an amount not less than the initial Mortgage Amount, and the Leasehold Mortgage and the Reletting Rights shall automatically terminate and end in any event upon the earliest to occur of (1) the expiration, surrender or termination of the Lease as to the Mortgaged Premises; it being understood that, as set forth in Section 61 hereof (as amended in this Supplement No. 17 to this Lease), the Lessee shall not have the right to terminate the Lease without the consent of the Leasehold Mortgagee so long as the Leasehold Mortgage is outstanding; (2) the expiration, revocation or termination of the Port Authority Consent to NJEDA Subleases as to the Mortgaged Premises pursuant to the terms of such Consent, except (but only so long as the Lease and the Lessee Guaranty remain in full force and effect) in the case of revocation or termination by reason of the Lessee's rejection of the said NJEDA Subleases, or any of them, in a Lessee Bankruptcy; (3) the expiration or earlier termination or surrender of the NJEDA Subleases as to the Mortgaged Premises, except (but only so long as the Lease and the Lessee Guaranty remain in full force and effect) in the case of termination by reason of the Lessee's rejection of the said NJEDA Subleases in a Lessee Bankruptcy; (4) the expiration or earlier termination or surrender of the NJEDA Financing Sublease as to the Mortgaged Premises, except (but only so long as the Lease and the Lessee Guaranty remain in full force and effect) in the case of termination by reason of the Lessee's rejection of the said NJEDA Financing Sublease in a Lessee Bankruptcy; (5) the expiration or earlier termination or surrender of the NJEDA Sublease Agreement as to the Mortgaged Premises, except (but only so long as the Lease and the Lessee Guaranty remain in full force and effect) in the case of termination by reason of the Lessee's rejection of the said NJEDA Sublease Agreement in a Lessee Bankruptcy; (6) the date on which a redemption, cancellation, defeasance, discharge or payment of all the Bonds shall occur or on any other event which shall result in none of the Bonds being Outstanding (within the meaning of the Indenture); (7) the termination, surrender or expiration of the Basic Lease; (8) the expiration of the Reletting Election Period without the timely exercise by the Trustee in its capacity as Leasehold Mortgagee of its election to exercise its Reletting Rights by service of its Reletting Election Notice on the Port Authority in accordance with the terms hereof; (9) the date of any notice given by the Trustee in its capacity as Leasehold Mortgagee stating its election not to exercise its Reletting Rights hereunder; (10) the effective date of the letting of the Mortgaged

Premises hereunder, or any portion thereof, to an Approved Successor Lessee, whether resulting from a foreclosure of the Leasehold Mortgage, the exercise by the Leasehold Mortgagee of its Reletting Rights, an assignment in lieu of foreclosure or otherwise; (11) the Lease Assignment/Assumption Commencement Date; and (12) the expiration or earlier termination or cancellation of the Foreclosure Period.

(e) Without limiting Section 77 or any other term or provision of this Agreement or any term or provision of the Port Authority Consent to NJEDA Subleases, not less than five (5) business days prior to the effective date of the proposed Leasehold Mortgage, the Lessee shall submit to the Port Authority for its approval a copy of the form of the proposed Leasehold Mortgage and of the Indenture and the Lessee Guaranty with respect to the Bonds which the Leasehold Mortgage is being given to secure. The Port Authority will promptly advise the Lessee in writing whether or not the Port Authority will consent to such proposed Leasehold Mortgage. On the date of its execution of the Port Authority Consent to NJEDA Subleases the Lessee shall deliver to the Port Authority a conformed copy of the executed Leasehold Mortgage and of the executed Lessee Guaranty and the executed Indenture.

(f) The Leasehold Mortgagee shall not assign or transfer the Leasehold Mortgage to any entity or person whatsoever other than to a trustee appointed pursuant to and in accordance with and subject to the Indenture to replace the Trustee ("Successor Trustee"); provided that the Successor Trustee shall hold the Leasehold Mortgage as Leasehold Mortgagee subject to all the terms and provisions of this Section as if it were the original Trustee.

(g) Notwithstanding anything contained in the Leasehold Mortgage or any consent or approval of the Port Authority thereto, it is understood and agreed that the rights of the Leasehold Mortgagee shall in all respects be as specified, and shall be subject and subordinate to the terms, covenants, conditions and provisions set forth, in this Agreement and to the terms, covenants and conditions of the Port Authority Consent to NJEDA Subleases. The terms, covenants, conditions and provisions of this Agreement shall govern as between the Port Authority and the Lessee. As between the Port Authority and the Leasehold Mortgagee, in the event of any inconsistency between the terms, covenants, conditions and provisions of this Agreement and the terms, covenants, conditions and provisions of the Leasehold Mortgage or the Indenture or any of the Financing Documents, the terms, covenants, conditions and provisions of this Agreement shall control. Notwithstanding any provisions of the Leasehold Mortgage to the contrary, the Lessee for all purposes shall be deemed to be the Lessee hereunder (subject to the Leasehold Mortgagee's Reletting Rights herein granted) unless and until the Leasehold Mortgagee shall have obtained an Approved Successor Lessee. The Leasehold Mortgage shall make reference to the provisions of this Agreement and shall provide that the Leasehold Mortgage and the Indenture and the rights of the Leasehold Mortgagee thereunder with respect to the Port Authority are and shall be in all respects subject and subordinate to this Agreement.

(h) (1) Any approval or consent by the Port Authority hereunder whether to the Leasehold Mortgage or to any assignment thereof shall apply only to the specific transaction thereby authorized and shall not relieve the Lessee or the Leasehold Mortgagee from the requirement of obtaining the prior approval or consent of the Port Authority to each and every further assignment of the Leasehold Mortgage (except if otherwise expressly permitted hereunder without such approval).

(2) Neither this Section nor the Leasehold Mortgage shall prevent the Lessee hereunder from amending this Agreement without the approval of the Leasehold Mortgagee; provided no amendment shall impair the rights granted to Continental Airlines, Inc. as the named Lessee hereunder to grant the Leasehold Mortgage to the Leasehold Mortgagee or any of the Leasehold Mortgagee's Reletting Rights hereunder or any of the Leasehold Mortgagee's rights and obligations with respect thereto.

(i) (1) Except as expressly authorized in above paragraph (c) of this Section 96 the Lessee shall not mortgage the Lessee's interest in this Agreement or the letting hereunder in whole or in part, or any portion of the premises other than the portion which would constitute the Mortgaged Premises, or the Lessee's subleasehold interests under the NJEDA Subleases or the NJEDA Sublease Agreement in whole or in part.

(2) Neither the Approved Successor Lessee nor any other entity or person purchasing or succeeding to the leasehold hereunder shall have any right to pledge or mortgage the leasehold hereunder.

(j) If the Leasehold Mortgagee shall have given to the Port Authority a written notice specifying its name and address together

with a conformed copy of the Leasehold Mortgage, the Port Authority shall send to the Leasehold Mortgagee a copy of each notice of default given under the Section of this Agreement entitled "Termination by the Port Authority" or otherwise at the same time as and whenever any such notice of default shall have been sent to the Lessee, such copy to be addressed to the Leasehold Mortgagee at the address last furnished by it to the Port Authority, and no notice of default shall be deemed to have been given by the Port Authority unless and until a copy thereof shall have been so given to the Leasehold Mortgagee. The Lessee irrevocably directs that the Port Authority accept, and the Port Authority agrees to accept, the curing of such default with respect to the Mortgaged Premises by the Leasehold Mortgagee as if and with the same force and effect as though cured by the Lessee.

(k) Unless and until such time as it becomes the Lessee hereunder or the "deemed Lessee" as described in paragraph (r) (2) of this Section, the Leasehold Mortgagee, except to the extent provided in paragraphs (j), (n)(2)(C) and (n)(3)(i) of this Section, shall not have any right in or to the occupancy or use of the Mortgaged Premises for the purposes set forth in this Agreement or for any other purpose whatsoever, except to the extent necessary to cure Lessee defaults in accordance with paragraphs (j), (n)(2)(i)(C) and (n)(3)(i) of this Section. The Leasehold Mortgagee shall not enter into or be entitled to enter into possession of the Mortgaged Premises under this Agreement except to the extent afforded to it under this Agreement.

(1) Lease Termination-Service of Notice of Termination:

(1) If the Port Authority shall elect to terminate the letting of the premises under this Agreement pursuant to Section 24 of this Agreement entitled "Termination by the Port Authority" or otherwise, then the Port Authority shall at the same time send a copy of the written notice of such termination ("Notice of Termination") to the Leasehold Mortgagee if it shall have become entitled to notice as provided in paragraph (j) of this Section (the date of the sending of such copy of said notice by the Leasehold Mortgagee being herein called the "Notice of Termination Service Date"). The Notice of Termination shall specify the effective date of such termination (the "Notice of Termination Effective Date"), which date must not be before the 31st day after the Notice of Termination Service Date.

(2) The serving of the Notice of Termination by the Port Authority on the Leasehold Mortgagee in accordance with the foregoing shall trigger the Leasehold Mortgagee's Reletting Rights solely with respect to the Mortgaged Premises and the commencement of the Reletting Election Period (unless the Leasehold Mortgagee has previously exercised its Reletting Rights and the Reletting Election Period has previously commenced based on a Bonds Default pursuant to paragraph (m) of this Section or a Bankruptcy Rejection Date pursuant to paragraph (r) of this Section). The Leasehold Mortgagee shall have the right to extend the Notice of Termination Effective Date for a period constituting the initial ninety (90) days of the Foreclosure Period (subject to the extensions thereof as provided in paragraph (n) of this Section) provided that the Leasehold Mortgagee shall serve its Reletting Election Notice on the Port Authority on or prior to the end of the Reletting Election Period stating the Leasehold Mortgagee's affirmative election to exercise its Reletting Rights with respect to the Mortgaged Premises, and provided, further, that the Leasehold Mortgagee simultaneously with the giving of its Reletting Election Notice to the Port Authority shall pay to the Port Authority the Leasehold Mortgagee's Foreclosure Period Commencement Payments as defined and set forth in paragraph (n) of this Section.

(3) In the event that prior to the Notice of Termination Service Date there has previously occurred a Bonds Default pursuant to paragraph (m) of this Section or a Bankruptcy Rejection Date pursuant to paragraph (r) of this Section such subsequent occurrence of the Notice of Termination Service Date ("Subsequent Notice of Termination Service Date") shall not commence a new Reletting Election Period or, if applicable, a new Foreclosure Period and the subsequent Notice of Termination shall be deemed stayed during the balance of the previously commenced Foreclosure Period and such Foreclosure Period may continue (as the same may be extended under paragraph (n) of this Section) if and only if the Leasehold Mortgagee shall, in addition to its continued compliance with all of the Leasehold Mortgagee's Foreclosure Period Obligations including its continued payments of the Leasehold Mortgagee's Foreclosure Period Payments, pay to the Port Authority the Foreclosure Period Extension Fees as set forth in paragraph (n) of this Section.

(m) Bonds Default:

(1) In the event the Lessee shall fail to make payment of any and all amounts required when due under the Lessee Guaranty to be paid by the Lessee as and for the payment of the principal, premium and interest on the Bonds and said failure results in a

default under the Bonds ("Bonds Default"), the Leasehold Mortgagee's Reletting Election Period shall be deemed to commence upon the date of said Bonds Default ("Bonds Default Date"), but only if such Bonds Default also constitutes an event of default under the Leasehold Mortgage giving the Leasehold Mortgagee the right to foreclose the Leasehold Mortgage and the Leasehold Mortgagee serves its Reletting Election Notice on the Port Authority prior to the expiration of said Reletting Election Period; provided, further, however, that in the event either a Notice of Termination Service Date or a Bankruptcy Rejection Date occurs prior to a Bonds Default, such Bonds Default shall not trigger a new Reletting Election Period or Foreclosure Period.

(2) After the written request of the Leasehold Mortgagee to the Port Authority which may be made from time to time (but not more frequently than once per calendar month) during the term of the letting to the Lessee of the Mortgaged Premises up to the occurrence of the earlier of (i) a Notice of Termination Service Date and (ii) a Bankruptcy Rejection Date or Bonds Default Date, the Port Authority shall promptly provide to the Leasehold Mortgagee a statement of amounts invoiced by the Port Authority to the Lessee during the sixty (60) day period preceding the date of each request and setting forth the unpaid amounts, if any, owing or estimated to be owing to the Port Authority by the Lessee under the Lease at the date of the request; provided that the Port Authority in supplying any such statement or statements to the Leasehold Mortgagee shall do so without any warranty or representation to the Leasehold Mortgagee and the Port Authority shall not be liable to the Leasehold Mortgagee, the Lessee, Bondholders or any other party or person with respect to any information contained or not contained therein or the accuracy of the same provided it has submitted such information in good faith (each such statement of amounts invoiced, an "Information Statement"). In the event the Indenture and the other Financing Documents expressly authorize the Leasehold Mortgagee to declare a default under the Leasehold Mortgage on the basis of (x) the failure of the Lessee to duly pay to the Port Authority rentals, fees, charges and other amounts due and owing under the Lease (y) the receipt by the Leasehold Mortgagee of one or more Information Statements showing that the said total unpaid amount exceeds Seven Million One Hundred Thousand Dollars and No Cents (\$7,100,000.00), and (z) the continued failure of the Lessee to pay the said unpaid amount to the Port Authority within twenty (20) days after the Lessee has received from the Leasehold Mortgagee a written warning notice of Leasehold Mortgagee's intention to declare a default under the Leasehold Mortgage based on said failure of the Lessee, the declaration of such default under the Leasehold Mortgage by the Leasehold Mortgagee shall, for purposes hereof, constitute a Bonds Default which shall trigger the Leasehold Mortgagee's Reletting Rights and its Reletting Election Period as defined in and subject to the foregoing subparagraph (1) of this paragraph (m). Neither the provisions of this paragraph (m) nor any Information Statement shall be deemed to impair, restrict, limit, alter or affect any claim, right or remedy of the Port Authority under the Lease or otherwise, including without limitation the right to serve a Notice of Termination under the Lease, or to limit the amounts forming the basis for any termination of the Lease by the Port Authority or for which the Lessee may be liable under Section 27 of the Lease entitled "Survival of the Obligations of the Lessee", nor shall the same impose or create any liability on the Port Authority to, or be the basis of any claim against the Port Authority by, the Lessee, the Leasehold Mortgagee, the Bondholders or any of them, or any other party or person with respect to the Information Statement provided the Port Authority has provided the same in good faith, nor shall any such Information Statement be binding on the Port Authority or constitute or be deemed to constitute any waiver or estoppel of any claim, right or remedy of the Port Authority.

(n) Leasehold Mortgagee's Foreclosure Period Obligations/Foreclosure Period Extensions. The Trustee as Leasehold Mortgagee shall have the following obligations upon the commencement of and during the Foreclosure Period including all extensions thereof (collectively, "Leasehold Mortgagee's Foreclosure Period Obligations"):

(1) Leasehold Mortgagee's Foreclosure Period Commencement Payments/ delivery of Reletting Election Notice:

Any commencement of the Foreclosure Period whether triggered by the delivery of a Reletting Election Notice following a Notice of Termination Service Date or a Bankruptcy Rejection Date or a Bonds Default shall be further conditioned on the payment of the following by the Leasehold Mortgagee, and the Leasehold Mortgagee shall pay, to the Port Authority simultaneously with the Leasehold Mortgagee's service of the Reletting Election Notice the following amounts ("Leasehold Mortgagee's Foreclosure Period Commencement Payments") (provided that the Port Authority shall be obligated to give the Leasehold Mortgagee at least ten (10) days' prior written notice of the amounts due under this subparagraph (n)(1) and all other subparagraphs under this Paragraph (n) except as otherwise expressly provided herein):

(i) All amounts due and owing to the Port Authority which have accrued for any and all periods up to the Reletting Election Notice Service Date for Area C-3 rentals (Facility Factor and Airport Services Factor) and Phase 1A Charges and other similar charges for further roadway development under this Agreement and any and all other amounts due and owing to the Port Authority by the Lessee for services provided under this Agreement by the Port Authority, including without limitation utility, extermination and incineration services and maintenance and repair services, if any, under Section 85 hereof or as additional rent and charges under Section 21 hereof; to the extent such amounts have not been paid to the Port Authority by the Lessee prior to the commencement of the Foreclosure Period.

(ii) All Allocated Activity Based Fees and Charges due and owing to the Port Authority under this Agreement and which have accrued for a period not in excess of sixty (60) days up to the Reletting Election Notice Service Date; provided that the Allocated Activity Based Fees and Charges Triggering Date (as defined in subparagraph (2)(ii) of this paragraph (n)) shall have occurred, to the extent all such Allocated Activity Based Fees and Charges have not been paid to the Port Authority by the Lessee prior to the commencement of the Foreclosure Period.

(2) Leasehold Mortgagee's Foreclosure Period Current Basis Payments/from and after the first (1st) day of the Foreclosure Period:

(i) After the initial commencement of the Foreclosure Period and at all times during the continuation of the Foreclosure Period including any and all extensions thereof (and in addition to the Foreclosure Period Commencement Payments set forth in subparagraph (1) of this paragraph (n) and in addition to the Foreclosure Period Extension Fees set forth in subparagraphs (4), (5) and (6) of this paragraph (n)) the Leasehold Mortgagee shall pay to the Port Authority the following amounts on a current basis, as and when due under this Agreement ("Leasehold Mortgagee's Foreclosure Period Current Basis Payments"), to the extent such amounts are not paid by Lessee:

(A) All Area C-3 rentals (Facility Factor and Airport Services Factor) and Phase 1A Charges and other similar charges for further roadway development under this Agreement on a current basis as the same become due and payable to the Port Authority under this Agreement commencing as of the first day of the Foreclosure Period with respect to the Mortgaged Premises and any and all other amounts due and payable to the Port Authority under this Agreement with respect to the Mortgaged Premises for services provided by the Port Authority, including without limitation utility, extermination and incineration services and maintenance and repair services, if any under Section 85 hereof or as additional rent and charges under Section 21 hereof;

(B) All Allocated Activity Based Fees and Charges on a current basis as the same become due and payable to the Port Authority under this Agreement commencing as of the first day of the Foreclosure Period but only if the Allocated Activity Based Fees and Charges Triggering Date as defined in subparagraph (2) (ii) of this paragraph (n) occurred upon or after the commencement of the Foreclosure Period and any and all Allocated Activity Based Fees and Charges which accrued and remained unpaid during the sixty (60) day period prior to the Allocated Activity Based Fees and Charges Triggering Date, and the conditions specified in subparagraph (2)(ii) of this paragraph (n) continue to be satisfied;

(C) Any and all costs of fulfilling the Lessee's obligations under the Lease as provided in Section 21 hereof during the Foreclosure Period with respect to security, utilities, insurance and maintenance of the Mortgaged Premises; and the amounts of said costs shall be due and payable to the Port Authority by the Leasehold Mortgagee within thirty (30) days after the Port Authority sends to the Leasehold Mortgagee a notice or invoice therefor, which notices or invoices the Port Authority may send to the Leasehold Mortgagee from time to time.

(ii) The Leasehold Mortgagee's obligation to pay Allocated Activity Based Fees and Charges shall commence upon the "Allocated Activity Based Fees and Charges Triggering Date" which shall be deemed to be the later to occur of both (aa) the Reletting Election Notice Service Date and (bb) either (x) the date the Port Authority commences a suit, action or proceeding, summary or otherwise, to evict or

dispossess the Lessee from or to retake possession of the "C-1 and C-2 portions of the premises" (as defined in Paragraph 3 of this Supplement No. 17 to the Lease) or (y) the date on which the Port Authority takes such other action or actions in accordance with applicable law which have the effect of preventing the use by the Lessee of the C-1 and C-2 portions of the premises. The obligation of the Leasehold Mortgagee to pay Allocated Activity Based Fees and Charges shall continue throughout the Foreclosure Period and any all extensions thereof as long as the Port Authority continues to diligently pursue the suit, action or proceeding mentioned in the foregoing clause (x) or has otherwise prevented Lessee's use of the C-1 and C-2 portions of the Premises.

(iii) It is recognized that all or portions of amounts comprising the Activity Based Fees and Charges may include or may be calculated on activities of the Lessee outside of the Mortgaged Premises, and accordingly it is agreed that the following allocation provisions shall apply to determine Allocated Activity Based Fees and Charges. (i) where such amounts are capable of being determined with respect to the Mortgaged Premises solely without the need of allocation or apportionment, 100% of such amounts shall be paid by the Leasehold Mortgagee; and (ii) where such amounts require allocation or apportionment the same shall be allocated or apportioned as follows: such fees and charges shall be divided by the total number of aircraft gates then leased by the Port Authority to the Lessee at the Airport and the resulting quotient shall be multiplied by the total number of aircraft gates constructed or to be constructed pursuant to Section 93 hereof in the Mortgaged Premises (which for purposes of this calculation shall not be less than the number 12, minus any gates that are permanently removed from service).

(3) other Leasehold Mortgagee's Foreclosure Period Obligations/ from and after the first (1st) day of the Foreclosure Period:

(i) At all times during the Foreclosure Period the Leasehold Mortgagee shall use all reasonable efforts to preserve the value of the Mortgaged Premises hereunder until it has possession of the Mortgaged Premises under the Lease, and thereafter shall fulfill all obligations under the Lease with respect to the preservation of the Mortgaged Premises;

(ii) Immediately upon the commencement of the Foreclosure Period the Leasehold Mortgagee shall use commercially reasonable efforts to obtain an Approved Successor Lessee for the Mortgaged Premises for the balance of the term hereunder or such lesser term as it proposes to lease, subject to the consent of the Port Authority in accordance with and subject to paragraphs (t) and (u) of this Section; provided further, that if, within the Foreclosure Period, the Leasehold Mortgagee identifies a Proposed Successor Lessee for the Mortgaged Premises it shall give prompt written notice thereof to the Port Authority including all information described in paragraph (t) of this Section; it being understood and agreed that any such Approved Successor Lessee shall be obligated to pay to the Port Authority all the rentals, fees and charges for the Mortgaged Premises under the Lease including without limitation the Area C-3 rentals which shall include all airport services factors at the rates provided under this Agreement at the effective date of the reletting; flight fees (Schedule C) as set forth in Section 53 hereof; Schedule B charges as set forth in Schedule B attached to this Agreement; fuel gallonage fees (Schedule D) as set forth in Section 56 hereof; the Monorail Fees as set forth in Supplement No. 15 of the Lease and Schedule M thereof; the Phase 1A Charges as set forth in Supplement No. 15 of the Lease; and any other fees and charges then in effect under the Lease relating to the use of the Mortgaged Premises; all of which shall be applicable to and paid by the Approved Successor Lessee during the reletting of the Mortgaged Premises to the Approved Successor Lessee, and shall be in addition to the Deferred Reletting Fee or the Deferred Reletting Fee Rental, as the case may be, required to be paid to the Port Authority as described in paragraph (u) of this Section

(4) Initial Foreclosure Period / 91st to 180th days:

Upon any commencement of the Foreclosure Period whether triggered by a Lease default (Notice of Termination or Bankruptcy Rejection) or a Bonds Default the Leasehold Mortgagee shall (to the extent permitted by law) promptly and diligently and in good faith commence and continue and seek to complete proceedings to foreclose upon the Leasehold Mortgage and, in the event the Lessee fails to vacate the Mortgaged Premises, including eviction of the Lessee therefrom; provided that in the event the Leasehold Mortgagee continues diligently to continue and complete the foreclosure

proceedings including eviction of the Lessee and, through no fault of its own, is unable to complete said foreclosure proceedings including eviction of the Lessee at the end of the ninetieth (90th) day from the initial commencement of the Foreclosure Period, then, provided that not less than five (5) days prior to the expiration of said initial 90th-day period the Leasehold Mortgagee shall give written notice to the Port Authority, which notice shall contain the Leasehold Mortgagee's certification of the foregoing to the Port Authority including the status of the aforesaid foreclosure proceedings, the initial Foreclosure Period shall be deemed extended for an additional 90 days which shall expire on the earlier of (aa) the Lease Assignment/Assumption Commencement Date or (bb) the date which constitutes the one hundred and eightieth (180th) day from the initial commencement of the Foreclosure Period subject to the extension under subparagraph (5) of this paragraph (n); subject, however, to the further condition that during the said 91st to 180th days of the Foreclosure Period the Leasehold Mortgagee shall perform all the Leasehold Mortgagee's Foreclosure Period Obligations including without limitation paying to the Port Authority all of the Leasehold Mortgagee's Foreclosure Period Current Basis Payments.

(5) Initial Foreclosure Period / 181st to 270th days/  
Foreclosure Period Extension Fee:

In the event the Leasehold Mortgagee, during the initial 90 days of the Foreclosure Period, as aforesaid, commenced in good faith and thereafter at all times diligently continued proceedings to foreclose upon the Leasehold Mortgage including eviction of the Lessee, and the Leasehold Mortgagee, through no fault of its own, is unable to complete said foreclosure proceedings including eviction of the Lessee at the end of the 180th day from the commencement of the Foreclosure Period, then, provided that not less than five (5) days prior to the expiration of said 180th day period the Leasehold Mortgagee shall give written notice to the Port Authority, which notice shall contain the Leasehold Mortgagee's certification of the foregoing to the Port Authority including the status of the aforesaid foreclosure proceedings and subject to the further conditions set forth below, the Foreclosure Period shall be deemed extended for an additional 90 days which shall expire on the earlier of (aa) the Lease Assignment/Assumption Commencement Date or (bb) the date which constitutes the 270th day from the initial commencement of the Foreclosure Period.

The foregoing, however, shall be subject to the following further conditions:

(i) that during the said 181st to 270th days of the Foreclosure Period the Leasehold Mortgagee shall perform all the Leasehold Mortgagee's Foreclosure Period Obligations including without limitation paying to the Port Authority all of the Leasehold Mortgagee's Foreclosure Period Current Basis Payments; and

(ii) that the Leasehold Mortgagee shall pay to the Port Authority for the said 181st to 270th day period a Foreclosure Period extension Fee in the amount of Two Million Four Hundred Seventy-two Thousand Dollars and No Cents (\$2,472,000.00); which amount is based on a preliminary determination by the Lessee of the percentage (82.4%) that its estimated Mortgage Amount (estimated at Five Hundred Forty-seven Million Four Hundred Thirty-six Thousand Four Hundred Twenty-four Dollars and No Cents (\$547,436,424.00)) bears to its estimated total bond financing amounts of Six Hundred Sixty-four Million Four Hundred Fifty-nine Thousand Three Hundred Ninety Dollars and No Cents (\$664,459,390.00) which estimated total consists of the said estimated Mortgage Amount plus estimated bond financing amounts of the Lessee's proposed development projects at the Airport under lease ANA-040 (hangar 55) and lease ANB-028 (cargo building). The said amount of the Foreclosure Period Extension Fee shall be subject to adjustment as follows: after all of said actual bond financing amounts are final based on the final pricing of the Bonds and the final pricing of the bonds for the said other development projects under leases ANA-040 and ANB-028, the said amount of the Foreclosure Period Extension Fee shall be equal to the product resulting from multiplying (x) the sum of Three Million Dollars and No Cents (\$3,000,000.00) times (y) a fraction the numerator of which shall be the Mortgage Amount set forth in paragraph (a)(29) of this Section 96 and denominator of which shall be the sum of the said Mortgage Amount plus the mortgage amounts defined and set forth in the said leases ANA-040 and ANB-028. The said Foreclosure Period Extension Fee, shall be payable to the Port Authority in three equal 30-day installments; the first such installment shall be due and payable by the Leasehold Mortgagee at the same time the leasehold Mortgagee delivers its aforesaid 5-day certification notice to the Port Authority; and the next two installments shall be due and payable by the Leasehold Mortgagee on the 210th day and on the 240th day of the Foreclosure Period; provided, however, that subject to the

provisions of subparagraph (2) of paragraph (t) of this Section, after the occurrence of the lease Assignment/Assumption Commencement Date (as defined in subparagraph (2) of paragraph (t) of this Section) no installment(s) for any subsequent 30-day period of this extension shall be payable.

The foregoing Foreclosure Period Extension Fee payments shall apply as stated above where the Foreclosure Period initially commenced on any basis other than the sole occurrence of a Bonds Default; however, the same shall be subject to the provisions of subparagraph (7) of this paragraph (n) in the event the Foreclosure Period initially commenced solely on the basis of a Bonds Default and thereafter a "Subsequent Non-Bonds Default" as defined in subparagraph (7) of this paragraph (n) occurred during the Foreclosure Period.

(6) Foreclosure Period Additional Extensions -- to maximum aggregate total of 720 days/ Foreclosure Period Extension Fees:

Pre-conditions to additional extensions. It is expressly understood and agreed that unless each of the following conditions are satisfied prior to the expiration of the 270th day of the Foreclosure Period (as extended under the foregoing subparagraph (5)) there shall be no further extension of the Foreclosure Period beyond the 270th day: (aa) the Leasehold Mortgagee has previously identified and proposed to the Port Authority a Proposed Successor Lessee pursuant to and in accordance with the terms and provisions of paragraph (t) of this Section and in full compliance with all of the requirements and conditions of said paragraph (t), (bb) such Proposed Successor Lessee meets all of the requirements for becoming an Approved Successor Lessee, as determined by, and to the satisfaction of, the Port Authority, (cc) such Proposed Successor Lessee, the Leasehold Mortgagee, the Lessee (if required pursuant to paragraph (t) hereof) and the Port Authority have executed the Lease Assignment/ Assumption and Consent Agreement subject to, and under which the Proposed Successor Lessee will become the Approved Successor Lessee commencing only upon, the successful completion by the Leasehold Mortgagee of the foreclosure and eviction proceedings prior to the expiration of the Foreclosure Period (if and as extended not to exceed an aggregate maximum total of 720 days). The foregoing pre-conditions shall be in addition to the conditions set forth below which the Leasehold Mortgagee must satisfy with respect to each of the following additional extensions of the Foreclosure Period.

(A) Foreclosure Period extension 271st to 360th days/ Foreclosure Period Extension Fee:

In the event the Leasehold Mortgagee, during the initial 90 days of the Foreclosure Period, as aforesaid, commenced in good faith and thereafter at all times diligently continued proceedings to foreclose the Leasehold Mortgage and to evict the Lessee from the Mortgaged Premises and the Leasehold Mortgagee, through no fault of its own, is unable to complete said foreclosure proceedings including eviction of the Lessee from the Mortgaged Premises at the end of the 270th day from the commencement of the Foreclosure Period and the pendency of the foreclosure proceedings in the State of New Jersey is the sole impediment to such completion, then, provided that not less than five (5) days prior to the expiration of said 270th-day period the Leasehold Mortgagee shall give written notice to the Port Authority, which notice shall contain the Leasehold Mortgagee's certification of the foregoing to the Port Authority including the status of the aforesaid foreclosure proceedings, the Foreclosure Period shall be deemed extended for an additional 90 days which shall expire on the earlier of (aa) the Lease Assignment/Assumption Commencement Date or (bb) the date which constitutes 360th day from the commencement of the Foreclosure Period; subject, however, to the following further conditions:

(i) that during the said 271st to 360th day extension of the Foreclosure Period the Leasehold Mortgagee shall perform all of the Leasehold Mortgagee's Foreclosure Period Obligations including without limitation paying to the Port Authority all of the Leasehold Mortgagee's Foreclosure Period Current Basis Payments; and

(ii) that the Leasehold Mortgagee shall pay to the Port Authority for the said 271st to 360th day extension a Foreclosure Period Extension Fee in the amount of Two Million Four Hundred Seventy-two Thousand Dollars and No Cents (\$2,472,000.00); which amount is based on a preliminary determination by the Lessee of the percentage (82.4%) that its estimated Mortgage Amount (estimated at Five Hundred Forty-seven Million Four Hundred Thirty-six Thousand Four Hundred Twenty-four Dollars and No Cents (\$547,436,424.00) bears to its estimated total bond financings amounts of Six Hundred Sixty-four Million Four Hundred Fifty-nine Thousand Three Hundred Ninety Dollars and No Cents (\$664,459,390.00) which



estimated total consists of the said estimated Mortgage Amount plus estimated bond financing amounts of the Lessee's proposed development projects at the Airport under lease ANA-040 (hangar 55) and lease ANB-028 (cargo building). The said amount of the Foreclosure Period Extension Fee shall be subject to adjustment as follows: after all of said actual bond financing amounts are final based on the final pricing of the Bonds and the final pricing of the bonds for the said other development projects under leases ANA-040 and ANB-028, the said amount of the Foreclosure Period Extension Fee shall be equal to the product resulting from multiplying (x) the sum of Three Million Dollars and No Cents (\$3,000,000.00) times (y) a fraction the numerator of which shall be the Mortgage Amount set forth in paragraph (a) (29) of this Section 96 and denominator of which shall be the sum of the said Mortgage Amount plus the mortgage amounts defined and set forth in the said leases ANA-040 and ANB-028. The said Foreclosure Period Extension Fee shall be payable to the Port Authority in three equal 30-day installments; the first such installment shall be due and payable by the Leasehold Mortgagee at the same time the Leasehold Mortgagee delivers its aforesaid 5-day certification notice to the Port Authority; and the next two installments shall be due and payable by the Leasehold Mortgagee on the 301st day and on the 331st day of the Foreclosure Period; provided, however, that, subject to the provisions of subparagraph (2) of paragraph (t) of this Section, after the occurrence of the Lease Assignment/Assumption Commencement Date (as defined in subparagraph (2) of paragraph (t) of this Section) no installment(s) for any subsequent 30-day period of this extension shall be payable.

The foregoing Foreclosure Period Extension Fee payments shall apply as stated above where the Foreclosure Period initially commenced on any basis other than the sole occurrence of a Bonds Default; and the same shall be subject to the provisions of subparagraph (7) of this paragraph (n) in the event the Foreclosure Period initially commenced solely on the basis of a Bonds Default and thereafter a "Subsequent Non-Bonds Default" as defined in subparagraph (7) of this paragraph (n) occurred during the Foreclosure Period.

(B) Foreclosure Period additional extension 361st to 540th days / Foreclosure Period Extension Fee:

In the event the Leasehold Mortgagee, during the initial 90 days of the Foreclosure Period, as aforesaid, commenced in good faith and thereafter at all times diligently continued proceedings to foreclose the Leasehold Mortgage including eviction of the Lessee from the Mortgaged Premises and the Leasehold Mortgagee, through no fault of its own, is unable to complete said foreclosure proceedings including eviction of the Lessee from the Mortgaged Premises at the end of the 360th day from the commencement of the Foreclosure Period and the pendency of the foreclosure proceedings in the State of New Jersey is the sole impediment to such completion, then, provided that not less than five (5) days prior to the expiration of said 360th day period the Leasehold Mortgagee shall give written notice to the Port Authority, which notice shall contain the Leasehold Mortgagee's certification of the foregoing to the Port Authority including the status of the aforesaid foreclosure proceedings and subject to the further conditions set forth below, the Foreclosure Period shall be deemed extended for an additional period which shall expire on the earlier of (aa) the Lease Assignment/Assumption Commencement Date or (bb) the date which constitutes the 540th day from the initial commencement of the Foreclosure Period; subject, however, to the following further conditions:

(i) that during the said 361st to 540th day extension of the Foreclosure Period the Leasehold Mortgagee shall perform all of the Leasehold Mortgagee's Foreclosure Period Obligations including without limitation paying to the Port Authority all of the Leasehold Mortgagee's Foreclosure Period Current Basis Payments; and

(ii) that the Leasehold Mortgagee shall pay to the Port Authority for the said 361st to 540th day extension a Foreclosure Period Extension Fee in the amount of Nine Million Eight Hundred Eighty-eight Thousand Dollars and No Cents (\$9,888,000.00); which amount is based on a preliminary determination by the Lessee of the percentage (82.4%) that its estimated Mortgage amount (estimated at Five Hundred Forty-seven Million Four Hundred Thirty-six Thousand Four Hundred Twenty-four Dollars and No Cents (\$547,436,424.00)) bears to its estimated total bond financings amounts of Six Hundred Sixty-four Million Four Hundred Fifty-nine Thousand Three Hundred Ninety Dollars and No Cents (\$664,459,390.00) which estimated total consists of the said estimated Mortgage Amount plus estimated bond financing amounts of the Lessee's proposed development projects at the Airport under lease ANA-040 (hangar 55) and lease ANB-028 (cargo building). The said

amount of the Foreclosure Period Extension Fee shall be subject to adjustment as follows: after all of said actual bond financing amounts are final based on the final pricing of the Bonds and the final pricing of the bonds for the said other development projects under leases ANA-040 and ANB-028, the said amount of the Foreclosure Period Extension Fee shall be equal to the product resulting from multiplying (x) the sum of Twelve Million Dollars and No Cents (\$12,000,000.00) times (y) a fraction the numerator of which shall be the Mortgage Amount set forth in paragraph (a) (29) of this Section 96 and denominator of which shall be the sum of the said Mortgage Amount plus the mortgage amounts defined and set forth in the said leases ANA-040 and ANB-028. The said Foreclosure Period Extension Fee shall be payable to the Port Authority in six equal 30-day installments; the first such installment shall be due and payable by the Leasehold Mortgagee at the same time the Leasehold Mortgagee delivers its aforesaid 5-day certification notice to the Port Authority; and the next five installments shall be due and payable by the Leasehold Mortgagee on the 391st day, on the 421st day, on the 451st day, on the 481st day, and on the 511th day of the Foreclosure Period; provided, however, that, subject to the provisions of subparagraph (2) of paragraph (t) of this Section, after the occurrence of the Lease Assignment/Assumption Commencement Date (as defined in subparagraph (2) of paragraph (t) of this Section) no installment(s) for any subsequent 30-day period of this extension shall be payable.

The foregoing Foreclosure Period Extension Fee payments shall apply as stated above where the Foreclosure Period initially commenced on any basis other than the sole occurrence of a Bonds Default; and the same shall be subject to the provisions of subparagraph (7) of this paragraph (n) in the event the Foreclosure Period initially commenced solely on the basis of a Bonds Default and thereafter a "Subsequent Non-Bonds Default" as defined in subparagraph (7) of this paragraph (n) occurred during the Foreclosure Period.

(C) Foreclosure Period final extension 541st to 720th days / Foreclosure Period Extension Fee:

In the event the Leasehold Mortgagee, during the initial 90 days of the Foreclosure Period, as aforesaid, commenced in good faith and thereafter at all times diligently continued proceedings to foreclose the Leasehold Mortgage including eviction of the Lessee from the Mortgaged Premises and the Leasehold Mortgagee, through no fault of its own, is unable to complete said foreclosure proceedings including eviction of the Lessee from the Mortgaged Premises at the end of the 540th day from the commencement of the Foreclosure Period and the pendency of the foreclosure proceedings in the State of New Jersey is the sole impediment to such completion, then, provided that not less than five (5) days prior to the expiration of said 540th day period the Leasehold Mortgagee shall give written notice to the Port Authority, which notice shall contain the Leasehold Mortgagee's certification of the foregoing to the Port Authority including the status of the aforesaid foreclosure proceedings, the Foreclosure Period shall be deemed extended for a final additional period which shall expire on the earlier of (aa) the Lease Assignment/Assumption Commencement Date or (bb) the date which constitutes the 720th day from the initial commencement of the Foreclosure Period; subject, however, to the following further conditions:

(i) that during the said 541st to 720th day extension of the Foreclosure Period the Leasehold Mortgagee shall perform all of the Leasehold Mortgagee's Foreclosure Period Obligations including without limitation paying to the Port Authority all of the Leasehold Mortgagee's Foreclosure Period Current Basis Payments; and

(ii) that the Leasehold Mortgagee shall pay to the Port Authority for the said 541st to 720th day extension a Foreclosure Period Extension Fee in the amount of Fourteen Million Eight Hundred Thirty-two Thousand Dollars and No Cents (\$14,832,000.00); which amount is based on a preliminary determination by the Lessee of the percentage (82.4%) that its estimated Mortgage Amount (estimated at Five Hundred Forty-seven Million Four Hundred Thirty-six Thousand Four Hundred Twenty-four Dollars and No Cents (\$547,436,424.00)) bears to its estimated total bond financings amounts of Six Hundred Sixty-four Million Four Hundred Fifty-nine Thousand Three Hundred Ninety Dollars and No Cents (\$664,459,390.00) which estimated total consists of the said estimated Mortgage Amount plus estimated bond financing amounts of the Lessee's proposed development projects at the Airport under lease ANA-040 (hangar 55) and lease ANB-028 (cargo building). The said amount of the Foreclosure Period Extension Fee shall be subject to adjustment as follows: after all of said actual bond financing amounts are final based on the final pricing of the Bonds and the final pricing of the bonds for the said other development projects under leases ANA-040 and ANB-028,

the said amount of the Foreclosure Period Extension Fee shall be equal to the product resulting from multiplying (x) the sum of Eighteen Million Dollars and No Cents (\$18,000,000.00) times (y) a fraction the numerator of which shall be the Mortgage Amount set forth in paragraph (a) (29) of this Section 96 and denominator of which shall be the sum of the said Mortgage Amount plus the mortgage amounts defined and set forth in the said leases ANA-040 and ANB-028. The said Foreclosure Period Extension Fee shall be payable to the Port Authority in six equal 30-day installments; the first such installment shall be due and payable by the Leasehold Mortgagee at the same time the Leasehold Mortgagee delivers its aforesaid 5-day certification notice to the Port Authority; and the next five installments shall be due and payable by the Leasehold Mortgagee on the 571st day, on the 601st day, on the 631st day, on the 661st day, and on the 691st day of the Foreclosure Period; provided, however, that, subject to the provisions of subparagraph (2) of paragraph (t) of this Section, after the occurrence of the Lease Assignment/Assumption Commencement Date (as defined in subparagraph (2) of paragraph (t) of this Section) no installment(s) for any subsequent 30-day period of this extension shall be payable.

The foregoing Foreclosure Period Extension Fee payments shall apply as stated above where the Foreclosure Period initially commenced on any basis other than the sole occurrence of a Bonds Default; and the same shall be subject to the provisions of subparagraph (7) of this paragraph (n) in the event the Foreclosure Period initially commenced solely on the basis of a Bonds Default and thereafter a "Subsequent Non-Bonds Default" as defined in subparagraph (7) of this paragraph (n) occurred during the Foreclosure Period.

(7) Foreclosure Period Extension Fees / initial Bonds Default followed by a Lease Termination or Bankruptcy Rejection Date.

(i) For purposes of this subparagraph (7) the term "Subsequent Non-Bonds Default" shall mean the occurrence of either a Notice of Termination Service Date or a Bankruptcy Rejection Date (whichever is first to occur) subsequent to the initial commencement of the Foreclosure Period which commencement was based solely on the occurrence of a Bonds Default. In the event that the Foreclosure Period initially commences as a result solely of a Bonds Default, the Foreclosure Period Extension Fees shall not be payable unless and until there occurs a Subsequent Non-Bonds Default; provided that such Subsequent Non-Bonds Default shall neither commence a new Foreclosure Period nor extend the total aggregate Foreclosure Period (including all available extensions) beyond the allowable maximum aggregate total of 720 days. In the event of such Subsequent Non-Bonds Default the obligation of the Leasehold Mortgagee to pay to the Port Authority the Foreclosure Period Extension Fees set forth in subparagraphs (5) and (6) (A), (B) and (C) of this paragraph (n) shall be deemed to commence and at the installment rate determined in accordance with the following: if the Subsequent Non-Bonds Default occurs during the initial 90 days after the commencement of the Foreclosure Period the actual date of said Subsequent Non-Bonds Default shall be treated as day 1 of the Foreclosure Period and the Foreclosure Period Extension Fees set forth above shall commence on the 181st day following the date of said Subsequent Non-Bonds Default at the applicable 30-day installment rate in accordance with the subparagraph (5) of this paragraph (n); if such Subsequent Non-Bonds Default occurs after the 90th day of the Foreclosure Period the 90th day of the Foreclosure Period shall be treated as day 1 of the Foreclosure Period and the Foreclosure Period Extension Fees shall, where the Subsequent Non-Bonds Default occurs between the 91st and the 270th days of the Foreclosure Period, commence on the 271st day of the Foreclosure Period at the 30-day installment rate applicable on the 181st day thereof (271 minus 90); and where the Subsequent Non-Bonds Default occurs between the 271st and the 720th days of the Foreclosure Period the Foreclosure Period Extension Fees shall commence on the actual date of the Subsequent Non-Bonds Default at the 30-day installment rate applicable on the 90th day preceding such actual date.

[For illustrative purposes only the following two illustrations of the foregoing are provided:

Illustration 1. if the Foreclosure Period commenced based on a Bonds Default only and the Subsequent Non-Bonds Default occurred on the 20th day after such commencement of the Foreclosure Period, the 20th day of the Foreclosure Period would be treated as day 1 for purposes of the determination of the applicable Foreclosure Period Extension Fee and the obligation of the Leasehold Mortgagee to pay to the Port Authority the Foreclosure Period Extension Fees would commence on the 200th day of the Foreclosure Period at the 30-day installment rate set forth in subparagraph (5) of this paragraph (n) (the 181st-270th day installment rate);

alternatively, if the Subsequent Non-Bonds Default occurred on the 150th day after such commencement of the Foreclosure Period, the 90th day of the Foreclosure Period shall be treated as day 1 and said 150th day would be treated as day 60 for purposes of the determination of the applicable Foreclosure Period Extension Fee and the obligation of the Leasehold Mortgagee to pay to the Port Authority the Foreclosure Period Extension Fees would commence 121 days thereafter (i.e. on the 271st day of the Foreclosure Period) at the 30-day installment rate applicable on the 181st day as set forth in subparagraph (5) of this paragraph (n) (the 181st-270th days rate) and continue thereafter during the Foreclosure Period and payable on the first day of each 30-day period thereafter occurring during the Foreclosure Period at the 30-day installment rates set forth in subparagraphs (6) (A), (B) and (C) of this paragraph (n).

Illustration 2. if the Foreclosure Period commenced based on a Bonds Default only and the Subsequent Non-Bonds Default occurred on the 70th day after such commencement of the Foreclosure Period, the 70th day of the Foreclosure Period would be treated as day 1 for purposes of the determination of the applicable Foreclosure Period Extension Fee and the obligation of the Leasehold Mortgagee to pay to the Port Authority the Foreclosure Period Extension Fees would commence on the 251st, day of the Foreclosure Period at the 30-day installment rate set forth in subparagraph (5) of this paragraph (n) (the 181st-270th installment rate) and continue thereafter during the Foreclosure Period and payable on the first day of each 30-day period thereafter occurring during the Foreclosure Period at the 30-day installment rates set forth in subparagraphs (6) (A), (B) and (C) of this paragraph (n); alternatively, if the Foreclosure Period commenced based on a Bonds Default only and the Subsequent Non-Bonds Default occurred on the 600th day after such commencement of the Foreclosure Period, the 90th day of the Foreclosure Period shall be treated as day 1 and the said 600th, day would be treated as day 510 for purposes of the determination of the applicable Foreclosure Period Extension Fee and the obligation of the Leasehold Mortgagee to pay to the Port Authority the Foreclosure Period Extension Fees would commence on the 600th day of the Foreclosure Period at the 30-day installment rate which would be in effect on the 510th day as set forth in subparagraph (6) of this paragraph (n) (the 361st - 540th days rate) and continue thereafter during the Foreclosure Period and payable on the first day of each 30-day period thereafter occurring during the Foreclosure Period at the 30-day installment rates set forth in subparagraphs (6) (B) and (C) of this paragraph (n).]

(ii) The Leasehold Mortgagee shall pay to the Port Authority the Foreclosure Period Extension Fees in the monthly installments determined in accordance with the foregoing immediately upon the commencement date established in accordance with the foregoing and on the first day of each 30-day period thereafter occurring during the Foreclosure Period.

(iii) The foregoing provisions of this subparagraph (7), however, shall not in any event extend, or be construed to extend, the Foreclosure Period beyond the maximum permissible aggregate total of 720 days (including all extensions) from the initial commencement date of the Foreclosure Period.

(o) (1) The failure of the Leasehold Mortgagee to pay the Foreclosure Period Commencement Payments when due shall result in the automatic cancellation of the Leasehold Mortgagee's Reletting Rights (and of any Foreclosure Period) and of the Leasehold Mortgage, such cancellation to be deemed effective as of the Reletting Election Notice Service Date and there shall be no further Reletting Rights or Leasehold Mortgage with respect to the Mortgaged Premises hereunder and any Notice of Termination previously stayed shall become fully effective as described below. The failure of the Leasehold Mortgagee to timely pay any of the Leasehold Mortgagee's Foreclosure Period Payments or to fully and duly perform any of the Leasehold Mortgagee's Foreclosure Period Obligations shall result in the termination of the Foreclosure Period and the Reletting Rights and the Leasehold Mortgage automatically without any further act on the part of the Port Authority and any Notice of Termination previously stayed shall become fully effective as described below. The failure of the Leasehold Mortgagee to pay any Foreclosure Period Extension Fee when due shall result in the automatic termination and non-extension of the Foreclosure Period and the automatic termination of the Leasehold Mortgage and the Reletting Rights without any further act on the part of the Port Authority and any Notice of Termination previously stayed shall become fully effective as described below. Notwithstanding anything herein to the contrary but without limiting subparagraph (2) below or paragraph (s) of this Section, the sole right or remedy of the Port Authority for the failure of the Leasehold Mortgagee to pay the Leasehold Mortgagee's Foreclosure Period Payments shall be the cancellation

or termination (including non-extension) of the Leasehold Mortgagee's Reletting Rights (and of any Foreclosure Period) and of the Leasehold Mortgage.

(2) Upon any such termination or cancellation of the Foreclosure Period or any non-extension of the Foreclosure Period, the Port Authority's termination under the Notice of Termination shall be deemed effective with respect to the Mortgaged Premises and the Lease with respect to the Mortgaged Premises shall be deemed terminated effective immediately on said expiration, termination or cancellation of the Foreclosure Period in accordance with the Section of the Lease entitled "Termination by the Port Authority" and the Port Authority, in addition to pursuing any or all of its rights and remedies under the Lease, or otherwise, shall be entitled to elect to use, alter or demolish any of the improvements on the Mortgaged Premises free of any claim, right or interest of the Lessee, the Trustee or the Bondholders.

(p) During the Foreclosure Period, as to any and all portions of the Mortgaged Premises which the Lessee has vacated or from which the Lessee has been evicted, the Port Authority, until such time as the Trustee obtains an Approved Successor Lessee, may use or grant to other Aircraft Operators the use of portion or portions of the Mortgaged Premises on a temporary basis, which use shall be deemed a subuse under this Agreement and shall not impair or limit any of obligations or liabilities of the Lessee or the Leasehold Mortgagee; any net amount received by the Port Authority (after deducting all expenses, costs and disbursements incurred or paid by the Port Authority in connection therewith) shall be credited to the obligations of the Lessee. No such subuse shall be or be construed to be an acceptance of a surrender or a waiver of any claims, rights or remedies of the Port Authority or to be a reletting by the Leasehold Mortgagee or to limit the Reletting Rights of the Leasehold Mortgagee under this Section.

(q) In the event that at the expiration of the Foreclosure Period the Trustee has failed to obtain an Approved Successor Lessee for the Mortgaged Premises in accordance with and subject to paragraphs (t) and (u) of this Section, the Reletting Rights and the Leasehold Mortgage shall terminate automatically and the Trustee shall have no further rights or obligations with respect to reletting, the Port Authority's termination under the Notice of Termination shall be deemed effective with respect to the Mortgaged Premises and the Lease with respect to the Mortgaged Premises shall be deemed terminated effective immediately on said expiration of the Foreclosure Period in accordance with the Section of the Lease entitled "Termination by the Port Authority" and the Port Authority, in addition to pursuing any or all of its rights and remedies under the Lease, or otherwise, shall be entitled to elect to use, alter or demolish any of the improvements on the Mortgaged Premises free of any claim, right or interest of the Lessee, the Trustee or the Bondholders.

(r) Lease Default-Lessee Bankruptcy

(1) (i) In the event of the occurrence of a Lessee Bankruptcy and the Foreclosure Period has not previously commenced,

(A) if the Lessee as debtor in possession or the bankruptcy trustee assumes and assigns the Lease to an assignee which assignee also assumes the Lease subject to the encumbrance created by the Leasehold Mortgage (by operation of law or otherwise) (whether or not such assignee also assumes the NJEDA Subleases and the Lessee's obligations to pay the principal, redemption premium and interest on any of the Bonds) and there are then Bonds outstanding then the Reletting Rights of the Leasehold Mortgagee and the Leasehold Mortgage shall continue to obtain and apply to the tenancy of said assignee of the assigned Lease of the Mortgaged Premises with Reletting Rights to a new Foreclosure Period as to such assignee in accordance with and subject to this Section;

(B) [INTENTIONALLY OMITTED]

(C) if the Lessee as debtor in possession or the bankruptcy trustee rejects the Lease, then the Reletting Election Period shall commence upon the Bankruptcy Rejection Date and the provisions of paragraph (n) hereof shall apply. For purposes hereof the term "Bankruptcy Rejection Date" shall mean the later of (x) the date set forth in the order of the bankruptcy court as the effective date thereof for the rejection (or deemed rejection) of the Lease by the Lessee and (y) the actual date of such order of the bankruptcy court, and said Bankruptcy Rejection Date shall trigger the Reletting Election Period, provided that the Leasehold Mortgagee shall submit to the Port Authority its Reletting Election Notice stating its election to exercise its Reletting Rights under this Agreement, as

above described, within thirty (30) days of the Bankruptcy Rejection Date; and provided, further, however, that the foregoing shall not constitute any waiver, impairment or limitation of any claims, rights or remedies of the Port Authority with respect to such rejection of the Lease or the Lessee Bankruptcy. The foregoing shall not limit the rights granted hereunder to the Leasehold Mortgagee.

(ii) In the event of the occurrence of a Lessee Bankruptcy and the Foreclosure Period has previously commenced,

(A) if the Lessee as debtor in possession or the bankruptcy trustee assumes and assigns the Lease to an assignee which assignee also assumes the Lease subject to the encumbrance created by the Leasehold Mortgage (by operation of law or otherwise) (whether or not such assignee also assumes the NJEDA Subleases and the Lessee's obligations to pay the principal, redemption premium and interest on the Bonds) and there are then Bonds outstanding then the Reletting Rights of the Leasehold Mortgagee and the Leasehold Mortgage shall continue to obtain and apply to the tenancy of said assignee of the assigned Lease of the Mortgaged Premises with Reletting Rights to a new Foreclosure Period as to such assignee in accordance with and subject to this Section;

(B) [INTENTIONALLY OMITTED]

(C) if the Lessee as debtor in possession or the bankruptcy trustee rejects the Lease, then the running of the previously commenced Foreclosure Period shall be deemed suspended as of the date of the Lessee Bankruptcy and shall resume as of the occurrence of a Bankruptcy Rejection Date; provided, however, that the foregoing shall not constitute any waiver, impairment or limitation of any claims, rights or remedies of the Port Authority with respect to such rejection of the Lease or with respect to a Lessee Bankruptcy. The foregoing shall not limit the rights granted hereunder to the Leasehold Mortgagee, provided that the Leasehold Mortgagee fulfills all Leasehold Mortgagee's Foreclosure Period Obligations and pays all Leasehold Mortgagee's Foreclosure Period Payments.

(2) Upon the Bankruptcy Rejection Date the Leasehold Mortgagee shall, for purposes of this Section, be the "deemed Lessee" under this Agreement and shall simultaneously with the service of its Reletting Election Notice pay the Leasehold Mortgagee's Foreclosure Period Commencement Payments, if not already paid, and shall thereafter satisfy all of the Leasehold Mortgagee's Foreclosure Period Obligations.

(s) (1) In the event of the failure of the Leasehold Mortgagee to exercise its Reletting Rights by the timely service of its Reletting Election Notice and the payment to the Port Authority of the Leasehold Mortgagee's Foreclosure Period Commencement Payments in accordance with this Section 96, the Lease and the letting of the Mortgaged Premises shall be deemed terminated effective immediately on the Notice of Termination Effective Date, or on the effective date of any other notice of termination served by the Port Authority in accordance with the Section of the Lease entitled "Termination by the Port Authority", and the Port Authority, in addition to pursuing any or all of its rights and remedies under the Lease, or otherwise, shall be entitled to elect to use, alter or demolish any of the improvements on the Mortgaged Premises free of any claim, right or interest of the Lessee, the Trustee or the Bondholders.

(2) In the event the Mortgaged Premises do not constitute all of the premises under this Agreement, the above provisions with respect to the rights of the Leasehold Mortgagee to extend the Notice of Termination or to exercise Reletting Rights based on a Bonds Default Date or a Bankruptcy Rejection Date shall apply only to the Mortgaged Premises and shall not apply to the other areas or portions of the premises, and this Agreement as to all such other areas or portions of the premises shall terminate on the Notice of Termination Effective Date, or on the effective date of any other notice of termination served by the Port Authority in accordance with the Section of the Lease entitled "Termination by the Port Authority", and the Port Authority may pursue any or all of its rights and remedies under the Lease or otherwise with respect thereto. The provisions hereof for the reletting of the Mortgaged Premises based on a Bonds Default Date or a Bankruptcy Rejection Date shall not and shall not be construed as a waiver or limitation of the rights of the Port Authority to terminate other portions of the premises or any Port Authority remedies with respect thereto. If in the event of a reletting to an Approved Successor Lessee of the Mortgaged Premises pursuant to the

provisions of this Section and the Lease as to the other portions of the premises (excluding the Mortgaged Premises) has not expired or been terminated and remains in effect on the effective date of such reletting of the Mortgaged Premises, then the Port Authority shall include with the Lease Assignment/Assumption and Consent Agreement a restated lease document separately covering the Mortgaged Premises.

(t) (1) Except as provided in paragraph (u) of this Section with respect to the Port Authority, no entity, party or person other than an Approved Successor Lessee shall be entitled to become the owner of or acquire any interest in this Agreement pursuant to a judgment of foreclosure and sale or as a result of an assignment in lieu of foreclosure or as a result of the exercise by the Leasehold Mortgagee of its Reletting Rights or otherwise; and any entity, person or party proposed to become an Approved Successor Lessee ("Proposed Successor Lessee") shall become an Approved Successor Lessee only if the Leasehold Mortgagee duly exercises its Reletting Rights by submitting to the Port Authority its Reletting Election Notice stating its election to exercise its Reletting Rights under this Agreement and including therewith the payment to the Port Authority of the Leasehold Mortgagee's Foreclosure Period Commencement Payments and fulfills all Leasehold Mortgagee's Foreclosure Period Obligations and pays all Leasehold Mortgagee's Foreclosure Period Payments, and said Proposed Successor Lessee receives the approval of the Port Authority in advance. In determining whether to approve or disapprove a Proposed Successor Lessee, the Port Authority shall consider all relevant factors, including but not limited to, the following factors, but it is agreed that the Port Authority shall analyze all such factors in a reasonable manner:

(i) whether the Proposed Successor Lessee will be able to fulfill all of the Lessee's obligations under this Agreement with respect to the Mortgaged Premises throughout the balance of the term of the letting hereunder or such lesser term as it proposes to lease;

(ii) whether the financial standing of the Proposed Successor Lessee as of the effective date of its acquisition of the leasehold hereunder is sufficient, in the opinion of the Port Authority, to assure to the Port Authority that the Proposed Successor Lessee is able to fulfill all of the Lessee's obligations with respect to the Mortgaged Premises under this Agreement throughout the balance of the term of the letting of the Mortgaged Premises hereunder or such lesser term as it proposes to lease which shall constitute the term of the proposed reletting; including without limitation the submission to the Port Authority of such security or guaranty in such form and amount as the Port Authority may find satisfactory and shall also submit such financial statements and other financial information as the Port Authority may require;

(iii) whether the Proposed Successor Lessee and any officer, director or partner thereof and any person, firm or corporation having an outright or beneficial interest in twenty percent (20%) or more of the monies invested in the Proposed Successor Lessee, if said Proposed Successor Lessee is a corporation or partnership, by loans thereto, stock ownership therein or any other form of financial interest has as of the date of the proposed assignment/assumption a good reputation for integrity and financial responsibility and has not been convicted of or under current indictment for any crime and is not currently involved in material civil anti-trust or fraud litigation (other than as a plaintiff); and

(iv) whether the Port Authority has had any "unfavorable experience" with the Proposed Successor Lessee, or any of its officers, directors, or partners, or any person, firm or corporation (such officers, directors, partners, person, firm and corporation, being herein in this item (iv) individually and collectively referred to as a "Person") having an outright or beneficial interest in twenty percent (20%) or more of the monies invested in the Proposed Successor Lessee, if said Proposed Successor Lessee is a corporation or partnership, by loans thereto, stock ownership therein or any other form of financial interest; "unfavorable experience" as used herein shall mean any one or more of the following. (A) a material default by said Proposed Successor Lessee or any such Person of any obligation, (monetary or non-monetary) to the Port Authority; (B) any assertion made by said Proposed Successor Lessee or any such Person against the Port Authority in any frivolous, false, malicious, or unsupportable claim, demand or allegation or suit or proceeding; (C) any act or omission of said Proposed Successor Lessee or any such Person causing or resulting in any loss, damage or injury to the Port Authority or the imposition or threatened imposition of any fine or penalty on the Port Authority or the commencement or threatened commencement of any action, suit or proceeding against the Port Authority; (D) any failure or refusal of said

Proposed Successor Lessee or any such Person to comply with any law, governmental order, directive, ordinance or requirement, including without limitation, Environmental Requirements, at any Port Authority facility; (E) any failure to comply with, or breach of, the Port Authority's Code of Ethics and Financial Disclosure by said Proposed Successor Lessee or any such Person; or (F) any breach by said Proposed Successor Lessee or any such Person of any fiduciary obligation, trust, confidence or other duty to the Port Authority or of any confidentiality agreement with the Port Authority;

(v) whether the Proposed Successor Lessee or any officer, director or partner thereof or any person, firm or corporation having an outright or beneficial interest in twenty percent (20%) or more of the monies invested in the proposed assignee, if said Proposed Successor Lessee is a corporation or partnership, by loans thereto, stock ownership therein or any other form of financial interest is in conflict of interest, as defined under the laws of the States of New York and New Jersey or Port Authority policy, with any Commissioner of the Port Authority as of the date of the proposed acquisition; and

(vi) whether the Proposed Successor Lessee or any officer, director or partner thereof or any person, firm or corporation having an outright or beneficial interest in twenty percent (20%) or more of the monies invested in the proposed assignee, if said Proposed Successor Lessee is a corporation or partnership, by loans thereto, stock ownership therein or any other form of financial interest has filed a voluntary petition in bankruptcy or has been adjudicated a bankrupt within five (5) years prior to the date of the proposed acquisition.

Without limiting any other term or provision hereof, the Proposed Successor Lessee must also agree in the Lease Assignment/Assumption and Consent Agreement, to pay all of the rentals, fees and charges in accordance with the Lease, including without limitation the amounts described in paragraphs (n) (3) (ii) and (u) of this Section. The Proposed Successor Lessee shall use and occupy the Mortgaged Premises for the purposes set forth in Section 8 hereof and shall be a major domestic or international Scheduled Aircraft Operator or consortium thereof and shall agree (or, if a consortium, shall agree jointly and severally) in the Lease Assignment/Assumption and Consent Agreement to use and occupy the Mortgaged Premises in accordance with all the terms and conditions of this Agreement.

(2) Notwithstanding the foregoing, no acquisition, assignment, sale or transfer pursuant to this paragraph (t) shall be effective, and no Proposed Successor Lessee shall become an Approved Successor Lessee, or have any right to possess, use or occupy the Mortgaged Premises unless and until an assignment and assumption agreement, in the event of an assignment in lieu of foreclosure, or an assumption agreement, in the event of a foreclosure, and in either event in form satisfactory to the Port Authority whereby the Proposed Successor Lessee, effective on a date prior to or simultaneously with the expiration of the Foreclosure Period, assumes the obligations of the Lessee as if it were the original tenant hereunder, has been executed by the Port Authority, the Lessee, the Proposed Successor Lessee and the Leasehold Mortgagee (said fully executed agreement in either case, the "Lease Assignment/Assumption and Consent Agreement"); provided that the foregoing may be effected without the Lessee's execution thereof where there has been a preceding judgment of foreclosure and sale of the Leasehold Mortgage or a preceding judgment of eviction against the Lessee; subject to the payment of the Deferred Reletting Fee as set forth in paragraph (u) of this Section. The said effective date of the Lease Assignment/Assumption and Consent Agreement is herein referred to as the "Lease Assignment/Assumption Commencement Date", provided that where the Leasehold Mortgagee has commenced proceedings to foreclose the Leasehold Mortgage, and for purposes of the continuation of the Foreclosure Period Extension Fees (as provided in paragraph (n) of this Section), such date shall be deemed to have occurred only upon the successful completion by the Leasehold Mortgagee prior to the expiration of the Foreclosure Period (subject to the aggregate total maximum of 720 days) of the foreclosure and eviction proceedings described in paragraph (n) (4) of this Section; provided, further, however, that in the event the Leasehold Mortgagee does not in fact successfully complete the foreclosure of the Leasehold Mortgage and eviction proceedings as described in paragraph (n) (4) of this Section prior to the expiration of the Foreclosure Period (subject to the aggregate total maximum of 720 days) the Lease Assignment/Assumption and Consent Agreement shall be null and void and of no force or effect.

(3) It is understood and agreed that after the Leasehold Mortgagee has obtained a Proposed Successor Lessee and has promptly submitted to the Port Authority all required and necessary



information and materials, in accordance with subparagraph (1) of this paragraph (t), to enable the Port Authority to determine whether it will approve such Proposed Successor Lessee as an Approved Successor Lessee, the running of the Foreclosure Period shall be deemed tolled pending said determination by the Port Authority, such determination to be considered promptly and reasonably by the Port Authority; provided, however, that no such tolling shall be effective unless the Leasehold Mortgagee promptly continues to submit such additional information and material as may be reasonably required by the Port Authority for its making of such determination. Such tolling shall also toll the Leasehold Mortgagee's obligation to pay the Foreclosure Period Extension Fees, but not any other of Leasehold Mortgagee's Foreclosure Period Obligations.

(u) Deferred Reletting Fee:

(1) Anything to the contrary herein notwithstanding, (i) no Port Authority consent shall be granted to any Approved Successor Lessee and no Proposed Successor Lessee or any other entity, person or party shall become an Approved Successor Lessee unless and until either (A) the Leasehold Mortgagee or the Proposed Successor Lessee shall pay to the Port Authority prior to the effective date of any right of the Approved Successor Lessee to possess or commence any use or occupancy of the Mortgaged Premises and prior to any such actual possession or commencement by any such Approved Successor Lessee in a single lump sum payment the full amount of the Deferred Reletting Fee, as defined below, or (B) at the election of the Approved Successor Lessee, in lieu of said single lump sum payment, the Approved Successor Lessee shall agree to pay the Deferred Reletting Fee over time in Deferred Reletting Fee Rental, as defined below, commencing as of the Lease Assignment/Assumption Commencement Date which election shall be stated in the Lease Assignment/Assumption and Consent Agreement subject to subparagraph (4) of this paragraph (u); and (ii) in the case of the foregoing (i) (B), any such Port Authority consent to any Approved Successor Lessee is and shall be expressly conditioned on the agreement of the Proposed Successor Lessee to make continuing payments to the Port Authority of the Deferred Reletting Fee Rental under subparagraph (4) of this paragraph (u); provided however that the Approved Successor Lessee shall also submit to the Port Authority such additional security as the Port Authority may reasonably require and in such amount and form as the Port Authority may determine to be appropriate to secure the obligation of the Approved Successor Lessee to pay said Deferred Reletting Fee Rental.

(2) "Deferred Reletting Fee" shall mean the fee payable to the Port Authority in a single lump sum payment by the Leasehold Mortgagee or the Approved Successor Lessee, as aforesaid, and which shall be determined by applying the following formula:

$$DRF = MA \times Y \times C$$

Where DRF equals the Deferred Reletting Fee.

- MA equals the Mortgage Amount hereunder (as defined in subparagraph (29) of paragraph (a) of this Section.
- Y equals a fraction the numerator of which shall be the greater of (i) the actual number of full years then remaining in the term of the letting of the Mortgaged Premises hereunder at the Reletting Election Notice Service Date and (ii) the number five (5), and the denominator of which shall be twenty-nine (29) representing the total number of years of the term of the letting of the Mortgaged Premises as of the effective date of Supplement No. 17 of the Lease.
- C equals (i) 2% in the event the Foreclosure Period commenced on the basis of a Bonds Default, and a Subsequent Non-Bonds Default did not occur thereafter during the Foreclosure Period; (ii) 3% in the event the Foreclosure Period commenced on the basis of the occurrence of a Lease Termination or Bankruptcy Rejection Date, and a Bonds Default did not subsequently occur; or (iii) 4% in the event the Foreclosure Period commenced on the basis of a Bonds Default and thereafter a Subsequent Non-Bonds Default occurred, or the Foreclosure Period commenced on the basis of a Lease Termination or Bankruptcy Rejection Date, and thereafter a Bonds Default occurred.

(3) Subject to (4) below, the Deferred Reletting Fee shall be due and payable in full to the Port Authority by the Leasehold Mortgagee or the Approved Successor Lessee in a single lump sum payment on the Lease Assignment/Assumption Commencement Date (and in any event prior to any use, occupancy or possession of the premises by the Approved Successor Lessee).

(4) In the event the Approved Successor Lessee elects to pay to the Port Authority the Deferred Reletting Fee in accordance with clause (i) (B) of subparagraph (1) of this paragraph (u) then the following provisions shall be and become immediately effective as part of the rental obligations of the Approved Successor Lessee as the lessee under the Lease and as part of the rental obligations assumed by the Approved Successor Lessee under the Lease Assignment/Assumption and Consent Agreement:

"(A) 1. "Deferred Reletting Fee" shall have the meaning as defined in paragraph (u)(2) of Section 96 of the Lease.

2. 'Deferred Reletting Fee Rental Commencement Date' shall mean, with respect to the Deferred Reletting Fee Rental established on the basis of the Deferred Reletting Fee, the Lease Assignment/Assumption Commencement Date; provided, however, that if the Deferred Reletting Fee Rental Commencement Date shall occur on other than the first day of a calendar month, the Deferred Reletting Fee Rental Commencement Date shall mean the first day of the calendar month immediately following the month in which the aforesaid Lease Assignment/Assumption Commencement Date occurs.

3. 'Deferred Reletting Fee Rental Period' shall mean the period commencing on the Deferred Reletting Fee Rental Commencement Date and ending on the earlier of (i) the day preceding the tenth (10th) year anniversary of the Deferred Reletting Fee Rental Commencement Date and (ii) the expiration date of the then remaining term of the letting of the Mortgaged Premises after the Deferred Reletting Fee Rental Commencement Date.

4. 'Monthly Factor' shall mean the factor derived in accordance herewith by the application of the following formula:

$$\frac{1}{i(1+i)^t} = \text{Monthly Factor}$$

Where i is an annual percentage rate expressed in decimal form equal to the sum of (x) the Fixed RBI Rate (as herein defined in item 5 below) plus (y) 1.5% (150 basis points), divided by twelve (12); and where t (a power) equals the number of calendar months (expressed in whole numbers) from the Deferred Reletting Fee Rental Commencement Date to the earlier of (i) the day preceding the tenth (10th) year anniversary of the Deferred Reletting Fee Rental Commencement Date and (ii) the expiration date of the then remaining term of the letting of the Mortgaged Premises after the Deferred Reletting Fee Rental Commencement Date.

5. 'Fixed RBI Rate' as applicable to and determined for the Deferred Reletting Fee Rental hereunder shall mean the percentage reported as the weekly index of the Bond Buyer Revenue Bond Index as reported in the publication 'The Bond Buyer' during the calendar week immediately preceding the Deferred Reletting Fee Rental Commencement Date. In the event that the Bond Buyer or its weekly Bond Buyer Revenue Bond Index shall be discontinued during the term of this Agreement, a comparable substitute for such Index shall be mutually agreed upon in writing by the Lessee and the Port Authority within thirty (30) days after such discontinuance. In the event that the Lessee and the Port Authority shall fail to agree upon such a substitute within the time hereinabove specified then upon notice of either party such dispute shall be disposed of by arbitration in accordance with then existing rules of the American Arbitration Association or any successor association. One half of the cost of said arbitration shall be borne by the Port Authority and the other half of said cost shall be borne by the Lessee.

(B) Computation and Payment

Commencing on the Deferred Reletting Fee Rental Commencement Date the Lessee shall pay to the Port Authority a rental (herein called the 'Deferred Reletting Fee Rental') which Deferred Reletting Fee Rental shall be an amount payable on the first day of each and every calendar month during the Deferred Reletting Fee Rental Period which shall be equal to the product obtained by multiplying the Monthly Factor by the Deferred Reletting Fee (as defined in paragraph (u)(2) of Section 96 of the Lease) as determined on the day immediately preceding the Deferred Reletting Fee Rental Commencement Date.

(C) The Deferred Reletting Fee Rental shall be payable in the same manner and collectible with like remedies as if the same were part of the Area C-3 rentals except that such

payment shall not be subject to abatement or suspension for any reason whatsoever.

(D) Notwithstanding any obligation of the Lessee to pay the Deferred Reletting Fee Rental as part of the rental obligations of the Lessee hereunder, the Lessee hereby, as a separate and independent covenant, agrees and promises to pay to the Port Authority the 'Deferred Reletting Fee Payment Amount' which for purposes hereof shall mean the total amount of installments and payments to be paid by the Lessee as Deferred Reletting Fee Rental to the extent not actually paid by the Lessee as Deferred Reletting Fee Rental as set forth above. The Deferred Reletting Fee Payment Amount shall be due and payable by the Lessee to the Port Authority immediately upon any termination, expiration, non-extension or cancellation of the Lease. Said obligation and agreement of the Lessee to pay the Deferred Reletting Fee Payment Amount to the Port Authority shall survive any termination, expiration, non-extension or cancellation of the Lease."

(v) The Leasehold Mortgagee shall not be entitled to foreclose its Leasehold Mortgage or to have the Lessee's interest assigned in lieu of such foreclosure unless at least thirty (30) days prior to commencing such foreclosure or requesting such assignment in lieu of foreclosure, the Leasehold Mortgagee shall have given the Port Authority written notice of its intention to foreclose or to have this Agreement assigned with respect to the Mortgaged Premises which notice shall state the then principal balance of the Mortgage Amount, the amount of accrued and unpaid interest thereon, and the per diem interest which will accrue on the Mortgage Amount from, and after the giving of such notice. The Port Authority shall have the right following the giving of such notice by the Leasehold Mortgagee, to purchase the Leasehold Mortgage for an amount equal to the total amount specified in such notice from the Leasehold Mortgagee, including per diem interest to the date of purchase. If the Port Authority shall fail to notify the Leasehold Mortgagee within the thirty (30) day period specified in the notice of its intention to purchase the Leasehold Mortgage the Leasehold Mortgagee shall be entitled with respect to the Mortgaged Premises to proceed to foreclose the Leasehold Mortgage or to accept an assignment in lieu of foreclosure in accordance with the provisions of this Agreement.

(w) No sale, transfer or assignment by the Lessee of its interest in this Agreement to the Port Authority shall create a merger between the estates of the Port Authority and the Lessee unless the Port Authority, the Lessee and the Leasehold Mortgagee shall specifically consent to such merger in writing, nor shall any such sale, transfer or assignment be deemed to affect or diminish the liabilities of the Lessee named in this Agreement, whether for survived damages or otherwise.

(x) Each and every provision stated herein to be or become a right or an obligation of the Trustee or of the Trustee in its capacity as Leasehold Mortgagee shall be included in the Indenture (by reference to this Agreement or otherwise) as among the rights and obligations of the Trustee under the Indenture and in the Port Authority Consent to NJEDA Subleases (by reference to this Agreement or otherwise) as among the rights and obligations of the Trustee, and in the Leasehold Mortgage as among the rights and obligations of the Trustee as Leasehold Mortgagee under the Leasehold Mortgage, and each and every provision stated herein to be or become an obligation of the Approved Successor Lessee shall be deemed included in the obligations assumed by the Approved Successor Lessee by its acquisition of the Mortgaged Premises, the Lease with respect thereto and by its execution of the Lease Assignment/Assumption and Consent Agreement.

(y) (1) If the Leasehold Mortgagee shall obtain an Approved Successor Lessee such Approved Successor Lessee shall acquire the Lease with respect to the Mortgaged Premises with no further right to mortgage or pledge the leasehold, and shall have no right to assign the Lease with respect to the Mortgaged Premises other than the limited right of assignment provided under Section 77 hereof.

(2) Nothing herein shall or shall be deemed to release or relieve the Lessee from any terms, provisions, covenants or conditions to be kept, performed or observed by the Lessee under this Agreement or under the Port Authority Consent to NJEDA Subleases.

(3) Nothing herein shall constitute or be deemed to constitute any waiver by the Port Authority of any of its rights or remedies to evict the Lessee in the event the Port Authority terminates the Lease pursuant to the Section of this Agreement entitled "Termination by the Port Authority" and the Leasehold Mortgagee fails to properly exercise its Reletting Rights or to obtain an Approved Successor Lessee in accordance with the provisions hereof.

(4) Except for the rights granted herein to the

Leasehold Mortgagee, nothing herein shall constitute any waiver, impairment or limitation of any of claims, rights or remedies of the Port Authority based upon any event of default or based on any rejection of the Lease resulting from a Lessee Bankruptcy or based on any Lessee Bankruptcy.

(5) This Section and the right of the Lessee to grant the Leasehold Mortgage and the right of the Trustee to enter the Leasehold Mortgage are and shall be rights granted and effective only as to Continental Airlines, Inc., the named Lessee hereunder, and are exercisable one time only as above provided, and shall not extend, obtain or apply to any Approved Successor Lessee or other entity or person who may become a tenant or lessee of the premises or any portion thereof.

(6) Neither this Section nor anything contained herein nor any action taken or not taken hereunder shall impair, restrict or limit the rights of the Port Authority under Section 69 hereof.

(z) Notices, statements and requests by or to the Trustee (Leasehold Mortgagee) under the provisions of this Section 96 shall be governed by Section 37 of the Lease entitled "Notices" and shall be given to the Trustee at its address specified in Paragraph 14 of the Port Authority Consent to NJEDA Subleases.

#### Section 97. No Third Party Beneficiary.

There shall be no third-party beneficiaries of this Agreement. This Agreement shall be effective only as between the parties hereto (and their successors and assigns, if, as and to the extent permitted under this Agreement), and shall not be construed as creating or conferring upon any person or entity any right, remedy or claim under or by reason of this Agreement. Notwithstanding the foregoing, nothing in this Section 97 shall deprive the Leasehold Mortgagee of any of its Reletting Rights (as defined in Section 96 of the Lease) under Section 96 of the Lease."

50. (a) Subparagraph (b) of paragraph 4 of Supplement No. 8 of the Lease shall be deemed deleted, and Sections 16 and 17 of the Lease as amended by and as set forth in subparagraph (a) of said paragraph 4 of Supplement No. 8 of the Lease, and as said Section 17 is also further herein amended, shall continue in full force and effect for the term of the letting under the Lease including the extension thereof provided for in this Seventeenth Supplemental Agreement.

(b) Paragraph 5 of Supplement No. 8 of the Lease, as amended by paragraph 3 of Supplement No. 11 and by paragraph 5 of Supplement No. 13 and as referenced in paragraph 18 of Supplement No. 15, and the right of termination thereunder as to all or portions of Area C-3, shall be deemed deleted from the Lease and of no further force and effect.

(c) The final sentence of Paragraph III of Schedule B of the Lease, as previously amended in subparagraph (a) (11) of paragraph 6 of Supplement No. 8 of the Lease, is hereby further amended by inserting before the final period at the end thereof the following:

"and, upon the Port Authority notice to the Lessee of the completion by the Port Authority of an appropriate expansion to the Central Plant, the additional aircraft gate positions and Area C-3 Concourse of the Expansion Construction Work as defined and described in and performed by the Lessee under Section 93 of the Lease as set forth in the Supplement No. 17 to the Lease".

(d) Subparagraph (b) of paragraph 6 of Supplement No. 8 of the Lease shall be deemed deleted therefrom.

(e) (1) Paragraph 11 of Supplement No. 8 of the Lease shall be deemed deleted therefrom.

(2) Paragraph 6 of Supplement No. 10 of the Lease shall be deemed deleted therefrom.

(f) It is recognized that Paragraph 3 of Supplement No. 12 and the right of the Port Authority to require the removal of the "Area C-3 Work" as defined in said Supplement No. 12 does not extend or apply to the "Expansion Construction Work" as defined in Section 93 of the Lease set forth in Paragraph 6 of this Seventeenth Supplemental Agreement.

51. In addition to and without limiting any term or provision of Section 66 or any other section of the Lease, the Lessee shall and hereby agrees to submit, no later than the earlier of (i) December 31, 2000 or (ii) the day which constitutes the three hundred sixty-fifth (365th) day prior to either the expected completion date of the Expansion Construction Work under Section 93

or date of the permitted occupancy of any portion of said Expansion Construction Work, to the Port Authority for its review and approval in accordance with Sections 66 and 73 of the Lease, a revised updated comprehensive consumer services plan and covering the consumer services to be provided in Area C-3 and other portions of the premises after the completion of the Expansion Construction Work, as defined in and pursuant to Section 93 of the Lease set forth in this Seventeenth Supplemental Agreement.

52. The Lessee hereby expressly acknowledges and agrees that the letting of Area C-3 under the Lease, and the extension of such letting under this Supplemental Agreement, is expressly subject to the condition that the Lessee shall allow to remain, in a location in the premises approved in advance by the Port Authority, the room now designated as the "Meditation Room-Freedom Shrine". Accordingly, the Lessee hereby expressly agrees either to allow the said room to remain in its present location in Area C-3 during the term of the letting hereunder of Area C-3 or to move the same, at the sole cost and expense of the Lessee, subject to Section 23 hereof, to such other suitable location on the premises approved in advance by the Port Authority; it being expressly understood and agreed that the foregoing shall not result in or constitute any basis or claim by the Lessee for an abatement or reduction of rental, or constitute any basis or claim for any payment of any type from the Port Authority or to alter or impair any of the responsibilities, duties or obligations of the Lessee under the Lease or otherwise.

53. (a) The items of the Expansion Construction Work listed in Schedule 1 attached to this Supplement No. 17 ("Schedule 1") are personal property the title to which shall pass to the Port Authority as the same, or any part thereof, are affixed to or installed in the premises hereunder as part of the Expansion Construction Work ("Schedule 1 Terminal Fixtures") and the same shall become part of the premises under the Lease as herein amended. It is understood and agreed that none of said Schedule 1 Terminal Fixtures shall include "rolling stock" or "vehicles". The Lessee shall promptly provide the Port Authority with a detailed and complete written inventory of each of said Schedule 1 Terminal Fixtures not later than the applicable date each item is affixed to or installed in the premises.

(b) Section 34 of the Lease, as previously amended, is hereby further amended as follows:

(1) The first (1st) line of paragraph (a) thereof shall be deemed amended to read as follows:

"All personal property (including trade fixtures but specifically excluding the Schedule 1 Terminal Fixtures) removable".

(2) The eleventh (11th) line of paragraph (a) thereof shall be deemed amended by inserting the following after the word "Lessee" and before the parenthesis appearing therein:

"and the Schedule 1 Terminal Fixtures shall not be the property of the Lessee".

(3) The following new sentence shall be deemed inserted at the end of paragraph (a) thereof:

"Anything in this Section 34 of the Lease to the contrary notwithstanding, it is further expressly understood and agreed that the Lessee shall have no right to, and shall not, remove the Schedule 1 Terminal Fixtures, or any of them, from the premises, title to which Schedule 1 Terminal Fixtures shall pass to the Port Authority as the same or any part thereof are affixed to or installed in the premises hereunder in accordance with paragraph 53 of Supplement No. 17 of the Lease."

(c) The first sentence of Section 74 of the Lease, as previously amended, is hereby further amended to add the following words and symbol before the period at the end thereof:

"; provided, however, that the provisions of this Section 74 for the Port Authority's purchase of personal property shall not apply to the Schedule 1 Terminal Fixtures (as defined in paragraph 53 of Supplement No. 17 of the Lease), titled to which shall pass to the Port Authority as the same or any part thereof are affixed to or installed in the premises hereunder in accordance with paragraph 53 of Supplement No. 17 of the Lease".

54. Each party represents and warrants to the other that no broker has been concerned in the negotiation of this Seventeenth Supplemental Agreement and that there is no broker who is or may be entitled to be paid a commission in connection therewith. Each party shall indemnify and save harmless the other party of and from any and all claims for commissions or brokerage made by any and all

persons, firms or corporations whatsoever for services provided to or on behalf of the indemnifying party in connection with the negotiation and execution of this Seventeenth Supplemental Agreement.

55. No Commissioner, director, officer, agent or employee of any party to this Seventeenth Supplemental Agreement shall be charged personally or held contractually liable by or to any other party under any term or provision of this Seventeenth Supplemental Agreement or of any supplement, modification or amendment to the Lease or because of its or their execution or attempted execution or because of any breach or alleged or attempted breach thereof.

56. As hereby amended, all of the terms, covenants, provisions, conditions and agreements of the Lease shall be and remain in full force and effect.

57. This Seventeenth Supplemental Agreement and the Lease which it amends constitute the entire agreement between the Port Authority and the Lessee on the subject matter, and may not be changed, modified, discharged or extended except by instrument in writing duly executed on behalf of both the Port Authority and the Lessee. The Lessee and the Port Authority agree that no representations or warranties shall be binding upon the other unless expressed in writing in the Lease or in this Seventeenth Supplemental Agreement.

IN WITNESS WHEREOF, the Port Authority and the Lessee have executed these presents as of the date first above written.

ATTEST: THE PORT AUTHORITY OF NEW YORK  
AND NEW JERSEY

Secretary By  
(Title) Seal

ATTEST: CONTINENTAL AIRLINES, INC.

Secretary By  
(Title) President  
(Corporate Seal)

Ack. N.J.; Corp. & Corp.

STATE OF NEW YORK )  
 ) ss.  
COUNTY OF NEW YORK )

On the \_\_\_\_ day of \_\_\_\_\_, 1999, before me, the subscriber,  
a notary public of New York, personally appeared  
\_\_\_\_\_ the \_\_\_\_\_ of THE PORT  
AUTHORITY OF NEW YORK AND NEW JERSEY, who I am satisfied is the  
person who has signed the within instrument; and, I having first made  
known to him the contents thereof, he did acknowledge that he signed,  
sealed with the corporate seal and delivered the same as such officer  
aforesaid and the within instrument is the voluntary act and deed of  
such corporation made by virtue of the authority of its Board of  
Commissioners.

\_\_\_\_\_  
(notarial seal and stamp)

STATE OF )  
 ) ss.  
COUNTY OF )

On the \_\_\_\_ day of \_\_\_\_\_, 1999, before me, the subscriber,  
a \_\_\_\_\_, personally appeared  
\_\_\_\_\_ the \_\_\_\_\_ of  
CONTINENTAL AIRLINES, INC., who I am satisfied is the person who has  
signed the within instrument; and, I having first made known to him  
the contents thereof, he did acknowledge that he signed, sealed with  
the corporate seal and delivered the same as such officer aforesaid  
and the within instrument is the voluntary act and deed of such  
corporation made by virtue of the authority of its Board of  
Directors.

\_\_\_\_\_  
(notarial seal and stamp)

SCHEDULE 1  
(to Supplement No. 17 of Lease ANA-170)

Without limiting paragraph (i) of Section 93 of the Lease, the items listed below are personal property, which constitute a portion of the Expansion Construction Work under Section 93 of the Lease, the title to which shall pass to the Port Authority as the same or any part thereof are affixed to or installed in the premises under the Lease and become part of the premises under the Lease as provided in and subject to the provisions of paragraph 53 of Supplement No. 17 of the Lease.

1. Passenger loading bridges and foundations
2. Baggage handling systems
3. Fixed aircraft ground power/heating units
4. Passenger ticketing counters, stands and podium which are affixed to the flooring of the Terminal.
5. Flight/baggage information display systems
6. Terminal holdroom seating which are affixed to the flooring of the Terminal
7. Customs and immigration counters which are affixed to the flooring of the Terminal
8. Fixed PC air units (AC for jet bridges and gated aircraft)
9. Exterior light stanchions
10. Signage
11. Building security system (including closed circuit television) to the extent affixed to the Terminal.

\_\_\_\_\_  
For the Port Authority

Initialed:

\_\_\_\_\_  
For the Lessee

SCHEDULE E

AFFIRMATIVE ACTION-EQUAL OPPORTUNITY---MINORITY BUSINESS  
ENTERPRISES ---WOMEN-OWNED BUSINESS ENTERPRISES REQUIREMENTS

Part I. Affirmative Action Guidelines - Equal Employment  
Opportunity

I. As a matter of policy the Port Authority hereby requires the Lessee and the Lessee shall require the Contractor, as hereinafter defined, to comply with the provisions set forth hereinafter in this Schedule E and in Section 93 of Port Authority Agreement No. ANA-170 (herein called the "Lease") with CONTINENTAL AIRLINES, INC. (herein and in the Lease called the "Lessee"). The provisions set forth in this Part I are similar to the conditions for bidding on federal government contract adopted by the Office of Federal Contract Compliance and effective May 8, 1978.

The Lessee as well as each bidder, contractor and subcontractor of the Lessee and each subcontractor of a contractor at any tier of construction (herein collectively referred to as "the Contractor") must fully comply with the following conditions set forth herein as to each construction trade to be used on the construction work or any portion thereof (said conditions being herein called "Bid Conditions"). The Lessee hereby commits itself to the goals for minority and female utilization set forth below and all other requirements, terms and conditions of the Bid Conditions. The Lessee shall likewise require the Contractor to commit itself to the said goals for minority and female utilization set forth below and all other requirements, terms and conditions of the Bid Conditions by submitting a properly signed bid.

II. The Lessee and the Contractor shall each appoint an executive of its company to assume the responsibility for the implementation of the requirements, terms and conditions of the following Bid Conditions:

(a) The goals for minority and female participation expressed in percentage terms for the Contractor's aggregate workforce in each trade on all construction work are as follows:

- |                            |     |
|----------------------------|-----|
| (1) Minority participation |     |
| Minority, except laborers  | 30% |
| Minority, laborers         | 40% |



(2) Female participation

Female, except laborers	6.9%
Female, laborers	6.9%

These goals are applicable to all the Contractor's construction work performed in and for the premises.

The Contractor's specific affirmative action obligations required herein of minority and female employment and training must be substantially uniform throughout the length of the contract, and in each trade, and the Contractor shall make good faith efforts to employ minorities and women evenly on each of its projects. The transfer of minority or female employees or trainees from contractor to contractor or from project to project for the sole purpose of meeting the Contractor's goals shall be a violation of the contract. Compliance with the goals will be measured against the total work hours performed.

(b) The Contractor shall provide written notification to the Lessee and the Lessee shall provide written notification to the Manager of the Office of Business and Job Opportunity of the Port Authority within 10 working days of award of any construction subcontract in excess of \$10,000 at any tier for construction work. The notification shall list the name, address and telephone number of the subcontractor; employer identification number; estimated starting and completion dates of the subcontract; and the geographical area in which the subcontract is to be performed.

(c) As used in these specifications:

(1) "Employer identification number" means the Federal Social Security number used on the Employer's Quarterly Federal Tax Return, U.S. Treasury Department Form 941:

(2) "Minority" includes:

(i) Black (all persons having origins in any of the Black African racial groups not of Hispanic origin);

(ii) Hispanic (all persons of Mexican, Puerto Rican, Dominican, Cuban, Central or South American culture or origin, regardless of race);

(iii) Asian and Pacific Islander (all persons having origins in any of the original peoples of the Far East, Southeast Asia, the Indian Subcontinent, or the Pacific Islands); and

(iv) American Indian or Alaskan Native (all persons having origins in any of the original peoples of North America and maintaining identifiable tribal affiliations through membership and participation or community identification).

(d) Whenever the Contractor, or any subcontractor at any tier, subcontracts a portion of the construction work involving any construction trade, it shall physically include in each subcontract in excess of \$10,000 those provisions which include the applicable goals for minority and female participation.

(e) The Contractor shall implement the specific affirmative action standards provided in subparagraphs (1) through (16) of Paragraph (h) hereof. The goals set forth above are expressed as percentages of the total hours of employment and training of minority and female utilization the Contractor should reasonably be able to achieve in each construction trade in which it has employees in the premises. The Contractor is expected to make substantially uniform progress toward its goals in each craft during the period specified.

(f) Neither the provisions of any collective bargaining agreement, nor the failure by a union with whom the Contractor has a collective bargaining agreement, to refer either minorities or women shall excuse the Contractor's obligations hereunder.

(g) In order for the nonworking training hours of apprentices and trainees to be counted in meeting the goals, such apprentices and trainees must be employed by the Contractor during the training period, and the Contractor must have made a commitment to employ the apprentices and trainees at the completion of their training subject to the availability of employment opportunities. Trainees must be trained pursuant to training programs approved by the U.S. Department of Labor.

(h) The Contractor shall take specific affirmative actions to ensure equal employment opportunity ("EEO").

The evaluation of the Contractor's compliance with these provisions shall be based upon its good faith efforts to achieve maximum results from its actions. The Contractor shall

document these efforts fully, and shall implement affirmative action steps at least as extensive as the following:

(1) Ensure and maintain a working environment free of harassment, intimidation, and coercion at all sites, and in all facilities at which the Contractor's employees are assigned to work. The Contractor, where possible, will assign two or more women to each Phase of the construction project. The Contractor, shall specifically ensure that all foremen, superintendents, and other supervisory personnel at the premises are aware of and carry out the Contractor's obligation to maintain such a working environment, with specific attention to minority or female individuals working at the premises.

(2) Establish and maintain a current list of minority and female recruitment sources, provide written notification to minority and female recruitment sources and to community organizations when the Contractor or its unions have employment opportunities available, and maintain a record of the organizations' responses.

(3) Maintain a current file of the names, addresses and telephone number of each minority and female off-the-street applicant and minority or female referral from a union, a recruitment source or community organization and of what action was taken with respect to each such individual. If such individual was sent to the union hiring hall for referral and was not referred back to the Contractor by union or, if referred, not employed by the Contractor, this shall be documented in the file with the reason therefor, along with whatever additional actions the Contractor may have taken.

(4) Provide immediate written notification to the Lessee when the union or unions with which the Contractor has a collective bargaining agreement has not referred to the Contractor a minority person or woman sent by the Contractor, or when the Contractor has other information that the union referral process has impeded the Contractor's efforts to meet its obligations.

(5) Develop on-the-job training opportunities and/or participate in training programs for the area which expressly include minorities and women, including upgrading programs and apprenticeship and training programs relevant to the Contractor's employment needs, especially those programs funded or approved by the Department of Labor. The Contractor shall provide notice of these programs to the sources compiled under subparagraph (2) above.

(6) Disseminate the Contractor's EEO Policy by providing notice of the policy to unions and training programs and requesting their cooperation in assisting the Contractor in meeting its EEO obligations; by including it in any policy manual and collective bargaining agreement; by publicizing it in the Contractor's newspaper, annual report, etc.; by specific review of the policy with all management personnel and with all minority and female employees at least once a year; and by posting the Contractor's EEO policy on bulletin boards accessible to all employees at each location where Construction work is performed.

(7) Review, at least every six months the Contractor's EEO policy and affirmative action obligations hereunder with all employees having any responsibility for hiring, assignment, layoff, termination or other employment decision including specific review of these items with on-premises supervisory personnel such as Superintendents, General Foremen, etc., prior to the initiation of construction work at the premises. A written record shall be made and maintained identifying the time and place of these meetings, persons attending, subject matter discussed, and disposition of the subject matter.

(8) Disseminate the Contractor's EEO policy externally by including it in any advertising in the news media, specifically including minority and female news media, and providing written notification to and discussing the Contractor's EEO policy with other Contractors and Subcontractors with whom the Contractor does or anticipates doing business.

(9) Direct its recruitment efforts, both oral and written, to minority, female and community organizations, to schools with minority and female students and to minority and female recruitment and training organizations and to State-certified minority referral agencies serving the Contractor's recruitment area and employment needs. Not later than one month prior to the date for the acceptance of applications for apprenticeship or other training by any recruitment source, the Contractor shall send written notification to organizations such as the above, describing the

openings, screening procedures, and tests to be used in the selection process.

(10) Encourage present minority and female employees to recruit other minority persons and women and, where reasonable, provide after school, summer and vacation employment to minority and female youth both on the premises and in areas of a Contractor's workforce.

(11) Tests and other selecting requirements shall comply with 41 CFR Part 60-3.

(12) Conduct, at least every six months, an inventory and evaluation at least of all minority and female personnel for promotional opportunities and encourage these employees to seek or to prepare for, through appropriate training, etc., such opportunities.

(13) Ensure that seniority practices, job classifications, work assignments and other personnel practices, do not have a discriminatory effect by continually monitoring all personnel and employment related activities to ensure that the EEO policy and the Contractor's obligations hereunder are being carried out.

(14) Ensure that all facilities and company activities are nonsegregated except that separate or single-user toilet and necessary changing facilities shall be provided to assure privacy between the sexes.

(15) Document and maintain a record of all solicitations of offers for subcontracts from minority and female construction contractors and suppliers, including circulation of solicitations to minority and female contractor associations and other business associations.

(16) Conduct a review, at least every six months, of all supervisors' adherence to and performance under the Contractors' EEO policies and affirmative action obligations.

(i) Contractors are encouraged to participate in voluntary associations which assist in fulfilling one or more of their affirmative action obligations (subparagraphs (1)-(16) of Paragraph (h) above). The efforts of a contractor association, joint contractor-union, contractor-community, or other similar group of which the Contractor is a member and participant, may be asserted as fulfilling any one or more of its obligations under Paragraph (h) hereof provided that: the Contractor actively participates in the group, makes good faith efforts to assure that the group has a positive impact on the employment of minorities and women in the industry, ensures that the concrete benefits of the program are reflected in the Contractor's minority and female workforce participation, makes good faith efforts to meet its individual goals and timetables, and can provide access to documentation which demonstrates the effectiveness of actions taken on behalf of the Contractor. The obligation to comply, however, is the Contractor's and failure of such a group to fulfill an obligation shall not be a defense for the Contractor's non-compliance.

(j) A single goal for minorities and a separate single goal for women have been established. The Contractor, however, is required to provide equal opportunity and to take affirmative action for all minority groups, both male and female, and all women, both minority and non-minority. Consequently, the Contractor may be in violation hereof if a particular group is employed in a substantially disparate manner (for example, even though the Contractor has achieved its goals for women generally, the Contractor may be in violation hereof if a specific minority group of women is underutilized).

(k) The Contractor shall not use the goals and timetables or affirmative action standards to discriminate against any person because of race, color, religion, sex or national origin.

(l) The Contractor shall not enter into any subcontract with any person or firm debarred from Government contracts pursuant to Executive Order 11246.

(m) The Contractor shall carry out such sanctions and penalties for violation of this clause including suspension, termination and cancellation of existing subcontracts as may be imposed or ordered by the Lessee. Any Contractor who fails to carry out such sanctions and penalties shall be in violation hereof.

(n) The Contractor, in fulfilling its obligations hereunder shall implement specific affirmative actions steps, at least as extensive as those standards prescribed in paragraph (h) hereof so as to achieve maximum results from its efforts to ensure equal employment opportunity. If the Contractor fails to comply with the requirements of these provisions, the Lessee shall proceed accordingly.

(o) The Contractor shall designate a responsible official to monitor all employment related activity to ensure that the company EEO policy is being carried out, to submit reports relating to the provisions hereof as may be required and to keep records. Records shall at least include for each employee the name, address, telephone numbers, construction trade, union affiliation if any, employee identification number when assigned, social security number, race, sex, status (e.g. mechanical apprentice, trainee, helper, or laborer), dates of changes in status, hours worked per week in the indicated trade, rate of pay, and location at which the work is performed. Records shall be maintained in an easily understandable and retrievable form; however, to the degree that existing records satisfy this requirement, contractors shall not be required to maintain separate records.

(p) Nothing herein provided shall be construed as a limitation upon the application of any laws which establish different standards of compliance or upon the application of requirements for the hiring of local or other area residents (e.g., those under the Public Works Employment Act of 1977 and the Community Development Block Grant Program).

(q) Without limiting any other obligation, term or provision under the Lease, the Contractor shall cooperate with all federal, state or local agencies established for the purpose of implementing affirmative action compliance programs and shall comply with all procedures and guidelines established or which may be established by the Port Authority.

## PART II. MINORITY BUSINESS ENTERPRISES/WOMEN-OWNED BUSINESS ENTERPRISES

As a matter of policy the Port Authority requires the Lessee and the Contractor shall itself and shall require the general contractor or other construction supervisor and each of the Lessee's contractors to use every good faith effort to provide for meaningful participation by Minority Business Enterprises (MBEs) and Women-owned Business Enterprises (WBEs) in the construction work pursuant to the provisions of this Schedule E. For purposes hereof, "Minority Business Enterprise" "(MBE)" shall mean any business enterprise which is at least fifty-one percentum owned by, or in the case of a publicly owned business, at least fifty-one percentum of the stock of which is owned by citizens or permanent resident aliens who are minorities and such ownership is real, substantial and continuing. For the purposes hereof, "Women-owned Business Enterprise" "(WBE)" shall mean any business enterprise which is at least fifty-one percentum owned by, or in the case of a publicly owned business, at least fifty-one percentum of the stock of which is owned by women and such ownership is real, substantial and continuing. A minority shall be as defined in paragraph II(c) of Part I of this Schedule E. "Meaningful participation" shall mean that at least seventeen percent (17%) of the total dollar value of the construction contracts (including subcontracts) covering the construction work are for the participation of Minority Business Enterprises and Women-owned Business Enterprises, of which at least twelve percent (12%) are for the participation of Minority Business Enterprises. Good faith efforts to include meaningful participation by MBEs and WBEs shall include at least the following:

(a) Dividing the work to be subcontracted into smaller portions where feasible.

(b) Actively and affirmatively soliciting bids for subcontracts from MBEs and WBEs, including circulation of solicitations to minority and female contractor associations. The Contractor shall maintain records detailing the efforts made to provide for meaningful MBE and WBE participation in the work, including the names and addresses of all MBEs and WBEs contacted and, if any such MBE or WBE is not selected as a joint venturer or subcontractor, the reason for such decision.

(c) Making plans and specifications for prospective construction work available to MBEs and WBEs in sufficient time for review.

(d) Utilizing the list of eligible MBEs and WBEs maintained by the Port Authority or seeking minorities and women from other sources for the purpose of soliciting bids for subcontractors.

(e) Encouraging the formation of joint ventures, partnerships or other similar arrangements among subcontractors, where appropriate, to insure that the Lessee and Contractor will meet their obligations hereunder.

(f) Insuring that provision is made to provide progress payments to MBEs and WBEs on a timely basis.

(g) Not requiring bonds from and/or providing bonds and insurance for MBEs and WBEs, where appropriate.



Amendment of Executive Bonus Program  
(adopted February 8, 2000)

RESOLVED, that pursuant to the Committee's authority to amend such programs and consistent with the Committee's past practice, the definition of "Cumulative Actual Net Income" contained in each of the Executive Bonus Program and the Executive Bonus Performance Award Program is hereby amended, effective as of the applicable effective date of each of such programs, to read in its entirety as follows:

"Cumulative Actual Net Income" with respect to a quarter means the aggregate consolidated net income of the Company and its consolidated subsidiaries, as shown on the regularly prepared statement of operations of the Company prepared in accordance with GAAP, as adjusted for unbudgeted (i) one-time gains or losses from the disposal of assets, (ii) write-offs of assets (including aircraft and associated parts), and (iii) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii) and (iii) as determined by the Committee, for the period commencing on the first day of the fiscal year of the Company in which such quarter occurs and ending on the last day of such quarter.

CONTINENTAL AIRLINES, INC.  
DEFERRED COMPENSATION PLAN

As Amended and Restated  
Effective February 8, 2000

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CONTINENTAL AIRLINES, INC.

DEFERRED COMPENSATION PLAN

W I T N E S S E T H :

WHEREAS, CONTINENTAL AIRLINES, INC., hereinafter referred to as the "Company," has heretofore adopted the CONTINENTAL AIRLINES, INC. DEFERRED COMPENSATION PLAN, hereinafter referred to as the "Plan," to aid certain of its employees and directors in making more adequate provision for their retirement; and

WHEREAS, the Company desires to restate the Plan and to amend the Plan in several respects, intending thereby to provide an uninterrupted and continuing program of benefits;

NOW THEREFORE, the Plan is hereby restated in its entirety as follows, with no interruption in time, effective as of February 8, 2000, except as otherwise indicated herein:



I.

Definitions and Construction

1.1 Definitions. Where the following words and phrases appear in the Plan, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary.

- (1) Account: An individual account for each Member to which is credited his Compensation deferrals pursuant to Section 3.1 and which is credited (or debited) for such account's allocation of net income (or net loss) as provided in Section 3.2.
- (2) Annual Bonus: The annual incentive bonus, if any, paid in cash by the Employer to or for the benefit of a Member for services rendered or labor performed while a Member. A Member's Annual Bonus shall not include any LTIP Payment.
- (3) Annual Retainer: The annual retainer paid in cash by the Company to or for the benefit of a Nonemployee Director.
- (4) Base Salary: The base rate of pay paid in cash by the Employer to or for the benefit of a Member for services rendered or labor performed while a Member.
- (5) Change in Control: The term "Change in Control" shall have the same meaning as is assigned to such term under the Company's 1998 Stock Incentive Plan, as in effect on January 1, 1999
- (6) Code: The Internal Revenue Code of 1986, as amended.
- (7) Committee: The administrative committee appointed by the Human Resources Committee to administer the Plan.
- (8) Company: Continental Airlines, Inc.
- (9) Company Stock: The Class B common stock, par value \$0.01 per share, of the Company.
- (10) Company Stock Fund: A Fund consisting of a deemed investment in Company Stock.
- (11) Compensation: With respect to a Member who is a Nonemployee Director, such Member's Annual Retainer and Meeting Fees. With respect to any other Member, such Member's Annual Bonus, Base Salary, Executive Bonus, LTIP Payment, and Stay Bonus. Each component of a Member's Compensation shall be determined by including any portion thereof that such Member could have received in cash in lieu of (a) Compensation deferrals pursuant to Section 3.1 or (b) elective contributions made on his behalf by the Employer pursuant to a qualified cash or deferred arrangement (as defined in section 401(k) of the Code) or pursuant to a plan maintained under section 125 of the Code.
- (12) Disability: With respect to a Member who is a Nonemployee Director, a disability that renders such Member permanently and totally unable to perform his duties as a director of the Company as a result of any medically determinable physical or mental impairment as supported by a written medical opinion to the foregoing effect by a physician selected by the Committee (unless such medical opinion is waived by the Committee as unnecessary). With respect to any other Member, a disability entitling such Member to benefits under the Company's group long-term disability plan.
- (13) Effective Date: February 8, 2000, as to this restatement of the Plan. The original effective date of the Plan was January 1, 1999.
- (14) Election Date: The first day of each Plan Year.
- (15) Employer: The Company and any other adopting entity (which must be a Subsidiary) that adopts the Plan pursuant to the provisions of Section 2.3. As of the Effective Date, each of the Company, Continental Express, Inc., and Continental Micronesia, Inc. is an Employer.
- (16) Exchange Act: The Securities Exchange Act of 1934, as amended.
- (17) Executive Bonus: The quarterly incentive bonus, if any, paid in cash by the Employer to or for the benefit of a Member for services rendered or labor performed while a Member, whether pursuant to the Company's Executive Bonus Plan or otherwise.
- (18) Funds: The investment funds designated from time to time for

the deemed investment of Accounts pursuant to Article IV.

- (19) Human Resources Committee: The Human Resources Committee of the Board of Directors of the Company.
- (20) Incentive Plan 2000: The Continental Airlines, Inc. Incentive Plan 2000, as amended from time to time.
- (21) Insider: A Member who is an officer or director of the Company or any Subsidiary and who is subject to Section 16(b) of the Exchange Act.
- (22) LTIP: The Continental Airlines, Inc. Long Term Incentive Performance Award Program, as amended from time to time, which has been established under the Incentive Plan 2000.
- (23) LTIP Payment: The incentive payment, if any, paid in cash by the Employer under the LTIP to or for the benefit of a Member for services rendered or labor performed while a Member. A LTIP Payment shall not include (a) any portion of an award under the LTIP that is paid in shares of Company Stock or (b) any stock option granted in replacement of an award under the LTIP.
- (24) Market Value per Share: As of any specified date, the closing sales price of the Company Stock on that date (or, if there are no sales on that date, the last preceding date on which there was a sale) in the principal securities market in which the Company Stock is then traded. If the Company Stock is not publicly traded at the time a determination of "Market Value per Share" is required to be made hereunder, the determination of such amount shall be made by the Committee in such manner as it deems appropriate.
- (25) Member: Each Nonemployee Director who has become a Member pursuant to Article II and each other individual who has been selected by the Committee for participation in the Plan and who has become a Member pursuant to Article II.
- (26) Meeting Fees: The fees paid in cash by the Company to or for the benefit of a Nonemployee Director for attending or participating in a meeting of the Company's Board of Directors or a committee thereof, acting as the chair of a committee thereof, conducting Company business in his capacity as a director on behalf of the Company at the request of the Board or the Chairman of the Board outside the United States, or such other fees paid in cash as may be paid to a Nonemployee Director from time to time for other services performed in his capacity as a director of the Company.
- (27) Nonemployee Director: Each individual who is a member of the Board of Directors of the Company and who is not employed by the Employer or any Subsidiary.
- (28) Performance Period: The term "Performance Period" shall have the same meaning as is assigned to such term under the LTIP.
- (29) Plan: The Continental Airlines, Inc. Deferred Compensation Plan, as amended from time to time.
- (30) Plan Year: The twelve-consecutive month period commencing January 1 of each year.
- (31) Retirement Date. With respect to each Member who is a Nonemployee Director, the earlier of (a) the first date upon which such Member has completed 10 years of service (whether or not completed consecutively) as a Nonemployee Director or (b) the date upon which such Member has attained 65 years of age. With respect to each other Member, the earlier of (i) the first date upon which such Member has both attained 50 years of age and completed 20 or more years of service for vesting purposes under the Continental Airlines Retirement Plan, (ii) the first date upon which such Member has both attained 55 years of age and completed 10 or more years of service for vesting purposes under the Continental Airlines Retirement Plan, or (iii) the date upon which such Member has attained 65 years of age.
- (32) Stay Bonus: The monthly bonus, if any, paid in cash by the Employer to or for the benefit of a Member pursuant to a Stay Bonus Agreement between the Company and such Member dated as of April 14, 1998.
- (33) Subsidiary: Any corporation that is a "subsidiary corporation" of the Company within the meaning of section 424(f) of the Code.
- (34) Termination of Service: With respect to each Member who is a Nonemployee Director, the termination of such Member's service on the Company's Board of Directors for any reason whatsoever. With respect to each other Member, the termination of such

Member's employment with the Employer and all Subsidiaries for any reason whatsoever.

- (35) Trust: The trust established under the Trust Agreement.
- (36) Trust Agreement: The agreement entered into between the Employer and the Trustee pursuant to Article X.
- (37) Trust Fund: The funds and properties held pursuant to the provisions of the Trust Agreement, together with all income, profits, and increments thereto.
- (38) Trustee: The trustee or trustees qualified and acting under the Trust Agreement at any time.
- (39) Unforeseeable Financial Emergency: An unexpected need of a Member for cash that (a) arises from a sudden and unexpected illness or accident of the Member or of a dependent of a Member, loss of the Member's property due to casualty, or similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of such Member and (b) would result in severe financial hardship to such Member if his Compensation deferral election was not canceled pursuant to Section 3.1(c) and/or if a benefit payment pursuant to Section 6.2 or 7.5(b)(ii) was not permitted. Cash needs arising from foreseeable events, such as the purchase of a house or education expenses for children, shall not be considered to be the result of an Unforeseeable Financial Emergency. Further, cash needs that may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Member's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or (iii) by cessation of deferrals under the Plan shall not be considered to be Unforeseeable Financial Emergencies.
- (40) Valuation Dates: The last business day of each calendar quarter and any other interim Valuation Date determined by the Committee on a nondiscriminatory basis.

1.2 Number and Gender. Wherever appropriate herein, words used in the singular shall be considered to include the plural and words used in the plural shall be considered to include the singular. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender.

1.3 Headings. The headings of Articles and Sections herein are included solely for convenience, and if there is any conflict between such headings and the text of the Plan, the text shall control.

## II.

### Participation

#### 2.1 Participation.

(a) Each individual who is a Nonemployee Director as of an Election Date shall be eligible to become a Member as of such Election Date. Any such Nonemployee Director may become a Member on such Election Date by executing and filing with the Committee, prior to such Election Date, the Compensation deferral election prescribed by the Committee for the Plan Year beginning on such date.

(b) Prior to each Election Date, the Committee, in its sole discretion, shall select and notify those management or highly compensated employees of the Employer who shall be eligible to become Members as of such Election Date. Any such eligible employee may become a Member on such Election Date by executing and filing with the Committee, prior to such Election Date, the Compensation deferral election prescribed by the Committee for the Plan Year beginning on such date.

(c) Subject to the provisions of Section 2.2, a Member shall remain eligible to defer Compensation hereunder for each Plan Year following his initial year of participation in the Plan.

2.2 Cessation of Active Participation. Notwithstanding any provision herein to the contrary, an individual who has become a Member of the Plan (other than a Member who is a Nonemployee Director) shall cease to be entitled to defer Compensation hereunder effective as of any date designated by the Committee. Any such Committee action shall be communicated to the affected individual prior to the effective date of such action. Such an individual may again become entitled to defer Compensation hereunder beginning on any subsequent Election Date selected by the Committee in its sole discretion.

2.3 Adopting Entities. It is contemplated that other corporations may adopt this Plan and thereby become an Employer. Any such entity, whether or not presently existing, may become a party hereto by appropriate action of its officers without the need for approval of its board of directors, the Committee or the Human Resources Committee; provided, however, that such entity must be a Subsidiary. The provisions of the Plan shall apply separately and equally to each Employer and its employees in the same manner as is expressly provided for the Company and its employees, except that the power to appoint or otherwise affect the Committee and the Trustee and the power to amend or terminate the Plan or amend the Trust Agreement shall be exercised by the Human Resources Committee alone. Transfer of employment among Employers and Subsidiaries shall not be considered a termination of employment hereunder. Any Employer may, by appropriate action of its officers without the need for approval of its board of directors, the Committee or the Human Resources Committee, terminate its participation in the Plan. Moreover, the Human Resources Committee may, in its discretion, terminate an Employer's Plan participation at any time.

### III.

#### Account Credits and Allocations of Income or Loss

##### 3.1 Member Deferrals.

(a) In accordance with the procedures established from time to time by the Committee, a Member may elect to defer all or a portion of his Compensation for a Plan Year (or, in the case of a LTIP Payment, for the related Performance Period); provided, however, that a Member's election to defer Compensation for a Plan Year must, in the opinion of the Committee, be reasonably expected to result in a minimum deferral of \$5,000 for such year. Without limiting the discretion of the Committee to establish the procedures pursuant to which Members may defer Compensation, the Committee may, in its discretion, permit a Member to (i) designate fixed or variable percentages or dollar amounts of his Compensation to be deferred throughout the Plan Year (provided that an election to defer a LTIP Payment may be designated only as a fixed percentage or dollar amount to be deferred for the related Performance Period) and (ii) make separate deferral elections with respect to one or more components of his Compensation. Compensation for a Plan Year (or, in the case of a LTIP Payment, for the related Performance Period) not so deferred by such election shall be received by such Member in cash. A Member's election to defer an amount of his Compensation pursuant to this Section shall be made by executing and delivering to the Committee a Compensation deferral election in the form prescribed by the Committee pursuant to which the Member authorizes the Employer to reduce his Compensation in the elected amount and the Employer, in consideration thereof, agrees to credit an equal amount to such Member's Account maintained under the Plan. Compensation deferrals made by a Member shall be credited to such Member's Account as of the date upon which the Compensation deferred would have been received by such Member in cash if he had not elected to defer such amount pursuant to this Section.

(b) A Member's Compensation deferral election shall become effective as of the Election Date which is immediately after the date the election is executed by the Member and delivered to the Committee; provided, however, that a Member's deferral elections with respect to the LTIP Payments relating to the first, second, and third Performance Periods under the LTIP shall become effective as of March 1, 2000, provided that such elections are executed by the Member and delivered to the Committee prior to such date. Subject to the provisions of Section 3.1(c), a Member's Compensation deferral election shall remain in force and effect for the entire Plan Year (or, in the case of an election to defer a LTIP Payment, for the entire Performance Period) to which such election relates; provided, however, that a Member who is eligible to receive Executive Bonuses may, in accordance with procedures established from time to time by the Committee, make a separate deferral election with respect to the Executive Bonus to be paid to such Member with respect to each of the second, third, and fourth calendar quarters of such Plan Year during the calendar month preceding each such quarter. A Member's election to defer Compensation (other than a LTIP Payment) with respect to a Plan Year shall apply to such Compensation for such year even if such Compensation is paid after the close of such Plan Year. Except as provided in the first sentence of this Section 3.1(b), a Member's election to defer a LTIP Payment shall be made prior to the beginning of the Performance Period to which such election relates, and a deferral election with respect to a LTIP Payment shall apply to such payment even if such payment is made after the close of the related Performance Period.

(c) In the event that the Committee, upon written petition of a Member, determines in its sole discretion that such Member has suffered an Unforeseeable Financial Emergency or that such Member will, absent termination of such Member's Compensation deferral election then in effect, suffer an Unforeseeable Financial Emergency, then such Member's Compensation deferral then in effect, if any, shall be terminated as soon as administratively practicable after such determination. A Member whose Compensation deferral election has been so terminated may again elect to defer a portion of his Compensation, effective as of any subsequent Election Date, by executing and delivering to the Employer a new Compensation deferral election prior to such Election Date.

(d) With respect to Compensation deferred by a Member for a Plan Year (or, in the case of a LTIP Payment, for the related Performance Period), such Member's Compensation deferral election shall indicate whether:

(i) 100% of the Compensation deferred under such election and the net income (or net loss) allocated with respect thereto are to be deferred until the date of such Member's Termination of Service; or

(ii) a specified amount of the Compensation deferred under such election shall be deferred until the earlier of such Termination of Service or the last day of a Plan Year specified by such Member in such election (which specified Plan Year must end no earlier than two years after the last day of the Plan Year (or, in the case of the deferral of a LTIP Payment, no earlier than two years after the last day of the Performance Period) to which the Compensation deferral election relates), and the balance of the Compensation deferred under such election and the net income (or net loss) allocated with respect thereto are to be deferred until such Termination of Service.

A Member's elections under this Section 3.1(d) with respect to LTIP Payments shall be separate from such Member's elections with respect to the other components of his Compensation. The Committee shall establish a separate subaccount within a Member's Account for each Plan Year or Performance Period, as applicable, with respect to which such Member makes an election pursuant to clause (ii) of this Section 3.1(d), and all Compensation deferrals made by such Member with respect to such Plan Year or Performance Period, as applicable, and the net income (or net loss) allocated with respect thereto shall be credited (or debited) to such subaccount. The provisions of Section 6.1 shall apply with respect to each election by a Member pursuant to clause (ii) of this Section 3.1(d).

### 3.2 Allocation of Net Income or Loss; Changes in Value Among Accounts; Company Stock.

(a) As of each Valuation Date, the Committee shall determine the net income (or net loss) of each Fund for the period elapsed since the next preceding Valuation Date. The net income (or net loss) of each Fund since the next preceding Valuation Date shall be ascertained by the Committee in such manner as it deems appropriate, provided that such determination shall include any net increase or net decrease (whether or not realized) in the value of the assets of each such Fund since the next preceding Valuation Date (as publicly reported for any Fund that publicly reports its value or results), and may include an appropriate allocation of expenses of administering the Fund, the Trust, and the Plan.

(b) For purposes of allocations of net income (or net loss), each Member's Account (or subaccounts) shall be divided into subaccounts to reflect such Member's deemed investment designation in a particular Fund or Funds pursuant to Article IV. As of each Valuation Date, the net income (or net loss) of each Fund, separately and respectively, shall be allocated among the corresponding subaccounts of the Members who had such corresponding subaccounts on the next preceding Valuation Date, and each such corresponding subaccount shall be credited with (or debited for) that portion of such net income (or net loss) that the value of each such corresponding subaccount on such next preceding Valuation Date was of the value of all such corresponding subaccounts on such date; provided, however, that the value of such subaccounts as of the next preceding Valuation Date shall be reduced by the amount of any payments debited thereto in accordance with Section 7.6 since the next preceding Valuation Date.

(c) So long as there is any balance in any Account, such Account shall continue to receive allocations pursuant to this Section.

(d) Plan provisions to the contrary notwithstanding, the provisions of this Section 3.2(d) shall be applicable with respect to allocations and accounting for deemed investments in the Company Stock Fund. All amounts that are allocated to a Member's Account under the Plan and that are to be deemed invested in the Company Stock Fund shall be deemed to have been used to purchase shares of Company Stock (including fractional shares). Shares of Company Stock that have been so deemed to have been purchased for a Member's Account shall be earmarked for the benefit of such Member. Any cash dividends that would have been received with respect to Company Stock earmarked for a Member's Account shall be deemed to have been used to purchase additional shares of Company Stock (including fractional shares) as of the date such dividends would have been received, and such additional shares shall also be earmarked for the benefit of such Member. Any Company Stock that would have been received as a result of a stock split or stock dividend shall be allocated pro rata to the Members' Accounts in proportion to the respective deemed balances of Company Stock credited to such Accounts as of the appropriate record date and, following an allocation of such shares to a Member's Account, such shares shall be earmarked for the benefit of such Member.

#### IV.

##### Deemed Investment of Funds

###### 4.1 Deemed Investment of Accounts.

(a) Each Member shall designate, in accordance with the procedures established from time to time by the Committee, the manner in which the amounts allocated to his Account shall be deemed to be invested from among the Funds made available from time to time for such purpose by the Committee; provided, however, that, at all times, one of the Funds that shall be made available for purposes of this Section 4.1 shall be the Company Stock Fund. Such Member may designate one of such Funds for the deemed investment of all such amounts allocated to his Account or he may split the deemed investment of such amounts allocated to his Account among such Funds in such increments as the Committee may prescribe. If a Member fails to make a proper designation, then his Account shall be deemed to be invested in the Fund or Funds designated by the Committee from time to time in a uniform and nondiscriminatory manner.

(b) A Member may change his deemed investment designation for future deferrals to be allocated to his Account. Any such change shall be made in accordance with the procedures established by the Committee, and the frequency of such changes may be limited by the Committee.

(c) A Member may elect to convert his deemed investment designation with respect to the amounts already allocated to his Account. Any such conversion shall be made in accordance with the procedures established by the Committee, and the frequency of such conversions may be limited by the Committee. No election of a conversion designation by an Insider which has the effect of increasing the total amount allocated to the Company Stock Fund may be made on a date which is less than six months following (i) the date of any prior election of a conversion designation by such Insider which had the effect of decreasing the total amount allocated to the Company Stock Fund or (ii) the date of any election by such Insider with respect to any other plan of the Employer or any subsidiary thereof which had the effect (directly or indirectly) of making a disposition on behalf of such Insider of Company Stock. No election of a conversion designation by an Insider which has the effect of decreasing the total amount allocated to the Company Stock Fund may be made on a date which is less than six months following (1) the date of any prior election of a conversion designation by such Insider which had the effect of increasing the total amount allocated to the Company Stock Fund or (2) the date of any election by such Insider with respect to any other plan of the Employer or any subsidiary thereof which had the effect (directly or indirectly) of making an acquisition on behalf of the Insider of Company Stock.

(d) The restrictions contained in the Plan regarding investment designations, changes, and/or conversions by Insiders respecting the Company Stock Fund are intended to comply with, and enable Insiders to rely upon, the exemption provided by Rule 16b-3 under the Exchange Act. Any future amendment to Rule 16b-3 or any successor rule promulgated by the Securities and Exchange Commission affecting the investment by Insiders in the Company Stock Fund shall be incorporated by reference herein and be deemed to be an amendment to the Plan in order that Insiders shall continue to be entitled to rely upon the exemption provided by such rule without any interruption. Notwithstanding the foregoing, the Committee or the Human Resources Committee may alter the designation, change and/or conversion restrictions applicable to an Insider, as set forth in the Plan, as a result of changes in Rule 16b-3 under the Exchange Act.

4.2 Deemed Purchases and Sales of Company Stock. For all purposes of the Plan, all deemed purchases and sales of shares of Company Stock shall be deemed to have been made at the Market Value per Share for the date such purchase or sale was deemed to have occurred under the provisions of the Plan.

V.

Determination of Vested Interest

Except as otherwise expressly provided in the Plan, a Member shall have a 100% vested and nonforfeitable interest in his Account at all times.



## VI.

### In-Service Distributions

6.1 Distribution of Certain Compensation Deferrals. With respect to each election made by a Member pursuant to Section 3.1(d)(ii), as soon as administratively practicable after the last day of the Plan Year specified by such Member in such election, such Member shall receive a distribution in a single lump sum payment in an amount equal to the lesser of (a) the amount of the distribution such Member elected to receive on such specified date pursuant to such election or (b) the value as of such specified date of the subaccount within such Member's Account that was established by the Committee in connection with such election. If a Member's Account is deemed to be invested in more than one Fund, such benefit shall be distributed pro rata from each Fund in which such Account is deemed to be invested.

6.2 Emergency Benefit. In the event that the Committee, upon written petition of a Member, determines in its sole discretion that such Member has suffered an Unforeseeable Financial Emergency, such Member shall be entitled to a distribution in an amount not to exceed the lesser of (a) the amount determined by the Committee as necessary to meet such Member's needs created by the Unforeseeable Financial Emergency or (b) the then value of such Member's Account. Such benefit shall be paid in a single lump sum payment as soon as administratively practicable after the Committee has made its determinations with respect to the availability and amount of such benefit. If a Member's Account is deemed to be invested in more than one Fund, such benefit shall be distributed pro rata from each Fund in which such Account is deemed to be invested. If a Member's Account contains one or more deferral elections pursuant to Section 3.1(d)(ii), such benefit shall be considered to have been distributed, first, from the deferral amount with respect to which the earliest distribution would be made pursuant to Section 6.1, then, from the deferral amount with respect to which the next earliest distribution would be made pursuant to Section 6.1, and continuing in such manner until the amount of such distribution has been satisfied.

### 6.3 Elective Withdrawal.

(a) A Member may elect at any time, by following the election procedure prescribed by the Committee, to withdraw as a benefit all or a portion of his Account as of any Valuation Date, subject to a withdrawal penalty of 10% of the amount of any such withdrawal. Upon any such withdrawal, the withdrawal penalty referred to in the preceding sentence shall be forfeited to the Employer. Further, upon any such withdrawal, such Member's participation in the Plan shall terminate and no further Compensation deferrals shall be made under the Plan on behalf of such Member until the first day of the Plan Year that is at least 12 months after the date of such withdrawal. If a Member's Account is deemed to be invested in more than one Fund, such withdrawal shall be distributed pro rata from each Fund in which such Account is deemed to be invested. If a Member's Account contains one or more deferral elections pursuant to Section 3.1(d)(ii), such withdrawal shall be considered to have been distributed, first, from the deferral amount with respect to which the earliest distribution would be made pursuant to Section 6.1, then, from the deferral amount with respect to which the next earliest distribution would be made pursuant to Section 6.1, and continuing in such manner until the amount of such withdrawal (including the withdrawal penalty) has been satisfied. Notwithstanding the preceding provisions of this Section 6.3(a), a Member shall not be entitled to a withdrawal under this Section 6.3(a) if the Committee determines, in its sole discretion, that the primary purpose of such withdrawal is the cessation of Compensation deferrals under the Plan. The Committee shall consider such factors as it deems appropriate in order to make a determination pursuant to the preceding sentence, including, without limitation, the amount of the requested withdrawal, the balance in the Member's Account, the Member's Compensation deferral election then in effect, and the timing of such withdrawal request.

(b) No election of a withdrawal of an amount allocated to the Company Stock Fund may be made by an Insider on a date which is less than six months following (i) the date of any prior election to convert such Insider's deemed investment designation which had the effect of increasing the total amount allocated to the Company Stock Fund or (ii) the date of any election by such Insider with respect to any other plan of the Employer or any subsidiary thereof which had the effect (directly or indirectly) of making an acquisition on behalf of such Insider of Company Stock.

6.4 Restriction on In-Service Distributions. This Article VI shall not be applicable to a Member following his Termination of Service, and the amounts credited to such Member's Account shall be payable to such Member in accordance with the provisions of Article



## VII.

### Termination Benefits

7.1 Amount of Benefit. Upon a Member's Termination of Service, the Member, or, in the event of the death of the Member while employed by the Employer or a Subsidiary (or while serving on the Company's Board of Directors in the case of a Nonemployee Director), the Member's designated beneficiary, shall be entitled to a benefit equal in value to the balance in the Member's Account as of the Valuation Date next preceding the date the payment of such benefit is to commence pursuant to Section 7.2.

7.2 Time of Payment. Payment of a Member's benefit under Section 7.1 shall commence as soon as administratively practicable after the Valuation Date coincident with or next succeeding the date of the Member's Termination of Service; provided, however, that, in a written election on the form prescribed by the Committee, a Member may elect at the time specified in Section 7.3(c) to defer the commencement of the payment of his benefit in the event of his Termination of Service prior to his Retirement Date by reason of Disability to the Valuation Date coincident with or next succeeding the earlier of (a) the date of such Member's death or (b) the date such Member attains age 65.

#### 7.3 Alternative Forms of Benefit Payments.

(a) A Member's benefit under Section 7.1 shall be paid in the form of a single lump sum payment if such Member's Termination of Service occurs prior to his Retirement Date for a reason other than Disability.

(b) With respect to a Member whose Termination of Service occurs (i) prior to his Retirement Date by reason of Disability or (ii) on or after his Retirement Date, such Member shall receive his benefit payments in one of the following forms elected by such Member in writing on the form prescribed by the Committee at the time specified in Section 7.3(c):

(1) A single lump sum payment; or

(2) Annual installment payments for a period of from two to 20 years as designated by such Member; provided, however, that in the event of such Member's death prior to the end of such period, the remaining balance in such Member's Account shall be paid as soon as administratively feasible in one lump sum payment to such Member's designated beneficiary as provided in Section 7.4. The amount of each annual installment shall be computed by dividing the unpaid balance in the Member's Account as of the Valuation Date next preceding the date of payment of such annual installment by the number of annual installments remaining.

A separate election shall be made pursuant to this Section 7.3(b) by each Member with respect to the form of distribution to be made in connection with a Termination of Service that occurs (A) prior to such Member's Retirement Date by reason of Disability or (B) on or after such Member's Retirement Date. In the event such Member fails to timely elect in accordance with Section 7.3(c) the form in which his benefit payments are to be made, such benefit payments shall be in the form of a single lump sum payment.

(c) A Member's elections pursuant to Sections 7.2 and 7.3(b) shall be made on or before the date he first becomes a Member of the Plan. Notwithstanding the foregoing, subject to the consent of the Committee in its sole discretion, a Member may, on the form prescribed by the Committee, make one change to each of his original elections made pursuant to Sections 7.2 and 7.3(b); provided, however, that (i) upon making any such change, the aggregate balance in such Member's Account as of the Valuation Date coincident with or next succeeding such change shall be reduced by 5% and such amount shall be forfeited to the Employer and (ii) such change shall not be effective (but the penalty described in clause (i) of this sentence shall still apply) if such Member incurs a Termination of Service on or before the date that is two years after such Member delivers the form implementing such change to the Committee.

#### 7.4 Designation of Beneficiaries.

(a) Each Member shall have the right to designate the beneficiary or beneficiaries to receive payment of his benefit in the event of his death. Each such designation shall be made by executing the beneficiary designation form prescribed by the Committee and filing same with the Committee. Any such designation may be changed at any time by execution of a new designation in accordance with this Section.

(b) If no such designation is on file with the Committee

at the time of the death of the Member or such designation is not effective for any reason as determined by the Committee, then the designated beneficiary or beneficiaries to receive such benefit shall be as follows:

(i) If a Member leaves a surviving spouse, his benefit shall be paid to such surviving spouse;

(ii) If a Member leaves no surviving spouse, his benefit shall be paid to such Member's executor or administrator, or to his heirs at law if there is no administration of such Member's estate.

#### 7.5 Accelerated Pay-Out of Certain Benefits.

(a) Notwithstanding any provision in Section 7.3(b) to the contrary, if a Member's benefit payments are to be paid in a form other than a single lump sum payment and the aggregate amount to be paid to such Member in any particular calendar year is less than \$10,000, then the Committee may, in its sole discretion, elect to cause the remaining balance in such Member's Account to be paid in a single lump sum payment.

(b) If a Member incurs a Termination of Service and such Member's benefit payments are being, or are to be, paid in a form other than a single lump sum payment, then:

(i) Such Member may elect at any time, by following the election procedure prescribed by the Committee, to receive the remaining balance in his Account (reduced by the 10% penalty described in the following sentence) in a single lump sum payment as soon as administratively feasible after the Valuation Date coincident with or next succeeding the date such Member delivers to the Committee the form prescribed by the Committee requesting such distribution. Upon such a request, the aggregate balance in such Member's Account as of such Valuation Date shall be reduced by 10% and such amount shall be forfeited to the Employer; and

(ii) In the event that the Committee, upon written petition of such Member, determines in its sole discretion that such Member has suffered an Unforeseeable Financial Emergency, such Member shall be entitled to an emergency benefit in an amount and under conditions similar to those described in Section 6.2.

7.6 Payment of Benefits. To the extent the Trust Fund has sufficient assets, the Trustee shall pay benefits to Members or their beneficiaries, except to the extent the Employer pays the benefits directly and provides adequate evidence of such payment to the Trustee. To the extent the Trustee does not or cannot pay benefits out of the Trust Fund, the benefits shall be paid by the Employer. Any benefit payments made to a Member or for his benefit pursuant to any provision of the Plan shall be debited to such Member's Account. All benefit payments shall be made in cash to the fullest extent practicable.

7.7 Unclaimed Benefits. In the case of a benefit payable on behalf of a Member, if the Committee is unable, after reasonable efforts, to locate the Member or beneficiary to whom such benefit is payable, upon the Committee's determination thereof, such benefit shall be forfeited to the Employer. Notwithstanding the foregoing, if subsequent to any such forfeiture the Member or beneficiary to whom such benefit is payable makes a valid claim for such benefit, such forfeited benefit (without any adjustment for earnings or loss) shall be restored to the Plan by the Employer and paid in accordance with the Plan.

## VIII.

### Administration of the Plan

8.1 Appointment of Committee. The general administration of the Plan shall be vested in the Committee which shall be appointed by the Human Resources Committee and shall consist of one or more persons. Any individual, whether or not an employee of the Employer, is eligible to become a member of the Committee.

8.2 Term, Vacancies, Resignation, and Removal. Each member of the Committee shall serve until he resigns, dies, or is removed by the Human Resources Committee. At any time during his term of office, a member of the Committee may resign by giving written notice to the Human Resources Committee and the Committee, such resignation to become effective upon the appointment of a substitute member or, if earlier, the lapse of thirty days after such notice is given as herein provided. At any time during his term of office, and for any reason, a member of the Committee may be removed by the Human Resources Committee with or without cause, and the Human Resources Committee may in its discretion fill any vacancy that may result therefrom. Any member of the Committee who is an employee of the Employer shall automatically cease to be a member of the Committee as of the date he ceases to be employed by the Employer or any Subsidiary.

8.3 Self-Interest of Members. No member of the Committee shall have any right to vote or decide upon any matter relating solely to himself under the Plan or to vote in any case in which his individual right to claim any benefit under the Plan is particularly involved. In any case in which a Committee member is so disqualified to act and the remaining members cannot agree, the Human Resources Committee shall appoint a temporary substitute member to exercise all the powers of the disqualified member concerning the matter in which he is disqualified.

8.4 Committee Powers and Duties. The Committee shall supervise the administration and enforcement of the Plan according to the terms and provisions hereof and shall have all powers necessary to accomplish these purposes, including, but not by way of limitation, the right, power, and authority:

(a) To make rules, regulations, and bylaws for the administration of the Plan that are not inconsistent with the terms and provisions hereof, and to enforce the terms of the Plan and the rules and regulations promulgated thereunder by the Committee;

(b) To construe in its discretion all terms, provisions, conditions, and limitations of the Plan;

(c) To correct any defect or to supply any omission or to reconcile any inconsistency that may appear in the Plan in such manner and to such extent as it shall deem in its discretion expedient to effectuate the purposes of the Plan;

(d) To employ and compensate such accountants, attorneys, investment advisors, and other agents, employees, and independent contractors as the Committee may deem necessary or advisable for the proper and efficient administration of the Plan;

(e) To determine in its discretion all questions relating to eligibility;

(f) To determine whether and when a Member has incurred a Termination of Service, and the reason for such termination;

(g) To make a determination in its discretion as to the right of any person to a benefit under the Plan and to prescribe procedures to be followed by distributees in obtaining benefits hereunder;

(h) To receive and review reports from the Trustee as to the financial condition of the Trust Fund, including its receipts and disbursements; and

(i) To establish or designate Funds as investment options as provided in Article IV.

8.5 Claims Review. In any case in which a claim for Plan benefits of a Member or beneficiary is denied or modified, the Committee shall furnish written notice to the claimant within 90 days (or within 180 days if additional information requested by the Committee necessitates an extension of the 90-day period), which notice shall:

(a) State the specific reason or reasons for the denial or modification;

(b) Provide specific reference to pertinent Plan provisions on which the denial or modification is based;

(c) Provide a description of any additional material or information necessary for the Member, his beneficiary, or representative to perfect the claim and an explanation of why such material or information is necessary; and

(d) Explain the Plan's claim review procedure as contained herein.

In the event a claim for Plan benefits is denied or modified, if the Member, his beneficiary, or a representative of such Member or beneficiary desires to have such denial or modification reviewed, he must, within 60 days following receipt of the notice of such denial or modification, submit a written request for review by the Committee of its initial decision. In connection with such request, the Member, his beneficiary, or the representative of such Member or beneficiary may review any pertinent documents upon which such denial or modification was based and may submit issues and comments in writing. Within 60 days following such request for review the Committee shall, after providing a full and fair review, render its final decision in writing to the Member, his beneficiary or the representative of such Member or beneficiary stating specific reasons for such decision and making specific references to pertinent Plan provisions upon which the decision is based. If special circumstances require an extension of such 60-day period, the Committee's decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. If an extension of time for review is required, written notice of the extension shall be furnished to the Member, beneficiary, or the representative of such Member or beneficiary prior to the commencement of the extension period.

#### 8.6 Dispute Resolution; Mandatory Arbitration.

(a) If a Member or beneficiary is not satisfied with the decision of the Committee pursuant to the Plan's claims review procedure, then such Member or beneficiary may, within 180 days of receipt of the written decision of the Committee, request by written notice to the Committee that his claim be submitted to arbitration pursuant to the procedures set forth in this Section. In such event, all claims, demands, causes of action, disputes, controversies, and other matters in question arising out of or relating to the Plan, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of the Plan, involving the Employer, such Member or beneficiary, and/or their respective representatives, even though some or all of such claims allegedly are extra-contractual in nature, whether such claims sound in contract, tort, or otherwise, at law or in equity, under state or federal law, whether provided by statute or the common law, for damages or any other relief, shall be resolved by binding arbitration pursuant to the Federal Arbitration Act in accordance with the Commercial Arbitration Rules then in effect with the American Arbitration Association; provided, however, that the arbitrators shall use the standard of review which would be used by a federal court in reviewing a decision of the Committee under the provisions of the Employee Retirement Income Security Act of 1974. The arbitration proceeding shall be conducted in Houston, Texas. This requirement to arbitrate shall be enforceable in either federal or state court.

(b) The enforcement of this requirement to arbitrate and all procedural aspects of the arbitration, including but not limited to, the construction and interpretation of this Section, the issues subject to arbitration (i.e., arbitrability), the scope of the arbitrable issues, allegations of waiver, delay or defenses to arbitrability, and the rules governing the conduct of the arbitration, shall be governed by and construed pursuant to the Federal Arbitration Act and shall be decided by the arbitrators. In deciding the substance of any such claims, the arbitrators shall apply the substantive laws of the State of Texas (excluding Texas choice-of-law principles that might call for the application of some other state's law); provided, however, it is expressly provided that the arbitrators shall have no authority to award treble, exemplary, or punitive damages under any circumstances regardless of whether such damages may be available under Texas law.

(c) Within 30 days after notice to the Committee pursuant to Section 8.6(a) to have a claim resolved by arbitration, (i) the Member or beneficiary, as applicable, shall denominate one arbitrator and (ii) the Company shall denominate one arbitrator. The two arbitrators shall select a third arbitrator failing agreement on which within 60 days of the original notice, either the Company or the Member or beneficiary, as applicable, shall apply to the Senior Active United States District Judge for the Southern District of Texas, who shall appoint a third arbitrator. While the third arbitrator shall be neutral, the two party-appointed arbitrators are not required to be neutral and it shall

not be grounds for removal of either of the two party-appointed arbitrators or for vacating the arbitrators' award that either of such arbitrators has past or present minimal relationships with the party that appointed such arbitrator. Evident partiality on the part of an arbitrator exists only where the circumstances are such that a reasonable person would have to conclude there in fact existed actual bias and a mere appearance or impression of bias will not constitute evident partiality or otherwise disqualify an arbitrator.

(d) The three arbitrators shall by majority vote resolve all disputes between the parties. There shall be no transcript of the hearing before the arbitrators. The arbitrators' decision shall be in writing, but shall be as brief as possible. The arbitrators shall not assign the reasons for their decision. The arbitrators shall certify in their award that they have faithfully applied the terms and conditions of the Plan and that no part of their award includes any amount for treble, exemplary or punitive damages. Judgment upon any award rendered in any such arbitration proceeding may be entered by any federal or state court having jurisdiction.

(e) The Member or beneficiary and the Employer shall share equally the costs and expenses of the arbitrators. Each party to an arbitration proceeding shall be responsible for its own costs and expenses, including its own attorneys' fees. Notwithstanding the preceding provisions of this Section 8.6(e), if, following a Change in Control, a Member or beneficiary shall obtain any money judgment in an arbitration brought by such Member or beneficiary pursuant to this Section, which money judgment is in excess of the amount determined as owed to such Member or beneficiary by the Committee pursuant to the Plan's claims review procedure, then the Employer, to the fullest extent permitted by applicable law, shall indemnify such Member or beneficiary for his share of the costs and expenses of the arbitrators and such Member's or beneficiary's reasonable attorneys' fees and disbursements incurred in such arbitration, and the Employer shall pay in full all such costs, expenses, fees, and disbursements.

8.7 Employer to Supply Information. The Employer shall supply full and timely information to the Committee, including, but not limited to, information relating to each Member's Compensation, age, retirement, death, Disability, or other cause of Termination of Service and such other pertinent facts as the Committee may require. The Employer shall advise the Trustee of such of the foregoing facts as are deemed necessary for the Trustee to carry out the Trustee's duties under the Plan and the Trust Agreement. When making a determination in connection with the Plan, the Committee shall be entitled to rely upon the aforesaid information furnished by the Employer.

8.8 Indemnity. To the extent permitted by applicable law, the Company shall indemnify and save harmless each member of the Committee and the Human Resources Committee against any and all expenses, liabilities and claims (including legal fees incurred to investigate or defend against such liabilities and claims) arising out of their discharge in good faith of responsibilities under or incident to the Plan. Expenses and liabilities arising out of willful misconduct shall not be covered under this indemnity. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, as such indemnities are permitted under applicable law.

8.9 Change in Control. Notwithstanding any provision in the Plan to the contrary, upon the occurrence of a Change in Control, the Committee's powers and duties under the Plan shall cease to the extent, if any, such powers and duties are vested in the Trustee under the terms of the Trust Agreement.

IX.

Administration of Funds

9.1 Payment of Expenses. All expenses incident to the administration of the Plan and Trust, including but not limited to, legal, accounting, Trustee fees, and expenses of the Committee, may be paid by the Employer and, if not paid by the Employer, shall be paid by the Trustee from the Trust Fund.

9.2 Trust Fund Property. All income, profits, recoveries, contributions, forfeitures and any and all moneys, securities and properties of any kind at any time received or held by the Trustee shall be held for investment purposes as a commingled Trust Fund pursuant to the terms of the Trust Agreement. The Committee shall maintain one or more Accounts in the name of each Member, but the maintenance of an Account designated as the Account of a Member shall not mean that such Member shall have a greater or lesser interest than that due him by operation of the Plan and shall not be considered as segregating any funds or property from any other funds or property contained in the commingled fund. No Member shall have any title to any specific asset in the Trust Fund.

9.3 Contributions to the Trust Fund. As soon as administratively practicable after each date upon which an amount is credited to a Member's Account pursuant to Section 3.1, the Employer shall contribute an equivalent amount to the Trust Fund.

9.4 Investment of the Trust Fund. The Committee shall have the right, power, authority, and duty to instruct the Trustee as to the management, investment, and reinvestment of the Trust Fund.



## Nature of the Plan

The Employer intends and desires by the adoption of the Plan to recognize the value to the Employer of the past and present services of Nonemployee Directors and employees covered by the Plan and to encourage and assure their continued service with the Employer by making more adequate provision for their future retirement security. The establishment of the Plan is made necessary by certain benefit limitations which are imposed on the Employer's tax-qualified plans by the Employee Retirement Income Security Act of 1974 and by the Code. The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation for Nonemployee Directors and a select group of management or highly compensated employees of the Employer. Plan benefits herein provided are a contractual obligation of the Employer which shall be paid out of the Trust Fund or out of the Employer's general assets. Subject to the terms hereof and of the Trust Agreement, the Employer shall transfer money or other property to the Trustee to provide Plan benefits hereunder, and the Trustee shall pay Plan benefits to Members and their beneficiaries out of the Trust Fund.

The Employer shall establish the Trust and enter into the Trust Agreement. The Employer shall remain the owner of all assets in the Trust Fund and the assets shall be subject to the claims of the Employer's creditors if the Employer ever becomes insolvent. For purposes hereof, the Employer shall be considered "insolvent" if (a) the Employer is unable to pay its debts as they become due or (b) the Employer is subject to a pending proceeding as a debtor under the United States Bankruptcy Code (or any successor federal statute). The chief executive officer of the Employer and its board of directors shall have the duty to inform the Trustee in writing if the Employer becomes insolvent. Such notice given under the preceding sentence by any party shall satisfy all of the parties' duty to give notice. When so informed, the Trustee shall suspend payments to the Members and hold the assets for the benefit of the Employer's general creditors. If the Trustee receives a written allegation that the Employer is insolvent, the Trustee shall suspend payments to the Members and hold the Trust Fund for the benefit of the Employer's general creditors, and shall determine within the period specified in the Trust Agreement whether the Employer is insolvent. If the Trustee determines that the Employer is not insolvent, the Trustee shall resume payments to the Members. No Member or beneficiary shall have any preferred claim to, or any beneficial ownership interest in, any assets of the Trust Fund, and, upon commencement of participation in the Plan, each Member shall have agreed to waive his priority credit position, if any, under applicable state law with respect to the assets of the Trust Fund.

XI.

Miscellaneous

11.1 Not Contract of Employment. The adoption and maintenance of the Plan shall not be deemed to be a contract between the Employer and any person or to be consideration for the employment of or service as a director by any person. Nothing herein contained shall be deemed to (a) give any person the right to be nominated to the Company's Board of Directors to serve as a director or to be retained in the employ of the Employer, (b) restrict the right of the Employer to discharge any person at any time, (c) give the Employer the right to require any person to remain in the employ of the Employer or continue service as a director, or (d) restrict any person's right to terminate his employment or service as a director at any time.

11.2 Alienation of Interest Forbidden. The interest of a Member or his beneficiary or beneficiaries hereunder may not be sold, transferred, assigned, or encumbered in any manner, either voluntarily or involuntarily, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be null and void; neither shall the benefits hereunder be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person to whom such benefits or funds are payable, nor shall they be an asset in bankruptcy or subject to garnishment, attachment or other legal or equitable proceedings.

11.3 Withholding. All Compensation deferrals and payments provided for hereunder shall be subject to applicable withholding and other deductions as shall be required of the Employer under any applicable local, state or federal law.

11.4 Amendment and Termination. The Human Resources Committee may from time to time, in its discretion, amend, in whole or in part, any or all of the provisions of the Plan; provided, however, that no amendment may be made that would impair the rights of a Member with respect to amounts already allocated to his Account. The Human Resources Committee may terminate the Plan at any time. In the event that the Plan is terminated, the balance in a Member's Account shall be paid to such Member or his designated beneficiary in the manner specified by the Committee, which may include the payment of a single lump sum payment in full satisfaction of all of such Member's or beneficiary's benefits hereunder.

11.5 Severability. If any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

11.6 Guaranty. Notwithstanding any provisions of the Plan to the contrary, in the event any Subsidiary that adopts the Plan pursuant to Section 2.3 hereof fails to make payment of the benefits due under the Plan on behalf of its Members, whether directly or through the Trust, the Company shall be liable for and shall make payment of such benefits due as a guarantor of such entity's obligations hereunder. The guaranty obligations provided herein shall be satisfied directly and not through the Trust.

11.7 Governing Laws. All provisions of the Plan shall be construed in accordance with the laws of Texas except to the extent preempted by federal law.

11.8 Effect of Plan Restatement. The Plan as set forth herein constitutes an amendment and restatement of the Plan as previously adopted by the Company prior to the Effective Date (the "Prior Plan"), and, except as provided below, shall supersede and replace in its entirety the Prior Plan. This amendment and restatement of the Plan shall be effective as of the Effective Date provided that the Incentive Plan 2000 is approved by the Company's stockholders in the manner required under section 162(m) of the Code at the Company's 2000 annual meeting of stockholders. Notwithstanding any provision herein to the contrary, if the Incentive Plan 2000 is not so approved by the Company's stockholders, then (a) this restatement of the Plan shall be void ab initio and the Prior Plan shall remain in full force and effect and (b) all elections by Members to defer LTIP Payments shall be void ab initio and of no further effect.

EXECUTED this \_\_\_\_ day of February, 2000.

CONTINENTAL AIRLINES, INC.

By: Jeffery A. Smisek  
Executive Vice President

## CONTINENTAL AIRLINES, INC.

## INCENTIVE PLAN 2000

## 1. PURPOSE

The purpose of the Continental Airlines, Inc. Incentive Plan 2000 is to provide a means through which Continental Airlines, Inc. and its subsidiaries may attract able persons to serve as directors, or to enter or remain in the employ of the Company (as defined below) or its subsidiaries, and to provide a means whereby those individuals upon whom the responsibilities of the successful administration and management of the Company and its subsidiaries rest, and whose present and potential contributions to the welfare of the Company and its subsidiaries are of importance, can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of the Company and its subsidiaries. A further purpose of the Plan is to provide such individuals with additional incentive and reward opportunities designed to enhance the profitable growth of the Company and its subsidiaries. So that the maximum incentive can be provided, the Plan provides for granting Incentive Stock Options, Non-Qualified Options, Restricted Stock Awards, Performance Awards, and Incentive Awards, or any combination of the foregoing, as is best suited to the circumstances of the particular person.

## 2. DEFINITIONS

The following definitions (including any plural thereof) shall be applicable throughout the Plan unless specifically modified by any Section:

(a) "Administrator" means (i) in the context of Awards made to, or the administration (or interpretation of any provision) of the Plan as it relates to, any person who is subject to Section 16 of the Exchange Act (including any successor section to the same or similar effect, "Section 16"), the Committee, or (ii) in the context of Awards made to, or the administration (or interpretation of any provision) of the Plan as it relates to, any person who is not subject to Section 16, the Chief Executive Officer of the Company (or, if the Chief Executive Officer is not a Director of the Company, the Committee), unless the Plan specifies that the Committee shall take specific action (in which case such action may only be taken by the Committee) or the Committee (as to any Award described in this clause (ii) or the administration or interpretation of any specific provision of the Plan) specifies that it shall serve as Administrator.

(b) "Award" means, individually or collectively, any Option, Restricted Stock Award, Performance Award or Incentive Award.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended from time to time. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations promulgated under such section.

(e) "Committee" means a committee of the Board comprised solely of two or more outside Directors (within the meaning of the term "outside directors" as used in section 162(m) of the Code and applicable interpretive authority thereunder and within the meaning of "Non-Employee Director" as defined in Rule 16b-3). Such committee shall be the Human Resources Committee of the Board unless and until the Board designates another committee of the Board to serve as the Committee.

(f) "Common Stock" means the Class B common stock, \$.01 par value, of the Company, or any security into which such Common Stock may be changed by reason of any transaction or event of the type described in Section 11(b).

(g) "Company" shall mean Continental Airlines, Inc., a Delaware corporation, or any successor thereto.

(h) "Director" means an individual elected to the Board by the stockholders of the Company or by the Board under applicable corporate law who is serving on the Board on the date the Plan is adopted by the Board or is elected to the Board after such date.

(i) "Disability" means, with respect to a Participant, such Participant's disability entitling him or her to benefits under the Company's group long-term disability plan; provided, however, that if such Participant is not eligible to participate in such plan, then such Participant shall be considered to have incurred a "Disability" if and when the Administrator determines in its discretion that such Participant has become incapacitated for a period of at least 180 days by accident, sickness, or other

circumstance which renders such Participant mentally or physically incapable of performing the material duties and services required of him or her in his or her employment on a full-time basis during such period.

(j) "employee" means any person (which may include a Director) in an employment relationship with the Company or any parent or subsidiary corporation (as defined in section 424 of the Code).

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(l) "Grant Document" means the document or documents evidencing an Award under the Plan, which may be either an agreement between the Company and the Holder as to the Award (with any amendments thereto) or a notice of grant of the Award from the Company to the Holder (including any attached statement of the terms and conditions of the Award and any modifications thereto made in accordance with the Plan).

(m) "Holder" means an employee or a non-employee Director who has been granted an Option, a Restricted Stock Award, a Performance Award, or an Incentive Award.

(n) "Incentive Award" means an Award granted under Section 10 of the Plan.

(o) "Incentive Stock Option" means an incentive stock option within the meaning of section 422 of the Code.

(p) "Market Value per Share" means, as of any specified date, the closing sale price of the Common Stock on that date (or, if there are no sales on that date, the last preceding date on which there was a sale) in the principal securities market in which the Common Stock is then traded. If the Common Stock is not publicly traded at the time a determination of "Market Value per Share" is required to be made hereunder, the determination of such amount shall be made by the Administrator in such manner as it deems appropriate.

(q) "Non-Qualified Option" means an Option that is not an Incentive Stock Option.

(r) "Option" means an Award under Section 7 of the Plan and includes both Non-Qualified Options and Incentive Stock Options to purchase Common Stock.

(s) "Performance Award" means an Award granted under Section 9 of the Plan.

(t) "Personal Representative" means the person who upon the death, disability, or incompetency of a Holder shall have acquired, by will or by the laws of descent and distribution or by other legal proceedings, the right to exercise an Option or the right to any Restricted Stock Award, Performance Award, or Incentive Award theretofore granted or made to such Holder.

(u) "Plan" means the Continental Airlines, Inc. Incentive Plan 2000, as amended from time to time.

(v) "Restricted Stock" means shares of Common Stock granted pursuant to a Restricted Stock Award as to which neither the substantial risk of forfeiture nor the restriction on transfer referred to in Section 8 of the Plan has expired.

(w) "Restricted Stock Award" means an Award granted under Section 8 of the Plan.

(x) "Rule 16b-3" means Rule 16b-3 under the Exchange Act, as such rule may be amended from time to time, and any successor rule, regulation or statute fulfilling the same or similar function.

(y) "SAR" means a stock appreciation right granted in connection with an Option under Section 7 of the Plan.

(z) "subsidiary" means any entity (other than the Company) with respect to which the Company, directly or indirectly through one or more other entities, owns equity interests possessing 50 percent or more of the total combined voting power of all equity interests of such entity (excluding voting power that arises only upon the occurrence of one or more specified events).

### 3. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan shall become effective upon the date of its adoption by the Board; provided, that the Plan is approved by the stockholders of the Company within twelve months thereafter. Notwithstanding any provision of the Plan or in any Grant Document under the Plan, no Option shall be exercisable and no Award shall

vest or be payable prior to such stockholder approval. No further Awards may be granted under the Plan after ten years from the date the Plan is adopted by the Board. The Plan shall remain in effect (at least for the purpose of governing outstanding Awards) until all Option Awards granted under the Plan have been exercised or expired, all restrictions imposed upon Restricted Stock Awards granted under the Plan have been eliminated or the Restricted Stock Awards have been forfeited, and all Performance Awards and Incentive Awards granted under the Plan have been satisfied or have terminated.

#### 4. ADMINISTRATION

(a) Administrator. The Plan shall be administered by the Administrator, so that (i) Awards made to, and the administration (or interpretation of any provision) of the Plan as it relates to, any person who is subject to Section 16, shall be made or effected by the Committee, and (ii) Awards made to, and the administration (or interpretation of any provision) of the Plan as it relates to, any person who is not subject to Section 16, shall be made or effected by the Chief Executive Officer of the Company (or, if the Chief Executive Officer is not a Director of the Company, the Committee), unless the Plan specifies that the Committee shall take specific action (in which case such action may only be taken by the Committee) or the Committee (as to any Award described in this clause (ii) or the administration or interpretation of any specific provision of the Plan) specifies that it shall serve as Administrator.

(b) Powers. Subject to the express provisions of the Plan, the Administrator shall have authority, in its discretion, to determine which employees or Directors shall receive an Award, the time or times when such Award shall be granted, whether an Incentive Stock Option or Non-Qualified Option shall be granted, the number of shares to be subject to each Option and Restricted Stock Award, and the value of each Performance Award and Incentive Award. In making such determinations, the Administrator shall take into account the nature of the services rendered by the respective employees or Directors, their present and potential contribution to the Company's success and such other factors as the Administrator in its discretion shall deem relevant. Subject to the express provisions of the Plan, the Administrator shall also have the power to construe the Plan and the respective agreements executed hereunder, to prescribe rules and regulations relating to the Plan, and to determine the terms, restrictions and provisions of the Grant Documents, including such terms, restrictions and provisions as shall be requisite in the judgment of the Administrator to cause designated Options to qualify as Incentive Stock Options, and to make all other determinations necessary or advisable for administering the Plan. The Administrator may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Grant Document relating to an Award in the manner and to the extent it shall deem expedient to carry it into effect. The determination of the Administrator on the matters referred to in this Section 4 shall be conclusive; provided, however, that in the event of any conflict in any such determination as between the Committee and the Chief Executive Officer of the Company, each acting in capacity as Administrator of the Plan, the determination of the Committee shall be conclusive.

#### 5. SHARES SUBJECT TO THE PLAN; GRANT OF OPTIONS, RESTRICTED STOCK AWARDS, PERFORMANCE AWARDS AND INCENTIVE AWARDS

(a) Shares Subject to the Plan. The Administrator may from time to time grant Awards to one or more employees or Directors determined by it to be eligible for participation in the Plan in accordance with the provisions of Section 6 hereof. Subject to adjustment as provided in Section 11(b) hereof, the aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 3,000,000 shares. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered pursuant to an Award. To the extent that an Award lapses, the rights of its Holder terminate, or an Award is paid in cash or is settled in a manner such that all or some of the shares of Common Stock covered by the Award are not issued to the Holder, any shares of Common Stock then subject to such Award shall again be available for the grant of an Award under the Plan.

Notwithstanding any provision in the Plan to the contrary, (i) the maximum number of shares of Common Stock that may be subject to Awards granted to any one individual during any calendar year may not exceed 750,000 shares (subject to adjustment as provided in Section 11(b)), (ii) the maximum number of shares of Common Stock that may be granted as Restricted Stock Awards may not exceed 250,000 shares (subject to adjustment as provided in Section 11(b)), and (iii) the maximum value of all Performance Awards denominated in cash (including the fair market value (priced at the Market Value per Share) of any shares of Common Stock paid in satisfaction of such Performance Awards) granted to any one individual during any calendar year may not exceed \$10 million. The limitations set forth in clause (i) and clause (iii) of the preceding sentence shall be applied in a manner which will permit

compensation generated under the Plan which is intended to constitute "performance-based" compensation for purposes of section 162(m) of the Code to be treated as such "performance-based" compensation.

(b) Grant of Awards. The Administrator may from time to time grant Awards to one or more employees or Directors determined by it to be eligible for participation in the Plan in accordance with the terms of this Plan.

(c) Stock Offered. Subject to the limitations set forth in Section 5(a) above, the stock to be offered pursuant to an Award may be authorized but unissued Common Stock or Common Stock previously issued and outstanding and reacquired by the Company. Any of such shares which remain unissued and which are not subject to outstanding Awards at the termination of the Plan shall cease to be subject to the Plan but, until termination of the Plan, the Company shall at all times make available a sufficient number of shares to meet the requirements of the Plan.

## 6. ELIGIBILITY

Awards may be granted only to persons who, at the time of grant, are employees or Directors. An Award may be granted on more than one occasion to the same person and, subject to the limitations set forth in the Plan, Awards may include an Incentive Stock Option, a Non-Qualified Option, a Restricted Stock Award, a Performance Award, an Incentive Award or any combination thereof.

## 7. STOCK OPTIONS

(a) Option Period. The term of each Option shall be as specified by the Administrator at the date of grant.

(b) Limitations on Exercise of Option. An Option shall be exercisable in whole or in such installments and at such times as determined by the Administrator.

(c) Special Limitations on Incentive Stock Options. An Incentive Stock Option may be granted only to an individual who is an employee at the time the Option is granted. To the extent that the aggregate Market Value per Share (determined at the time the respective Incentive Stock Option is granted) of Common Stock with respect to which Incentive Stock Options granted after 1986 are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company and its parent and subsidiary corporations exceeds \$100,000, such Incentive Stock Options shall be treated as Non-Qualified Options. The Administrator shall determine, in accordance with applicable provisions of the Code, Treasury Regulations and other administrative pronouncements, which of a Holder's Incentive Stock Options will not constitute Incentive Stock Options because of such limitation and shall notify the Holder of such determination as soon as practicable after such determination. No Incentive Stock Option shall be granted to an individual if, at the time the Option is granted, such individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporation, within the meaning of section 422(b)(6) of the Code, unless (i) at the time such Option is granted the option price is at least 110% of the Market Value per Share of the Common Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the date of grant. An Incentive Stock Option shall not be transferable otherwise than by will or the laws of descent and distribution, and shall be exercisable during the Holder's lifetime only by such Holder or the Holder's guardian or Personal Representative.

(d) Option Grant Document. Each Option shall be evidenced by an Option Grant Document in such form and containing such provisions not inconsistent with the provisions of the Plan as the Administrator from time to time shall approve, including, without limitation, provisions to qualify an Incentive Stock Option under section 422 of the Code. An Option Grant Document may provide for the payment of the option price, in whole or in part, by delivery of a number of shares of Common Stock (plus cash if necessary) having a Market Value per Share equal to such option price. Moreover, an Option Grant Document may provide for a "cashless exercise" of the Option by establishing procedures satisfactory to the Administrator with respect thereto. The terms and conditions of the respective Option Grant Documents need not be identical.

(e) Option Price and Payment. The price at which a share of Common Stock may be purchased upon exercise of an Option shall be set forth in the Option Grant Document and shall be determined by the Administrator but, subject to adjustment as provided in Section 11(b), such purchase price shall not be less than the Market Value per Share of a share of Common Stock on the date such Option is granted. The Option or portion thereof may be exercised by delivery of an irrevocable notice of exercise to the Company. The purchase price of the Option or portion thereof shall be paid in full in the

manner specified by the Administrator. Separate stock certificates shall be issued by the Company for those shares acquired pursuant to the exercise of an Incentive Stock Option and for those shares acquired pursuant to the exercise of any Non-Qualified Option.

(f) Stockholder Rights and Privileges. The Holder of an Option shall be entitled to all the privileges and rights of a stockholder only with respect to such shares of Common Stock as have been purchased under the Option and for which certificates representing such Common Stock have been registered in the Holder's name.

(g) Stock Appreciation Rights. The Administrator (concurrently with the grant of an Option or subsequent to such grant) may, in its sole discretion, grant stock appreciation rights ("SARs") to any Holder of an Option. SARs may give the Holder of an Option the right, upon written request, to surrender any exercisable Option or portion thereof in exchange for cash, whole shares of Common Stock, or a combination thereof, as determined by the Committee, with a value equal to the excess of the Market Value per Share, as of the date of such request, of one share of Common Stock over the Option price for such share multiplied by the number of shares covered by the Option or portion thereof to be surrendered. In the case of any SAR which is granted in connection with an Incentive Stock Option, such SAR shall be exercisable only when the Market Value per Share of the Common Stock exceeds the price specified therefor in the Option or portion thereof to be surrendered. In the event of the exercise of any SAR granted hereunder, the number of shares reserved for issuance under the Plan shall be reduced only to the extent that shares of Common Stock are actually issued in connection with the exercise of such SAR. Additional terms and conditions governing any such SARs may from time to time be prescribed by the Administrator in its sole discretion.

(h) Options and SARs in Substitution for Stock Options Granted by Other Corporations. Options and SARs may be granted under the Plan from time to time in substitution for stock options held by individuals employed by corporations who become employees as a result of a merger or consolidation or other business combination of the employing corporation with the Company or any subsidiary.

## 8. RESTRICTED STOCK AWARDS

(a) Ownership of Restricted Stock. Each grant of Restricted Stock pursuant to a Restricted Stock Award will constitute an immediate transfer of record and beneficial ownership of the shares of Restricted Stock to the recipient of the grant in consideration of the performance of services by such recipient (or other consideration determined by the Administrator), entitling the recipient to all voting and other ownership rights, but subject to the restrictions hereinafter referred to or contained in the related Grant Document. Each grant may, in the discretion of the Administrator, limit the recipient's dividend rights during the period in which the shares of Restricted Stock are subject to a substantial risk of forfeiture and restrictions on transfer.

(b) Substantial Risk of Forfeiture and Restrictions on Transfer. Each grant of Restricted Stock will provide that (i) the shares covered thereby will be subject, for a period or periods determined by the Administrator at the date of grant, to one or more restrictions, including, without limitation, a restriction that constitutes a "substantial risk of forfeiture" within the meaning of section 83 of the Code and applicable interpretive authority thereunder, and (ii) during such period or periods during which such restrictions are to continue, the transferability of the Restricted Stock subject to such restrictions will be prohibited or restricted in a manner and to the extent prescribed by the Administrator at the date of grant.

(c) Restricted Stock Held in Trust. Shares of Common Stock awarded pursuant to each Restricted Stock Award will be held in trust by the Company for the benefit of the recipient until such time as the applicable restriction on transfer thereon shall have expired or otherwise lapsed, at which time certificates representing such Common Stock will be delivered to the recipient.

(d) Restricted Stock Grant Document; Consideration. Each grant of Restricted Stock shall be evidenced by a Grant Document in such form and containing such provisions not inconsistent with the provisions of the Plan as the Administrator from time to time shall approve. The terms and conditions of the respective Restricted Stock Grant Documents need not be identical. Each grant of Restricted Stock may be made without additional consideration or in consideration of a payment by the recipient that is less than the Market Value per Share on the date of grant, as determined by the Administrator.

## 9. PERFORMANCE AWARDS



(a) Performance Period. The Administrator shall establish, with respect to and at the time of each Performance Award, a performance period over which the performance applicable to the Performance Award shall be measured.

(b) Performance Measures. A Performance Award shall be awarded to a Holder contingent upon future performance of the Company or any subsidiary, division, or department thereof. The Administrator shall establish the performance measures applicable to such performance within the applicable time period permitted by section 162(m) of the Code, with such adjustments thereto as may be determined by the Administrator. The performance measures may be absolute, relative to one or more other companies, relative to one or more indexes, or measured by reference to the Company alone or the Company together with its consolidated subsidiaries. The performance measures established by the Administrator may be based upon (i) the price of a share of Common Stock, (ii) operating income or operating income margin, (iii) earnings before interest, income taxes, depreciation, amortization and aircraft rent ("EBITDAR") or EBITDAR margin, (iv) net income or net income margin, (v) cash flow, (vi) total shareholder return, or (vii) a combination of any of the foregoing, including any average, weighted average, minimum, hurdle, rate of increase or other measure of any or any combination thereof. The Administrator, in its sole discretion, may provide for an adjustable Performance Award value based upon the level of achievement of performance measures.

(c) Awards Criteria. In determining the value of Performance Awards, the Administrator shall take into account a Holder's responsibility level, performance, potential, other Awards, and such other considerations as it deems appropriate. The Administrator, in its sole discretion, may provide for a reduction in the value of a Holder's Performance Award during the performance period, if permitted by the applicable Grant Document.

(d) Payment. Following the end of the performance period, the Holder of a Performance Award shall be entitled to receive payment of an amount not exceeding the maximum value of the Performance Award, based on the achievement of the performance measures for such performance period, as determined by the Administrator and certified as required by section 162(m) of the Code. Payment of a Performance Award may be made in cash, Common Stock (valued at the Market Value per Share), or a combination thereof, as determined by the Administrator. Payment shall be made in a lump sum, except as otherwise set forth in the applicable Grant Document.

(e) Termination of Employment. A Performance Award shall terminate if the Holder does not remain continuously in the employ (or in service as a Director) of the Company or a subsidiary at all times during the applicable performance period, except as otherwise set forth in the applicable Grant Document.

## 10. INCENTIVE AWARDS

(a) Incentive Awards. Incentive Awards are rights to receive shares of Common Stock (or the Market Value per Share thereof), or rights to receive an amount equal to any appreciation or increase in the Market Value per Share of Common Stock over a specified period of time, which vest over a period of time as established by the Administrator, without satisfaction of any performance criteria or objectives. The Administrator may, in its discretion, require payment or other conditions of the Holder respecting any Incentive Award.

(b) Award Period. The Administrator shall establish, with respect to and at the time of each Incentive Award, a period over which the Award shall vest with respect to the Holder.

(c) Awards Criteria. In determining the value of Incentive Awards, the Committee shall take into account a Holder's responsibility level, performance, potential, other Awards, and such other considerations as it deems appropriate.

(d) Payment. Following the end of the vesting period for an Incentive Award (or at such other time as the applicable Grant Document may provide), the Holder of an Incentive Award shall be entitled to receive payment of an amount, not exceeding the maximum value of the Incentive Award, based on the then vested value of the Award. Payment of an Incentive Award may be made in cash, Common Stock (valued at the Market Value per Share), or a combination thereof as determined by the Administrator. Payment shall be made in a lump sum, except as otherwise set forth in the applicable Grant Document. Cash dividend equivalents may be paid during or after the vesting period with respect to an Incentive Award, as determined by the Administrator.

(e) Termination of Employment. An Incentive Award shall terminate if the Holder does not remain continuously in the employ

(or in service as a Director) of the Company or a subsidiary at all times during the applicable vesting period, except as otherwise set forth in the applicable Grant Document.

#### 11. RECAPITALIZATION, REORGANIZATION AND CHANGE IN CONTROL

(a) No Effect on Right or Power. The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company or any subsidiary to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's or any subsidiary's capital structure or its business, any merger or consolidation of the Company or any subsidiary, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any subsidiary or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) Changes in Common Stock. The provisions of Section 5(a) imposing limits on the numbers of shares of Common Stock covered by Awards granted under the Plan, as well as the number or type of shares or other property subject to outstanding Awards and the applicable option or purchase prices per share, shall be adjusted appropriately by the Committee in the event of stock dividends, spin offs of assets or other extraordinary dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, reorganizations, liquidations, issuances of rights or warrants and similar transactions or events.

(c) Change in Control. As used in the Plan (except as otherwise provided in an applicable Grant Document), the term "Change in Control" shall mean:

(aa) any person (within the meaning of Section 13(d) or 14(d) under the Exchange Act, including any group (within the meaning of Section 13(d)(3) under the Exchange Act), a "Person") is or becomes the "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company (such Person being referred to as an "Acquiring Person") representing the greater of (x) 25% of the combined voting power of the Company's outstanding securities and (y) the proportion of the combined voting power of the Company's outstanding securities represented by securities of the Company beneficially owned, directly or indirectly, by Northwest Airlines Corporation ("Northwest") and any Person controlling, controlled by or under common control with Northwest at the time of reference (excluding, for purposes of determining such proportion of the combined voting power under this clause (y), any securities beneficially owned by Northwest (and any Person controlling, controlled by or under common control with Northwest) which are deemed beneficially owned by such Acquiring Person); other than beneficial ownership by (i) the Company or any subsidiary of the Company, (ii) any employee benefit plan of the Company or any Person organized, appointed or established pursuant to the terms of any such employee benefit plan (unless such plan or Person is a party to or is utilized in connection with a transaction led by Outside Persons), (iii) Northwest or any Person controlling, controlled by or under common control with Northwest (unless Northwest is controlled by or under common control with Delta Air Lines, Inc.), or (iv) (I) 1992 Air, Inc., (II) any Person who controlled 1992 Air, Inc. as of February 26, 1998, including David Bonderman and James Coulter, or (III) any Person controlled by any such Person (Persons referred to in clauses (i) through (iv) hereof are hereinafter referred to as "Excluded Persons"); or

(bb) individuals who constituted the Board as of February 26, 1998 (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to February 26, 1998 whose appointment to fill a vacancy or to fill a new Board position or whose nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board or who was nominated for election by Excluded Persons shall be considered as though such individual were a member of the Incumbent Board; or

(cc) the Company merges with or consolidates into or engages in a reorganization or similar transaction with another entity (including Northwest) pursuant to a transaction in which the Company is not the "Controlling Corporation"; or

(dd) the Company sells or otherwise disposes of all or substantially all of its assets, other than to Excluded Persons, or the Company sells or otherwise disposes of all or substantially all of its assets to Northwest or any Person controlling, controlled by or under common control with Northwest.

For purposes of clause (aa) above, if at any time there exist securities of different classes entitled to vote separately in the election of directors, the calculation of the proportion of the

voting power held by a beneficial owner of the Company's securities shall be determined as follows: first, the proportion of the voting power represented by securities held by such beneficial owner of each separate class or group of classes voting separately in the election of directors shall be determined, provided that securities representing more than 50% of the voting power of securities of any such class or group of classes shall be deemed to represent 100% of such voting power; second, such proportion shall then be multiplied by a fraction, the numerator of which is the number of directors which such class or classes is entitled to elect and the denominator of which is the total number of directors elected to membership on the Board at the time; and third, the product obtained for each such separate class or group of classes shall be added together, which sum shall be the proportion of the combined voting power of the Company's outstanding securities held by such beneficial owner.

For purposes of clause (aa) above, the term "Outside Persons" means any Persons other than (I) Persons described in clauses (aa)(i) or (iii) or (iv) above (as to Persons described in clause (aa)(iii) or (iv) above, while they are Excluded Persons) and (II) members of senior management of the Company in office immediately prior to the time the Acquiring Person acquires the beneficial ownership described in clause (aa).

For purposes of clause (cc) above, the Company shall be considered to be the Controlling Corporation in any merger, consolidation, reorganization or similar transaction unless either (1) the shareholders of the Company immediately prior to the consummation of the transaction (the "Old Shareholders") would not, immediately after such consummation, beneficially own, directly or indirectly, securities of the resulting entity entitled to elect a majority of the members of the Board of Directors or other governing body of the resulting entity or (2) those persons who were directors of the Company immediately prior to the consummation of the proposed transaction would not, immediately after such consummation, constitute a majority of the directors of the resulting entity, provided that (I) there shall be excluded from the determination of the voting power of the Old Shareholders securities in the resulting entity beneficially owned, directly or indirectly, by the other party to the transaction and any such securities beneficially owned, directly or indirectly, by any Person acting in concert with the other party to the transaction, (II) there shall be excluded from the determination of the voting power of the Old Shareholders securities in the resulting entity acquired in any such transaction other than as a result of the beneficial ownership of Company securities prior to the transaction and (III) persons who are directors of the resulting entity shall be deemed not to have been directors of the Company immediately prior to the consummation of the transaction if they were elected as directors of the Company within 90 days prior to the consummation of the transaction.

The exclusion described in clause (aa)(iii) above shall cease to have any force or effect (and the Persons described therein shall cease to be Excluded Persons) if Northwest (together with any Person controlling, controlled by or under common control with Northwest) ceases to be, for a period of thirty consecutive calendar days, the beneficial owner, directly or indirectly, of securities of the Company representing at least 25% of the combined voting power of the Company's outstanding securities. The exclusion described in clause (aa)(iv) above shall cease to have any force or effect (and the Persons described therein shall cease to be Excluded Persons) if (A) the Person acquiring beneficial ownership is not controlled by David Bonderman or James Coulter, or (B) the Person acquiring beneficial ownership (together with any Person controlling, controlled by or under common control with such Person) ceases to be, for a period of thirty consecutive calendar days, the beneficial owner, directly or indirectly, of securities of the Company representing at least 25% of the combined voting power of the Company's outstanding securities.

Upon the occurrence of a Change in Control, with respect to each recipient of an Award hereunder, (AA) all Options granted to such recipient and outstanding at such time shall immediately vest and become exercisable in full (but subject, however, in the case of Incentive Stock Options, to the aggregate fair market value, determined as of the date the Incentive Stock Options are granted, of the stock with respect to which Incentive Stock Options are exercisable for the first time by such recipient during any calendar year not exceeding \$100,000) and, except as required by law, all restrictions on the transfer of shares acquired pursuant to such Options shall terminate, and (BB) all restrictions applicable to such recipient's Restricted Stock or Incentive Award shall be deemed to have been satisfied and such Restricted Stock or Incentive Award shall vest in full.

In addition, except as otherwise provided in the applicable Grant Document, if a recipient of an Award hereunder becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an Award) pursuant to the terms

of the Plan (the "Total Payments"), which are or become subject to the tax imposed by section 4999 of the Code (or any similar tax that may hereafter be imposed) (the "Excise Tax"), the Company or subsidiary for whom the recipient is then performing services shall pay to the recipient an additional amount (the "Gross-Up Payment") such that the net amount retained by the recipient, after reduction for any Excise Tax on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-Up Payment, shall equal the Total Payments. For purposes of determining the amount of the Gross-Up Payment, the recipient shall be deemed (aa) to pay federal income taxes at the highest stated rate of federal income taxation (including surtaxes, if any) for the calendar year in which the Gross-Up Payment is to be made; and (bb) to pay any applicable state and local income taxes at the highest stated rate of taxation (including surtaxes, if any) for the calendar year in which the Gross-Up Payment is to be made. Any Gross-Up Payment required hereunder shall be made to the recipient at the same time any Total Payment subject to the Excise Tax is paid or deemed received by the recipient.

#### 12. AMENDMENT AND TERMINATION OF THE PLAN

Subject to the last sentence of Section 3 hereof, the Board in its discretion may terminate the Plan at any time. The Board shall have the right to amend the Plan or any part thereof from time to time, and the Administrator may amend any Award (and its related Grant Document) at any time, except as otherwise specifically provided in such Grant Document or to the extent restricted by section 162(m) of the Code with respect to an Award which is intended to constitute "performance-based" compensation for purposes of such section; provided that no change in any Award theretofore granted may be made which would impair the rights of the Holder thereof without the consent of such Holder, and provided further that the Board may not, without approval of the stockholders of the Company, amend the Plan to (a) increase the maximum aggregate number of shares that may be issued under the Plan or (b) change the class of individuals eligible to receive Awards under the Plan.

#### 13. MISCELLANEOUS

(a) No Right to an Award. Neither the adoption of the Plan nor any action of the Board or the Administrator shall be deemed to give an employee or Director any right to be granted an Award except as may be evidenced by a Grant Document from the Company reflecting a grant by the Company of an Award to such person and setting forth the terms and conditions thereof. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to assure the performance of its obligations under any Award.

(b) No Employment or Membership Rights Conferred. Nothing contained in the Plan shall (i) confer upon any employee any right with respect to continuation of employment with the Company or any subsidiary or (ii) interfere in any way with the right of the Company or any subsidiary to terminate his or her employment at any time. Nothing contained in the Plan shall confer upon any Director any right with respect to continuation of membership on the Board.

(c) Other Laws; Withholding. The Company shall not be obligated to issue any Common Stock pursuant to any Award granted under the Plan until there has been compliance with applicable laws and regulations with respect thereto. No fractional shares of Common Stock shall be delivered, nor shall any cash in lieu of fractional shares be paid. The Company shall have the right to (i) make deductions from any settlement or exercise of an Award made under the Plan, including the delivery of shares, or require shares or cash or both be withheld from any Award, in each case in an amount sufficient to satisfy withholding of any taxes required by law, or (ii) take such other action as may be necessary or appropriate to satisfy any such tax withholding obligations. The Administrator may determine the manner in which such tax withholding may be satisfied, and may permit shares of Common Stock (together with cash, as appropriate) to be used to satisfy required tax withholding based on the Market Value per Share of any such shares of Common Stock.

(d) No Restriction on Corporate Action. Subject to the restrictions contained in Section 12, nothing contained in the Plan shall be construed to prevent the Company or any subsidiary from taking any corporate action, whether or not such action would have an adverse effect on the Plan or any Award granted hereunder. No employee, Director, beneficiary or other person shall have any claim against the Company or any subsidiary as a result of any such action.

(e) Restrictions on Transfer. An Award (other than an Incentive Stock Option, which shall be subject to the transfer restrictions set forth in Section 7(c)) shall not be transferable otherwise than (i) by will or the laws of descent and distribution,

(ii) pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder, or (iii) with respect to Awards of Non-Qualified Options, with the consent of the Administrator. In the discretion of the Administrator, a percentage (determined by the Administrator and set forth in the applicable Grant Document) of the aggregate shares of Common Stock obtained from exercises of an Option (which percentage may be satisfied out of particular exercises as determined by the Administrator and set forth in the applicable Grant Document) shall not be transferable prior to the earliest to occur of (x) the termination of the relevant Option term (or such shorter period as may be determined by the Administrator and set forth in the Grant Document), (y) the Holder's retirement, death or Disability, or (z) termination of the Holder's employment with the Company and its subsidiaries.

(f) Governing Law. The Plan shall be construed in accordance with the laws of the State of Texas.

## CONTINENTAL AIRLINES, INC.

## EXECUTIVE BONUS PERFORMANCE AWARD PROGRAM

1. Purpose. This Continental Airlines, Inc. Executive Bonus Performance Award Program (the "Program") has been adopted by the Human Resources Committee of the Board of Directors of Continental Airlines, Inc., a Delaware corporation (the "Company"), to implement in part the Performance Award provisions of the Continental Airlines, Inc. Incentive Plan 2000 (as amended from time to time, the "Incentive Plan 2000") adopted by the Board of Directors of the Company, and is intended to provide a method for attracting, motivating, and retaining key officers of the Company and its subsidiaries and to compensate such officers based on performance goals consisting of achievement of cumulative quarterly net income targets or EBITDAR margin rankings of the Company and its consolidated subsidiaries as described herein. The Program and participation hereunder shall be subject to the terms of the Incentive Plan 2000, including the limitations on the maximum value of awards contained therein.

2. Participants. Each of the Chief Executive Officer, the Chief Operating Officer, each Executive Vice President and each Senior Vice President of the Company shall automatically participate in the Program with respect to each fiscal year, and, with respect to a particular fiscal year, such other officers of the Company or its subsidiaries shall participate in the Program as may be recommended to the Human Resources Committee of the Board of Directors of the Company (the "Committee") by the Chief Executive Officer of the Company and designated by the Committee to be a participant in the Program with respect to such fiscal year. Each of the foregoing persons is referred to herein as a "Participant", and the right to participate in the Program for a fiscal year or portion thereof constitutes a Performance Award (as such term is defined in the Incentive Plan 2000) under the Incentive Plan 2000. The Chief Executive Officer shall have the power to terminate any Participant's participation in the Program upon written notice to such Participant of such termination, subject to ratification of such action by the Committee.

3. Definitions. Where the following words and phrases are used in this Program, they shall have the respective meanings set forth below, unless the context clearly indicates to the contrary:

- (a) "Budget" with respect to a fiscal year means the cumulative quarterly net income targets, as established by the Committee with respect to such fiscal year or portion thereof, whether or not they are the same as those contained in or derived from the Annual Financial Plan of the Company with respect to such fiscal year contemplated by Section 3.3 of the By-Laws of the Company.
- (b) "Cumulative Actual Net Income" with respect to a quarter means the aggregate consolidated net income of the Company and its consolidated subsidiaries, as shown on the regularly prepared statement of operations of the Company prepared in accordance with GAAP, as adjusted for unbudgeted (i) one-time gains or losses from the disposal of assets, (ii) write-offs of assets (including aircraft and associated parts), and (iii) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii) and (iii) as determined by the Committee, for the period commencing on the first day of the fiscal year of the Company in which such quarter occurs and ending on the last day of such quarter.
- (c) "Cumulative Base Salary" with respect to a quarter means the aggregate of the Participant's base salary earned, while a Participant under the Program, during the period commencing on the first day of the fiscal year of the Company in which such quarter occurs and ending on the last day of such quarter.
- (d) "Cumulative EBITDAR" with respect to a quarter means, with respect to each company in the Industry Group, the aggregate earnings of such company and its consolidated subsidiaries during the period commencing on the first day of the fiscal year of the Company in which such quarter occurs and ending on the last day of such quarter, determined prior to the charges, costs, and expenses associated with interest, income taxes, depreciation, amortization, and aircraft rent. EBITDAR shall be determined based on the regularly prepared and publicly available statements of operations of each

company in the Industry Group prepared in accordance with GAAP (and if necessary to determine certain items, based on Form 41 data filed by such company with the Department of Transportation); provided, however, that EBITDAR shall be adjusted to exclude (i) non-operating income or expense, (ii) write-offs of assets (including aircraft and associated parts), (iii) one-time gains or losses from the disposal of assets, and (iv) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii), (iii) and (iv) as determined by the Committee in accordance with GAAP. If a company in the Industry Group provides publicly available statements of operations with respect to its airline business that are separate from the statements of operations provided with respect to its other businesses, then such company's EBITDAR shall be determined based solely upon the separately provided statements of operations pertaining to its airline business.

- (e) "Cumulative EBITDAR Margin" means, with respect to each company in the Industry Group and each quarter, the Cumulative EBITDAR for such company with respect to such quarter, divided by such company's cumulative revenues (determined on a consolidated basis based on the regularly prepared and publicly available statements of operations of such company prepared in accordance with GAAP) over the period commencing on the first day of the fiscal year of the Company in which such quarter occurs and ending on the last day of such quarter. If a company in the Industry Group provides publicly available statements of operations with respect to its airline business that are separate from the statements of operations provided with respect to its other businesses, then such company's Cumulative EBITDAR Margin shall be determined based solely upon the separately provided statements of operations pertaining to its airline business.
- (f) "Cumulative Number 1, Number 2 or Number 3 Ranking" with respect to a quarter means the Company ranks first, second or third when comparing the Cumulative EBITDAR Margins with respect to such quarter for all companies comprising the Industry Group as of the last day of such quarter, and that the Company has achieved the Operating Income Hurdle with respect to such quarter.
- (g) "Cumulative Target Net Income" with respect to a quarter means the aggregate consolidated net income of the Company and its consolidated subsidiaries, as set forth in the Budget, for the period commencing on the first day of the fiscal year of the Company in which such quarter occurs and ending on the last day of such quarter.
- (h) "EBITDAR Margin Quarterly Bonus" with respect to a Participant for a fiscal quarter shall be equal to (i) the dollar amount calculated by multiplying such Participant's Cumulative Base Salary with respect to such quarter by (x) 125%, if the Company has a Cumulative Number 1, Number 2 or Number 3 Ranking with respect to such quarter, or (y) 0 (zero)%, if the Company does not have a Cumulative Number 1, Number 2 or Number 3 Ranking with respect to such quarter, less (ii) the amount of the Quarterly Bonuses (as defined below) received by such Participant with respect to prior quarters in the fiscal year in which such quarter ends. With respect to the Company's 2000 fiscal year only, quarterly bonuses paid under the Company's prior executive bonus program to persons who are Participants under this Program with respect to fiscal quarters in 2000 ending prior to the quarter during which Stockholder Approval is obtained shall be deducted for purposes of clause (ii) of the foregoing sentence.
- (i) "GAAP" means United States generally accepted accounting principles, consistently applied.
- (j) "Industry Group" has the meaning set forth in Section 5 hereof.
- (k) "LTIP Program" means the Continental Airlines, Inc. Long Term Incentive Performance Award Program, as amended from time to time.
- (l) "Net Income Quarterly Bonus" with respect to a Participant for a fiscal quarter shall be equal to (i) the dollar amount calculated by multiplying such Participant's Cumulative Base Salary with respect to such quarter by (x) (in the case of a positive variance

(which shall include a zero variance)), 100% plus the positive variance, if any, expressed as a percentage (but in no event more than 25%), between the Cumulative Actual Net Income with respect to such quarter, and the Cumulative Target Net Income with respect to such quarter, or (y) (in the case of a negative variance), 100% less the absolute value of the negative variance, expressed as a percentage, between the Cumulative Actual Net Income with respect to such quarter, and the Cumulative Target Net Income with respect to such quarter (provided, that if such negative variance is greater than negative 25% (e.g., negative 30%), then such negative variance shall be deemed negative 100%), less (ii) the amount of the Quarterly Bonuses received by such Participant with respect to prior quarters in the fiscal year in which such quarter ends. With respect to the Company's 2000 fiscal year only, quarterly bonuses paid under the Company's prior executive bonus program to persons who are Participants under this Program with respect to fiscal quarters in 2000 ending prior to the quarter during which Stockholder Approval is obtained shall be deducted for purposes of clause (ii) of the foregoing sentence.

- (m) "Operating Income Hurdle" with respect to a quarter means the achievement by the Company, during the period commencing on the first day of the fiscal year of the Company in which such quarter occurs and ending on the last day of such quarter, of an operating income equal to or greater than (1) with respect to the first fiscal quarter, 19%, (2) with respect to the second fiscal quarter, 52.8%, (3) with respect to the third fiscal quarter, 83.6% and (4) with respect to the fourth fiscal quarter, 100%, of the dollar amount of the "Operating Income Hurdle" with respect to the "Performance Period" (as such terms are defined in the LTIP Program) commencing on the first day of the fiscal year of the Company in which such quarter occurs, as reflected on the regularly prepared and publicly available statements of operations of the Company and its consolidated subsidiaries prepared in accordance with GAAP, adjusted to exclude (i) accruals with respect to the LTIP Program, (ii) write-offs of assets (including aircraft and associated parts), (iii) one-time gains or losses from the disposal of assets, and (iv) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii), (iii) and (iv) as determined by the Committee in accordance with GAAP.

4. Quarterly Bonuses. Commencing with the Company's fiscal quarter during which Stockholder Approval (as defined below) is obtained, each Participant in the Program who has remained continuously employed by the Company or a subsidiary during the entire fiscal quarter with respect to which the Quarterly Bonus (as defined below) is to be paid, shall receive, on a fiscal quarterly basis as soon as reasonably practicable after the certification by the Committee described in Section 6 below with respect to such quarter, a cash bonus (a "Quarterly Bonus"), if any, equal to the greater of the Net Income Quarterly Bonus or the EBITDAR Margin Quarterly Bonus for such quarter.

5. Industry Group. The Industry Group shall consist of the Company, AMR Corporation, Delta Air Lines, Inc., Northwest Airlines Corporation, Trans World Airlines, Inc., UAL Corporation, and US Airways Group, Inc.; provided, however, that (a) prior to commencement of each fiscal year of the Company that begins after January 1, 2000, the Committee may in its discretion add any United States certificated scheduled mainline air carrier to, or remove any such company (other than the Company) from, the Industry Group for such fiscal year and (b) the Industry Group shall be subject to adjustment as provided in the following paragraph.

Except as provided in clause (a) of the proviso to the preceding paragraph, no company shall be added to, or removed from, the Industry Group during any fiscal quarter; provided, however, that a company (other than the Company) shall be removed from the Industry Group for a fiscal quarter and subsequent quarters of a fiscal year if (a) during such fiscal quarter, (i) such company ceases to maintain publicly available statements of operations prepared in accordance with GAAP, (ii) such company is not the surviving entity in any merger, consolidation, or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly owned subsidiary of such company), (iii) such company sells, leases, or exchanges all or substantially all of its assets to any other person or entity (other than a previously wholly owned subsidiary of such company), or (iv) such company is dissolved and liquidated, or (b) more than 20% of such company's revenues (determined on a consolidated basis based on the regularly prepared and publicly available statements of operations of such company prepared in accordance with GAAP) for such fiscal



quarter are attributable to the operation of businesses other than such company's airline business and such company does not provide publicly available statements of operations with respect to its airline business that are separate from the statements of operations provided with respect to its other businesses.

6. Administration. The Program will be administered by the Committee, which at all times will consist of not less than two persons, each of whom is an "outside director" within the meaning of section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The action of a majority of the members of the Committee will be the act of the Committee. The Committee shall, prior to the commencement of each fiscal year of the Company beginning on or after January 1, 2000, establish in writing the Budget for such fiscal year for purposes of this Program. In establishing the Budget, the Committee may in its discretion adopt as targets cumulative quarterly net income amounts derived from the net income amounts contained in the Annual Financial Plan of the Company contemplated by Section 3.3 of the Company's By-Laws.

The interpretation and construction by the Committee of any provision of the Program, and any determination or action by the Committee pursuant to any provision hereof, will be final and conclusive for all purposes, and each Participant's participation in the Program is expressly subject to the foregoing. No member of the Committee shall be liable for any action or determination taken or made in good faith or upon reliance in good faith on the records of the Company or information presented to the Committee by the Company's officers, employees, or other persons (including the Company's outside auditors) as to matters such member reasonably believes are within such other person's professional or expert competence. If a Participant disagrees with any decision, determination, or action made or taken by the Committee, then the dispute will be limited to whether the Committee has satisfied its duty to make such decision or determination or take such action in good faith.

As to each fiscal quarter during which the Program is effective, the Committee will certify in writing, prior to the payment of any Quarterly Bonus with respect to such quarter, whether the Cumulative Target Net Income and Cumulative Number 1, Number 2 or Number 3 Ranking performance goals set forth herein have been met and whether any other material terms relating to the payment of such Quarterly Bonuses have been satisfied, to the extent required by section 162(m) of the Code.

7. Payments upon a Change in Control. If a Change in Control occurs (as such term is defined in the Incentive Plan 2000, as in effect on October 4, 1999) and thereafter (or in connection therewith or in contemplation thereof) during the year in which such Change in Control occurs (a "Change Year"), a Participant suffers a Qualifying Event (as herein defined), then such Participant shall, upon the occurrence of the Qualifying Event, receive an amount in cash from the Company equal to (x) the aggregate Quarterly Bonuses such Participant would have received under the Program had the Company achieved a Cumulative Number 1, Number 2 or Number 3 Ranking with respect to each quarter during the Change Year, less (y) the aggregate of the Quarterly Bonuses paid to such Participant pursuant to the Program during the Change Year through the date immediately prior to the occurrence of the Qualifying Event (with respect to the Company's 2000 fiscal year only, quarterly bonuses paid under the Company's prior executive bonus program to persons who are Participants under this Program with respect to fiscal quarters in 2000 ending prior to the quarter during which Stockholder Approval is obtained shall be deducted for purposes of clause (y) of the foregoing sentence), and such Participant shall not be entitled to any additional Quarterly Bonuses with respect to such Change Year. As used herein, the term "Qualifying Event" with respect to a Participant means (i) the termination of such Participant's participation in the Program, (ii) the assignment to such Participant by the Board of Directors or the Committee or other officers or representatives of the Company of duties materially inconsistent with the duties associated with his position as such duties are constituted as of the first day of the Change Year, (iii) a material diminution in the nature or scope of such Participant's authority, responsibilities, or title from those applicable to him as of the first day of the Change Year, (iv) the occurrence of material acts or conduct on the part of the Company or its officers or representatives which prevent such Participant from performing his duties and responsibilities as they existed on the first day of the Change Year, (v) the Company requiring such Participant to be permanently based anywhere outside a major urban center in the state (or, if applicable, foreign country, U.S. territory or other applicable sovereign entity) in which he was based as of the first day of the Change Year, or (vi) the taking of any action by the Company that would materially adversely affect the corporate amenities enjoyed by such Participant on the first day of the Change Year, except in each case if such Participant's employment with the Company and its subsidiaries is terminated (a) upon such Participant's death, (b) upon disability entitling him or her to

benefits under the Company's group long-term disability plan, (c) for cause, which for purposes hereof shall mean (1) in the case of a Participant with an employment agreement with the Company or a subsidiary, the involuntary termination by the Company (or, if applicable, a subsidiary) of such Participant's employment under circumstances that do not require the Company (or such subsidiary) to pay to such Participant a "Termination Payment" or "Monthly Severance Amount", as such terms are defined in such Participant's employment agreement, and (2) in the case of a Participant who does not have an employment agreement with the Company or a subsidiary, the involuntary termination by the Company (or, if applicable, a subsidiary) of such Participant's employment based upon a determination by the Committee or an authorized officer of the Company (or such subsidiary) that such Participant has engaged in gross negligence or willful misconduct in the performance of, or such Participant has abused alcohol or drugs rendering him or her unable to perform, the material duties and services required of him or her in his or her employment, or (d) upon the voluntary resignation from employment of such Participant (other than in connection with circumstances which would permit such Participant to receive severance benefits pursuant to any contract of employment between such Participant and the Company or any of its subsidiaries).

8. Amendments, Termination and Other Matters. Subject to the other provisions of this Section 8, this Program may be amended from time to time or terminated by the Committee; provided that this Program may not be amended by the Committee without the further approval of the stockholders of the Company if such amendment would result in the Program no longer satisfying the requirements of section 162(m) of the Code, and this Program may not be amended or terminated in contemplation of or in connection with a Change in Control, nor may any Participant's participation herein be terminated in contemplation of or in connection with a Change in Control, unless adequate and effective provision for the making of all payments otherwise payable (based on Participants' base salaries as in effect immediately prior to such Change in Control) pursuant to Section 7 of this Program (as in effect on the date of Stockholder Approval) with respect to such Change in Control shall be made in connection with any such amendment or termination.

Participation in the Program by a Participant shall terminate upon such Participant's termination of employment with the Company and its subsidiaries or as otherwise set forth herein, and no Participant shall have any right to continue to participate in the Program or have any vested right to any bonus or other payment hereunder (except as aforesaid in connection with a Change in Control and except with respect to quarterly periods which have already passed prior to such amendment or termination or prior to such Participant's termination of employment with the Company and its subsidiaries).

Participation in the Program shall not confer any right of future employment. The Program is not intended to create a pension or welfare benefit plan and is intended to be exempt from application of the Employee Retirement Income Security Act of 1974, as amended. The Program is unfunded and shall not create, or be construed to create, a trust or separate fund or funds, and each Participant shall be entitled only to look to the Company for any benefit hereunder, and shall have no greater right than an unsecured creditor of the Company.

No liability whatsoever shall attach to or be incurred by any past, present or future stockholders, officers or directors, as such, of the Company or any of its subsidiaries, under or by reason of this Program or the administration thereof, and each Participant, in consideration of receiving benefits and participating hereunder, expressly waives and releases any and all claims relating to any such liability.

No bonus or other right, title, interest, or benefit hereunder shall ever be assignable or transferable, or liable for, or charged with any of the torts or obligations of a Participant or any person claiming under a Participant, or be subject to seizure by any creditor of a Participant or any person claiming under a Participant. No Participant or any person claiming under a Participant shall have the power to anticipate or dispose of any bonus or other right, title, interest, or benefit hereunder in any manner until the same shall have actually been distributed free and clear of the terms of the Program. Payments with respect to bonuses hereunder shall be payable only to the Participant (or in the event of the death of a Participant, any payment due under the Program to such Participant shall be made to his or her estate). The provisions of this Program shall be binding on all successors and assigns of a Participant, including without limitation the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

This Program shall be construed in accordance with the laws of

the State of Texas.

9. Tax Withholding. The Company shall have the right to withhold from any payment hereunder all applicable federal, state, local and other taxes as required by law.

10. Effective Date. This Program shall be effective as of the first day of the fiscal quarter during which the Incentive Plan 2000 is approved by the Company's stockholders in the manner required under section 162(m) of the Code at the Company's 2000 annual meeting of stockholders ("Stockholder Approval"). Notwithstanding any provision herein to the contrary, no payment under the Program shall be made to or on behalf of any Participant unless the Incentive Plan 2000 is so approved by the Company's stockholders. If the Company's stockholders do not so approve the Incentive Plan 2000, then the Program shall automatically terminate and no bonuses shall be paid hereunder.

The Company's current executive bonus program, as in effect on October 4, 1999 (sometimes referred to herein as the Company's "prior executive bonus program"), is hereby terminated as of the first day of the fiscal quarter during which the Company's 2000 annual meeting of stockholders occurs.

IN WITNESS WHEREOF, the undersigned officer of the Company acting pursuant to authority granted to him by the Committee has executed this instrument on this 8th day of February, 2000, effective as stated above.

CONTINENTAL AIRLINES, INC.

By: \_\_\_\_\_  
Jeffery A. Smisek  
Executive Vice President

CONTINENTAL AIRLINES, INC.  
LONG TERM INCENTIVE PERFORMANCE AWARD PROGRAM

I. PURPOSE OF PROGRAM

This Continental Airlines, Inc. Long Term Incentive Performance Award Program (the "Program") has been adopted by the Human Resources Committee of the Board of Directors of Continental Airlines, Inc., a Delaware corporation (the "Company"), to implement in part the Performance Award provisions of the Continental Airlines, Inc. Incentive Plan 2000 (as amended from time to time, the "Incentive Plan 2000") adopted by the Board of Directors of the Company, and is intended to provide a method for attracting, motivating, and retaining key employees to assist in the development and growth of the Company and its Subsidiaries. The Program and Awards hereunder shall be subject to the terms of the Incentive Plan 2000, including the limitations on the maximum value of Awards contained therein.

II. DEFINITIONS AND CONSTRUCTION

2.1 Definitions. Where the following words and phrases are used in the Program, they shall have the respective meanings set forth below, unless the context clearly indicates to the contrary:

(a) "Administrator" means (i) in the context of Awards made to, or the administration (or interpretation of any provision) of the Program as it relates to, any person who is subject to Section 16 of the Securities Exchange Act of 1934, as amended (including any successor section to the same or similar effect, "Section 16"), the Committee, or (ii) in the context of Awards made to, or the administration (or interpretation of any provision) of the Program as it relates to, any person who is not subject to Section 16, the Chief Executive Officer of the Company (or, if the Chief Executive Officer is not a director of the Company, the Committee), unless the Program specifies that the Committee shall take specific action (in which case such action may only be taken by the Committee) or the Committee (as to any Award described in this clause (ii) or the administration or interpretation of any specific provision of the Program) specifies that it shall serve as Administrator.

(b) "Award" means, with respect to each Participant for a Performance Period, such Participant's opportunity to earn a Payment Amount for such Performance Period upon the satisfaction of the terms and conditions of the Program. Awards hereunder constitute Performance Awards (as such term is defined in the Incentive Plan 2000) under the Incentive Plan 2000.

(c) "Award Notice" means a written notice issued by the Company to a Participant evidencing such Participant's receipt of an Award with respect to a Performance Period.

(d) "Base Amount" means the sum of (i) the annual base rate of pay paid or payable in cash by the Company and the Subsidiaries to or for the benefit of a Participant for services rendered or labor performed, plus (ii) an additional amount equal to (1) for all Participants other than those described in Section 2.1(z)(vi), 2.1(z)(vii) or 2.1(z)(viii) below, 125% of the amount described in clause (i), and (2) for all Participants described in Section 2.1(z)(vi), 2.1(z)(vii) or 2.1(z)(viii) below, 37.5% of the amount described in clause (i). Base Amount shall be determined without reduction for amounts a Participant could have received in cash in lieu of (A) elective deferrals under the Company's Deferred Compensation Plan or (B) elective contributions made on such Participant's behalf by the Company or a Subsidiary pursuant to a qualified cash or deferred arrangement (as defined in section 401(k) of the Code) or pursuant to a plan maintained under section 125 of the Code.

(e) "Board" means the Board of Directors of the Company.

(f) "Cause" means (i) in the case of a Participant with an employment agreement with the Company or a Subsidiary, the involuntary termination of such Participant's employment by the Company (or, if applicable, a Subsidiary) under circumstances that do not require the Company (or such Subsidiary) to pay to such Participant a "Termination Payment" or "Monthly Severance Amount," as such terms are defined in such Participant's employment agreement, and (ii) in the case of a Participant who does not have an employment agreement with the Company or a Subsidiary, the involuntary termination of such Participant's employment by the Company (or, if applicable, a Subsidiary) based upon a determination by the Administrator or an authorized officer of the Company (or such Subsidiary) that such Participant has engaged in gross negligence or willful misconduct in the performance of, or such Participant has abused alcohol or drugs rendering him or her unable to perform, the material duties and services required of him or her in his or her employment.

(g) "Change in Control" shall have the same meaning as is assigned to such term under the Incentive Plan 2000, as in effect on October 4, 1999.

(h) "Change Year" means the calendar year during which a Change in Control occurs.

(i) "Code" means the Internal Revenue Code of 1986, as amended.

(j) "Committee" means a committee of the Board comprised solely of two or more outside directors (within the meaning of the term "outside directors" as used in section 162(m) of the Code). Such committee shall be the Human Resources Committee of the Board unless and until the Board designates another committee of the Board to serve as the Committee.

(k) "Company" means Continental Airlines, Inc., a Delaware corporation.

(l) "Company Stock" means the Class B common stock, par value \$0.01 per share, of the Company.

(m) "Disability" or "Disabled" means, with respect to a Participant, such Participant's disability entitling him or her to benefits under the Company's group long-term disability plan; provided, however, that if such Participant is not eligible to participate in such plan, then such Participant shall be considered to have incurred a "Disability" if and when the Administrator determines in its discretion that such Participant has become incapacitated for a period of at least 180 days by accident, sickness, or other circumstance which renders such Participant mentally or physically incapable of performing the material duties and services required of him or her in his or her employment on a full-time basis during such period.

(n) "EBITDAR" means, with respect to each company in the Industry Group and each Performance Period, the aggregate earnings of such company and its consolidated subsidiaries during the Performance Period, determined prior to the charges, costs, and expenses associated with interest, income taxes, depreciation, amortization, and aircraft rent. EBITDAR shall be determined based on the regularly prepared and publicly available statements of operations of each company in the Industry Group prepared in accordance with GAAP (and if necessary to determine certain items, based on Form 41 data filed by such company with the Department of Transportation); provided, however, that EBITDAR shall be adjusted to exclude (i) non-operating income or expense, (ii) write-offs of assets (including aircraft and associated parts), (iii) one-time gains or losses from the disposal of assets, and (iv) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii), (iii) and (iv) as determined by the Committee in accordance with GAAP. If the fiscal year of a company in the Industry Group is not the calendar year, then such company's EBITDAR for a Performance Period shall be determined based upon the fiscal quarters of such company that coincide with the fiscal quarters contained in such Performance Period. Further, if a company in the Industry Group provides publicly available statements of operations with respect to its airline business that are separate from the statements of operations provided with respect to its other businesses, then such company's EBITDAR shall be determined based solely upon the separately provided statements of operations pertaining to its airline business.

(o) "EBITDAR Margin" means, with respect to each company in the Industry Group and each Performance Period, the cumulative EBITDAR for such company for such Performance Period divided by such company's cumulative revenues (determined on a consolidated basis based on the regularly prepared and publicly available statements of operations of such company prepared in accordance with GAAP) over such Performance Period. If the fiscal year of a company in the Industry Group is not the calendar year, then such company's EBITDAR Margin for a Performance Period shall be determined based upon the fiscal quarters of such company that coincide with the fiscal quarters contained in such Performance Period. Further, if a company in the Industry Group provides publicly available statements of operations with respect to its airline business that are separate from the statements of operations provided with respect to its other businesses, then such company's EBITDAR Margin shall be determined based solely upon the separately provided statements of operations pertaining to its airline business.

(p) "Effective Date" means January 1, 2000.

(q) "Eligible Employee" means any individual who is (i) a staff vice president or more senior officer of the Company or (ii) a vice president or more senior officer of a Subsidiary, or (iii) any other officer of the Company or any Subsidiary designated by the Administrator as an Eligible Employee for purposes of the

Program.

(r) "GAAP" means United States generally accepted accounting principles, consistently applied.

(s) "Incentive Plan 2000" means the Continental Airlines, Inc. Incentive Plan 2000, as amended from time to time.

(t) "Industry Group" means, with respect to each Performance Period, the companies determined in accordance with the provisions of Article V for such Performance Period.

(u) "Market Value per Share" means, as of any specified date, the closing sales price of Company Stock on that date (or, if there are no sales on that date, the last preceding date on which there was a sale) in the principal securities market in which the Company Stock is then traded.

(v) "Number 1 Ranking," "Number 2 Ranking," and "Number 3 Ranking" shall have the meanings assigned to such terms in Section 2.1(bb).

(w) "Operating Income Hurdle" with respect to a Performance Period means the achievement by the Company, during such Performance Period, of an average annual operating income of \$300 million (or, with respect to any Performance Period beginning after the Effective Date, such other amount as may be established by the Committee prior to the commencement of the applicable Performance Period) or more, as reflected on the regularly prepared and publicly available statements of operations of the Company and its consolidated subsidiaries prepared in accordance with GAAP, adjusted to exclude (i) accruals with respect to the Program, (ii) write-offs of assets (including aircraft and associated parts), (iii) one-time gains or losses from the disposal of assets, and (iv) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii), (iii) and (iv) as determined by the Committee in accordance with GAAP.

(x) "Participant" means an Eligible Employee who has received an Award under the Program with respect to a Performance Period pursuant to Section 4.1.

(y) "Payment Amount" means, with respect to each Participant and each Performance Period for which the Performance Target is satisfied, an amount equal to (i) such Participant's Base Amount in effect as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, multiplied by (ii) the Payout Percentage applicable to such Participant for such Performance Period; provided, however, that the Payment Amount with respect to each Participant with respect to the Performance Period commencing on January 1, 2000 and ending on December 31, 2000 shall be one-third of the amount calculated in accordance with the foregoing formula, and the Payment Amount with respect to each Participant with respect to the Performance Period commencing on January 1, 2000 and ending on December 31, 2001 shall be two-thirds of the amount calculated in accordance with the foregoing formula. Notwithstanding the foregoing, in no event shall the aggregate Payment Amounts with respect to any Performance Period exceed 5% of the actual average annual operating income of the Company and its consolidated subsidiaries with respect to such Performance Period (the "Program Cap"), as reflected on the regularly prepared and publicly available statements of operations of the Company and its consolidated subsidiaries prepared in accordance with GAAP, adjusted to exclude (i) accruals with respect to the Program, (ii) write-offs of assets (including aircraft and associated parts), (iii) one-time gains or losses from the disposal of assets, and (iv) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii), (iii) and (iv) as determined by the Committee in accordance with GAAP. All Payment Amounts with respect to any Performance Period in which the Program Cap would, but for the foregoing limitation, be exceeded shall be reduced pro-rata so that the aggregate Payment Amounts equal the Program Cap.

(z) "Payout Percentage" means, with respect to each Performance Period for which the Performance Target is satisfied:

- (i) In the case of a Participant who is the Company's Chief Executive Officer as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 150% if the Company achieves a Number 1 Ranking for such

- Performance Period, (B) 100% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 75% if the Company achieves a Number 3 Ranking for such Performance Period;
- (ii) In the case of a Participant who is the Company's President as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 135% if the Company achieves a Number 1 Ranking for such Performance Period, (B) 90% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 70% if the Company achieves a Number 3 Ranking for such Performance Period;
- (iii) In the case of a Participant who is an Executive Vice President of the Company as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 100% if the Company achieves a Number 1 Ranking for such Performance Period, (B) 75% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 50% if the Company achieves a Number 3 Ranking for such Performance Period;
- (iv) In the case of a Participant who is a Senior Vice President of the Company (or who is the President of Continental Express, Inc.) as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 70% if the Company achieves a Number 1 Ranking for such Performance Period, (B) 50% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 30% if the Company achieves a Number 3 Ranking for such Performance Period;
- (v) In the case of a Participant (other than a Participant described in any of clauses (i), (ii), (iii) or (iv) above) who is a participant in the Company's Executive Bonus Program as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 55% if the Company achieves a Number 1 Ranking for such Performance Period, (B) 40% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 25% if the Company achieves a Number 3 Ranking for such Performance Period;
- (vi) In the case of a Participant who is designated as a Category 1 officer by the Administrator and is not described in any of clauses (i), (ii), (iii), (iv) or (v) above as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 85% if the Company achieves a Number 1 Ranking for such Performance Period, (B) 55% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 40% if the Company achieves a Number 3 Ranking for such Performance Period;
- (vii) In the case of a Participant who is designated

as a Category 2 officer by the Administrator and is not described in any of clauses (i), (ii), (iii), (iv), (v) or (vi) above as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 65% if the Company achieves a Number 1 Ranking for such Performance Period, (B) 40% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 30% if the Company achieves a Number 3 Ranking for such Performance Period; and

- (viii) In the case of a Participant who is designated as a Category 3 officer by the Administrator and is not described in any of clauses (i), (ii), (iii), (iv), (v), (vi) or (vii) above as of the earlier of (1) the last day of such Performance Period, (2) the date of such Participant's death or Disability, or (3) the day immediately preceding the date upon which such Participant suffers a Qualifying Event in connection with, after, or in contemplation of a Change in Control, (A) 30% if the Company achieves a Number 1 Ranking for such Performance Period, (B) 20% if the Company achieves a Number 2 Ranking for such Performance Period, and (C) 15% if the Company achieves a Number 3 Ranking for such Performance Period.

Notwithstanding the foregoing, if an Eligible Employee becomes a Participant and receives an Award with respect to a Performance Period after the first day of such Performance Period, the Administrator may, in its sole discretion, reduce the percentages set forth in this Section 2.1(z) as they shall apply to such Participant for such Performance Period.

(aa) "Performance Period" means: (i) as to the first Performance Period under the Program, the period commencing on the Effective Date and ending on December 31, 2000, (ii) as to the second Performance Period under the Program, the period commencing on the Effective Date and ending on December 31, 2001, (iii) as to the third Performance Period under the Program, the period commencing on the Effective Date and ending on December 31, 2002, and (iv) each three-year period commencing on the first day of a calendar year that begins after the Effective Date. Notwithstanding the foregoing, no new Performance Period shall commence on or after the date upon which a Change in Control occurs, unless otherwise determined by the Committee.

(bb) "Performance Target" means, with respect to a Performance Period, that (1) the EBITDAR Margin for the Company for such Performance Period ranks first (a "Number 1 Ranking"), second (a "Number 2 Ranking"), or third (a "Number 3 Ranking") when comparing the EBITDAR Margins for such Performance Period for all companies comprising the Industry Group as of the last day of such Performance Period, and (2) the Operating Income Hurdle with respect to such Performance Period has been achieved.

(cc) "Program" means this Continental Airlines, Inc. 1999 Long Term Incentive Performance Award Program, as amended from time to time.

(dd) "Qualifying Event" means, with respect to a Participant, (i) the termination of such Participant's employment with the Company, (ii) the assignment to such Participant by the Board or the Administrator or other officers or representatives of the Company (or, if applicable, a Subsidiary) of duties materially inconsistent with the duties associated with his or her position as such duties are constituted as of the first day of the Change Year, (iii) a material diminution in the nature or scope of such Participant's authority, responsibilities, or title from those applicable to him or her as of the first day of the Change Year, (iv) the occurrence of material acts or conduct on the part of the Company (or, if applicable, a Subsidiary) or its officers or representatives which prevent such Participant from performing his or her duties and responsibilities as they existed on the first day of the Change Year, (v) the Company (or, if applicable, a Subsidiary) requiring such Participant to be permanently based anywhere outside a major urban center in the state (or, if applicable, foreign country, U.S. territory or other applicable sovereign entity) in which he or she was based as of the first day of the Change Year, or (vi) the taking of any action by the Company (or, if applicable, a Subsidiary) that would materially adversely affect the corporate amenities enjoyed by such Participant on the first day of the Change Year, except in each case if such



Participant's employment with the Company is terminated (1) for Cause, (2) upon such Participant's death or Disability, or (3) upon the voluntary resignation of such Participant (other than in connection with circumstances which would permit such Participant to receive severance benefits (including a "Termination Payment" or "Monthly Severance Amount," as such terms are defined in such Participant's employment agreement) pursuant to any contract of employment between such Participant and the Company or any Subsidiary).

(ee) "Stock Options" means options to acquire shares of Company Stock, awarded under a stock incentive plan established and maintained by the Company. Stock Options shall not constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. Each Stock Option shall (i) have a purchase price per share equal to the fair market value (determined under the stock incentive plan under which such Stock Option is granted) of a share of Company Stock as of the date of grant of such Stock Option (which shall be the date of the Cancellation Notice described in Section 6.6), (ii) become exercisable on each anniversary of the date of grant thereof (until such Stock Option is exercisable in full), in an amount equal to that percentage of the shares covered thereby as is equal to (A) 100% divided by (B) the number of full years (rounded up to the next highest number of full years, and in no event less than one year) between the date of grant of such Stock Option and the last day of the Performance Period for the Award (or portion thereof) which has been cancelled and replaced by the Stock Option, (iii) have a term of at least five years from the date of grant, and (iv) except as described in clauses (ii) and (iii) above, have the same terms as other non-qualified stock options granted by the Company to employees under the relevant stock incentive plan established and maintained by the Company.

(ff) "Subsidiary" means any entity (other than the Company) with respect to which the Company, directly or indirectly through one or more other entities, owns equity interests possessing 50 percent or more of the total combined voting power of all equity interests of such entity (excluding voting power that arises only upon the occurrence of one or more specified events).

(gg) "Trading Day" means a day during which trading in securities generally occurs in the principal securities market in which Company Stock is traded.

## 2.2 Number, Gender, Headings, and Periods of Time.

Wherever appropriate herein, words used in the singular shall be considered to include the plural, and words used in the plural shall be considered to include the singular. The masculine gender, where appearing in the Program, shall be deemed to include the feminine gender. The headings of Articles, Sections, and Paragraphs herein are included solely for convenience. If there is any conflict between such headings and the text of the Program, the text shall control. All references to Articles, Sections, and Paragraphs are to this Program unless otherwise indicated. Any reference in the Program to a period or number of days, weeks, months, or years shall mean, respectively, calendar days, calendar weeks, calendar months, or calendar years unless expressly provided otherwise.

## III. ADMINISTRATION

3.1 Administration by the Administrator. The Program shall be administered by the Administrator, so that (i) Awards made to, and the administration (or interpretation of any provision) of the Plan as it relates to, any person who is subject to Section 16, shall be made or effected by the Committee, and (ii) Awards made to, and the administration (or interpretation of any provision) of the Program as it relates to, any person who is not subject to Section 16, shall be made or effected by the Chief Executive Officer of the Company (or, if the Chief Executive Officer is not a director of the Company, the Committee), unless the Program specifies that the Committee shall take specific action (in which case such action may only be taken by the Committee) or the Committee (as to any Award described in this clause (ii) or the administration or interpretation of any specific provision of the Program) specifies that it shall serve as Administrator. The action of a majority of the members of the Committee will be the act of the Committee.

3.2 Powers of the Administrator. The Administrator shall supervise the administration and enforcement of the Program according to the terms and provisions hereof and shall have the sole discretionary authority and all of the powers necessary to accomplish these purposes. The Administrator (which shall be limited solely to the Committee with respect to clauses (e), (f), (g), (h), (i) and (j) below) shall have all of the powers specified for it under the Program, including, without limitation, the power, right, or authority: (a) to designate an Eligible Employee as a Participant with respect to a Performance Period at any time prior to the last day of such period, (b) from time to time to establish

rules and procedures for the administration of the Program, which are not inconsistent with the provisions of the Program or the Incentive Plan 2000, and any such rules and procedures shall be effective as if included in the Program, (c) to construe in its discretion all terms, provisions, conditions, and limitations of the Program and any Award, (d) to correct any defect or to supply any omission or to reconcile any inconsistency that may appear in the Program in such manner and to such extent as the Administrator shall deem appropriate, (e) to designate the companies that will comprise the Industry Group with respect to each Performance Period that begins after January 1, 2000, as described in Article V, (f) to make determinations as to EBITDAR and EBITDAR Margin with respect to each company in the Industry Group for each Performance Period, (g) to make determinations as to the Operating Income Hurdle for each Performance Period, (h) to make determinations as to whether the Performance Targets for the various Performance Periods were satisfied, (i) to certify in writing, prior to the payment of any amount under the Program with respect to a Performance Period, whether the Performance Target relating to such Performance Period and any other material terms of the Program have in fact been satisfied, (j) to determine whether to cancel and replace Awards, and make all related determinations and valuations, under Section 6.6, and (k) to make all other determinations necessary or advisable for the administration of the Program. The Administrator may correct any defect or supply any omission or reconcile any inconsistency in the Program or in any Award or Award Notice in the manner and to the extent it shall deem expedient to carry it into effect.

### 3.3 Administrator Decisions Conclusive; Standard of Care.

The Administrator shall, in its sole discretion exercised in good faith (which, for purposes of this Section 3.3, shall mean the application of reasonable business judgment), make all decisions and determinations and take all actions necessary in connection with the administration of the Program. All such decisions, determinations, and actions by the Administrator shall be final, binding, and conclusive upon all persons. However, in the event of any conflict in any such determination as between the Committee and the Chief Executive Officer of the Company, each acting in capacity as Administrator of the Plan, the determination of the Committee shall be conclusive. The Administrator shall not be liable for any action or determination taken or made in good faith or upon reliance in good faith on the records of the Company or information presented to the Administrator by the Company's officers, employees, or other persons (including the Company's outside auditors) as to matters the Administrator reasonably believes are within such other person's professional or expert competence. If a Participant disagrees with any decision, determination, or action made or taken by the Administrator, then the dispute will be limited to whether the Administrator has satisfied its duty to make such decision or determination or take such action in good faith. No liability whatsoever shall attach to or be incurred by any past, present or future stockholders, officers or directors, as such, of the Company or any of its Subsidiaries, under or by reason of the Program or the administration thereof, and each Participant, in consideration of receiving benefits and participating hereunder, expressly waives and releases any and all claims relating to any such liability.

## IV. PARTICIPATION AND AWARD NOTICES

4.1 Participation. Each individual who is an Eligible Employee on the first day of a Performance Period shall automatically be a Participant and receive an Award with respect to such Performance Period, unless otherwise determined by the Administrator prior to the first day of the relevant Performance Period. Each individual who becomes an Eligible Employee after the first day of a Performance Period shall become a Participant and receive an Award with respect to such Performance Period only if such individual is selected prior to the last day of such Performance Period by the Administrator in its sole discretion for participation in the Program with respect to such Performance Period.

4.2 Award Notices. The Company shall provide an Award Notice to each Eligible Employee who becomes a Participant with respect to a Performance Period within 30 days after such Eligible Employee becomes such a Participant; provided, however, that Award Notices for the Performance Periods that begin on the Effective Date shall be provided on or before March 31, 2000. Each Award Notice shall specify (a) the Performance Period to which the Award relates and (b) the potential Payout Percentages applicable to such Award based on the Participant's position as of the date of issuance of the Award Notice.

## V. INDUSTRY GROUP

5.1 Initial Designation. The Industry Group shall consist of the Company, AMR Corporation, Delta Air Lines, Inc., Northwest Airlines Corporation, Trans World Airlines, Inc., UAL Corporation, and US Airways Group, Inc.; provided, however, that (a) within 90

days after the first day of each Performance Period that begins after January 1, 2000, the Committee may in its discretion add any United States certificated scheduled mainline air carrier to, or remove any such company (other than the Company) from, the Industry Group for such Performance Period and (b) the Industry Group for each Performance Period shall be subject to adjustment as provided in Section 5.2.

5.2 Adjustments to the Industry Group During a Performance Period. Except as provided in clause (a) of the proviso to Section 5.1, no company shall be added to, or removed from, the Industry Group for a Performance Period during such period; provided, however, that a company (other than the Company) shall be removed from the Industry Group for a Performance Period if (a) during such period, (i) such company ceases to maintain publicly available statements of operations prepared in accordance with GAAP, (ii) such company is not the surviving entity in any merger, consolidation, or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly owned subsidiary of such company), (iii) such company sells, leases, or exchanges all or substantially all of its assets to any other person or entity (other than a previously wholly owned subsidiary of such company), or (iv) such company is dissolved and liquidated, or (b) more than 20% of such company's revenues (determined on a consolidated basis based on the regularly prepared and publicly available statements of operations of such company prepared in accordance with GAAP) for any fiscal year of such company that ends during such Performance Period are attributable to the operation of businesses other than such company's airline business and such company does not provide publicly available statements of operations with respect to its airline business that are separate from the statements of operations provided with respect to its other businesses.

## VI. AWARD PAYMENTS

6.1 Determinations and Certification by the Committee. As soon as administratively feasible after the end of each Performance Period, the Committee shall determine (a) with respect to each company comprising the Industry Group as of the last day of such Performance Period, the EBITDAR and EBITDAR Margin for such company for such Performance Period, (b) whether the Performance Target for such Performance Period and whether any other material terms relating to the payment of an Award have been satisfied, and (c) if the Performance Target for such Performance Period and any other material terms relating to the payment of an Award have been satisfied, whether the Company achieved a Number 1 Ranking, a Number 2 Ranking, or a Number 3 Ranking for such Performance Period. The Committee's determination as to whether the Performance Target for a Performance Period and any other material terms relating to the payment of an Award have been satisfied and, if so, whether the Company achieved a Number 1 Ranking, a Number 2 Ranking, or a Number 3 Ranking for such Performance Period shall be certified by the Committee in writing and delivered to the Secretary of the Company. For purposes of the preceding sentence, approved minutes of the Committee meeting in which the certification is made shall be treated as a written certification.

6.2 Eligibility for Payment of Awards. Upon the Committee's written certification in accordance with Section 6.1 that a Performance Target for a Performance Period and any other material terms relating to the payment of an Award have been satisfied, each Participant who has received an Award with respect to such Performance Period and who has remained continuously employed by the Company from the date he or she received such Award until the last day of such Performance Period shall be entitled to the Payment Amount applicable to such Participant's Award for such Performance Period. Except as provided in Section 6.3 and Section 6.4, if a Participant's employment with the Company terminates for any reason whatsoever prior to the last day of a Performance Period, then such Participant shall not be entitled to receive any payment under the Program with respect to his or her Award for such Performance Period, unless otherwise determined by the Administrator. Payment of the amount to which a Participant becomes entitled pursuant to this Section 6.2 shall be made by the Company within five business days after the Committee's written certification of the satisfaction of the applicable Performance Target.

6.3 Death or Disability. Except as provided in Section 6.4, if during a Performance Period with respect to which a Participant has received an Award, such Participant dies or becomes Disabled, then as to such Participant only (a) the Administrator, based on publicly available data with respect to each Performance Period that began prior to the date of such Participant's death or Disability and which has not ended as of such date, shall as promptly as practicable determine the actual EBITDAR Margin and operating income performance of the Company and its consolidated subsidiaries through the most recent practicable date, and shall determine, based on such data and publicly available data with respect to the companies contained in the Industry Group (and, if

deemed appropriate by the Administrator, annualizing or otherwise making assumptions with respect to any relevant data), whether the Company has achieved the Performance Target through such most recent practicable date, and if so whether the Company has achieved a Number 1 Ranking, Number 2 Ranking or Number 3 Ranking through such most recent practicable date, and (b) the provisions of Sections 6.1 and 6.2 shall cease to apply with respect to each such Performance Period. With respect to each such Performance Period that the Performance Target has been satisfied in the manner described in clause (a) of the preceding sentence, such Participant (or, in the case of death, such Participant's estate) shall (i) receive a payment from the Company, within five business days after the determination by the Administrator referred to in clause (a) of the foregoing sentence, equal to the Payment Amount applicable to such Participant's Award for such Performance Period multiplied by a fraction, the numerator of which is the number of days during the period beginning on the first day of such Performance Period and ending on the date such Participant died or became Disabled, and the denominator of which is the number of days in the entire Performance Period, and (ii) not be entitled to any additional payment under the Program with respect to such Performance Period.

6.4 Change in Control. Upon the occurrence of a Change in Control, (a) the Performance Target for each Performance Period that began prior to the date of such Change in Control and which has not ended as of such date shall be deemed to have been satisfied, (b) the Company shall be deemed to have achieved a Number 1 Ranking for each such Performance Period, and (c) the provisions of Sections 6.1, 6.2 and 6.3 shall cease to apply with respect to each such Performance Period. If a Change in Control occurs and thereafter (or in connection therewith or in contemplation thereof) during a Performance Period described in the preceding sentence a Participant who has received an Award with respect to such Performance Period dies, becomes Disabled or suffers a Qualifying Event, then, with respect to each such Performance Period, such Participant (or, in the case of death, such Participant's estate) shall (i) upon the occurrence of the death, Disability or Qualifying Event, receive a payment from the Company equal to the Payment Amount applicable to such Participant's Award for such Performance Period multiplied by a fraction, the numerator of which is the number of days during the period beginning on the first day of such Performance Period and ending on the date such Participant died, became Disabled or suffered the Qualifying Event, and the denominator of which is the number of days in the entire Performance Period, and (ii) not be entitled to any additional payment under the Program with respect to such Performance Period. If a Change in Control occurs and a Participant who has received an Award with respect to a Performance Period described in the first sentence of this Section 6.4 did not die, become Disabled or suffer a Qualifying Event during such Performance Period as described in the preceding sentence and such Participant remained continuously employed by the Company from the date he or she received such Award until the last day of such Performance Period, then, with respect to each such Performance Period, such Participant shall receive a payment from the Company on the last day of such Performance Period in an amount equal to the Payment Amount applicable to such Participant's Award for such Performance Period.

6.5 Form of Payment of Awards. All payments to be made under the Program to a Participant with respect to an Award shall be paid in a single lump sum payment (unless otherwise specified in an Award Notice), which payment shall be in cash, unless in the sole discretion of the Committee such payment is made either (a) in shares of Company Stock (subject to any limitations contained in the Incentive Plan 2000), but if and only if at the time of payment the Company has an effective registration statement under the Securities Act of 1933, as amended, covering the issuance of Company Stock under the Program, or (b) in a combination of cash and/or shares of Company Stock. If the Committee elects to direct the Company to pay all or a portion of a payment due under the Program in shares of Company Stock, then the number of shares of Company Stock shall be determined by dividing the amount of such payment to be paid in shares of Company Stock by the Market Value per Share on the Trading Day immediately preceding the date of such payment, and rounding such number down to the nearest whole share.

6.6 Cancellation and Replacement of Awards by the Committee. The Committee may at any time prior to the last day of a Performance Period (other than after, or in contemplation of, a Change in Control, or as to any Award, after the death or Disability of the Participant), in its sole discretion, with or without cause, for any reason that in the opinion of the Committee is in the best interests of the Company, direct the Company to cancel all or any portion of a Participant's Award for such Performance Period, and simultaneously replace such Award (or portion thereof) so cancelled with Stock Options. In determining whether the decision to cancel all or a portion of a Participant's Award is in the best interests of the Company, the Committee shall make its determination in good faith (which, for this purpose, shall mean that the Committee shall exercise reasonable business

judgment). This contractual duty to make such decision in good faith is in lieu of, and subsumes, any and all other express or implied duties, in contract, tort, or otherwise, that might otherwise be imposed upon the Committee or the Company with respect to such decision. A decision by the Committee to cause such a cancellation may vary among Participants and may vary among the Awards held by an individual Participant. To effect such a cancellation, the Committee shall cause the Company to deliver to the Participant a written notice (the "Cancellation Notice") specifying the Participant's Award (or portion thereof) to be cancelled, accompanied by a grant document for the Stock Options replacing the cancelled Award (or portion thereof). Upon delivery of the Cancellation Notice accompanied by such grant document for the Stock Options replacing the cancelled Award (or portion thereof), the Award (or portion thereof) that is to be cancelled as specified in such notice shall be canceled. Any portion of such Award not so cancelled shall remain outstanding. The Stock Options to be granted to a Participant upon cancellation of all or any portion of such Participant's Award shall have a Black-Scholes value (determined by the Committee in good faith and using assumptions consistent with those used by the Company in calculating Black-Scholes values for proxy statement purposes) at least as great as the value of the Award (or portion thereof) being cancelled, with the value of an Award (or portion thereof) being cancelled to be equal to the payment a Participant who satisfied all conditions to payment would have received with respect thereto (based on the Participant's position and Base Amount in effect on the date of cancellation of such Participant's Award) if the Company had satisfied the Performance Target and achieved a Number 2 Ranking during the relevant Performance Period.

#### VII. STOCKHOLDER APPROVAL, TERMINATION, AND AMENDMENT OF PROGRAM

7.1 Stockholder Approval. The Program shall be effective as of the Effective Date; provided that the Incentive Plan 2000 is approved by the Company's stockholders in the manner required under section 162(m) of the Code at the Company's 2000 annual meeting of stockholders. Notwithstanding any provision herein to the contrary, no payment under the Program shall be made to or on behalf of any Participant unless the Incentive Plan 2000 is so approved by the Company's stockholders. If the Company's stockholders do not so approve the Incentive Plan 2000, then (a) all Awards under the Program shall be void ab initio and of no further effect and (b) the Program shall terminate.

7.2 Termination and Amendment. The Committee may amend the Program at any time and from time to time, and the Committee may at any time terminate the Program (in its entirety or as it applies to one or more specified Subsidiaries) with respect to Performance Periods that have not commenced as of the date of such Committee action; provided, however, that the Program may not be amended in a manner that would impair the rights of any Participant with respect to any outstanding Award without the consent of such Participant, or without the further approval of the stockholders of the Company if such amendment would result in the Program no longer satisfying the requirements of section 162(m) of the Code, and this Program may not be amended or terminated in contemplation of or in connection with a Change in Control, nor may any Participant's participation herein be terminated in contemplation of or in connection with a Change in Control, unless adequate and effective provision for the making of all payments otherwise payable (based on Participants' Base Amounts as in effect immediately prior to such Change in Control) pursuant to Section 6.4 of this Program (as in effect on the date of stockholder approval described in Section 7.1) with respect to such Change in Control shall be made in connection with any such amendment or termination. The Committee shall remain in existence after the termination of the Program for the period determined necessary by the Committee to facilitate the termination of the Program, and all provisions of the Program that are necessary, in the opinion of the Committee, for equitable operation of the Program during such period shall remain in force.

#### VIII. MISCELLANEOUS PROVISIONS

8.1 No Effect on Employment Relationship. For all purposes of the Program, a Participant shall be considered to be in the employment of the Company as long as he or she remains employed on a full-time basis by the Company or any Subsidiary. Nothing in the adoption of the Program, the grant of Awards, or the payment of amounts under the Program shall confer on any person the right to continued employment by the Company or any Subsidiary or affect in any way the right of the Company (or a Subsidiary, if applicable) to terminate such employment at any time. Unless otherwise provided in a written employment agreement, the employment of each Participant shall be on an at-will basis, and the employment relationship may be terminated at any time by either the Participant or the Participant's employer for any reason whatsoever, with or without cause. Any question as to whether and when there has been a termination of a Participant's employment for

purposes of the Program, and the reason for such termination, shall be determined solely by and in the discretion of the Administrator, and its determination shall be final, binding, and conclusive on all parties.

8.2 Prohibition Against Assignment or Encumbrance. No Award or other right, title, interest, or benefit hereunder shall ever be assignable or transferable, or liable for, or charged with any of the torts or obligations of a Participant or any person claiming under a Participant, or be subject to seizure by any creditor of a Participant or any person claiming under a Participant. No Participant or any person claiming under a Participant shall have the power to anticipate or dispose of any Award or other right, title, interest, or benefit hereunder in any manner until the same shall have actually been distributed free and clear of the terms of the Program. Payments with respect to an Award shall be payable only to the Participant (or (a) in the event of a Disability that renders such Participant incapable of conducting his or her own affairs, any payment due under the Program to such Participant shall be made to his or her duly appointed legal representative and (b) in the event of the death of a Participant, any payment due under the Program to such Participant shall be made to his or her estate). The provisions of the Program shall be binding on all successors and permitted assigns of a Participant, including without limitation the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

8.3 Unfunded, Unsecured Program. The Program shall constitute an unfunded, unsecured obligation of the Company to make payments of incentive compensation to certain individuals from its general assets in accordance with the Program. Each Award granted under the Program merely constitutes a mechanism for measuring such incentive compensation and does not constitute a property right or interest in the Company, any Subsidiary, or any of their assets. Neither the establishment of the Program, the granting of Awards, nor any other action taken in connection with the Program shall be deemed to create an escrow or trust fund of any kind.

8.4 No Rights of Participant. No Participant shall have any security or other interest in any assets of the Company or any Subsidiary or in Company Stock as a result of participation in the Program. Participants and all persons claiming under Participants shall rely solely on the unsecured promise of the Company set forth herein, and nothing in the Program, an Award or an Award Notice shall be construed to give a Participant or anyone claiming under a Participant any right, title, interest, or claim in or to any specific asset, fund, entity, reserve, account, or property of any kind whatsoever owned by the Company or any Subsidiary or in which the Company or any Subsidiary may have an interest now or in the future; but each Participant shall have the right to enforce any claim hereunder in the same manner as a general creditor. Neither the establishment of the Program nor participation hereunder shall create any right in any Participant to make any decision, or provide input with respect to any decision, relating to the business of the Company or any Subsidiary.

8.5 Tax Withholding. The Company and the Subsidiaries shall deduct and withhold, or cause to be withheld, from a Participant's payment, including the delivery of shares, made under the Program, or from any other payment to such Participant, an amount necessary to satisfy any and all tax withholding obligations arising under applicable local, state, federal, or foreign laws associated with such payment. The Company and the Subsidiaries may take any other action as may in their opinion be necessary to satisfy all obligations for the payment and withholding of such taxes.

8.6 No Effect on Other Compensation Arrangements. Nothing contained in the Program or any Participant's Award or Award Notice shall prevent the Company or any Subsidiary from adopting or continuing in effect other or additional compensation arrangements affecting any Participant. Nothing in the Program shall be construed to affect the provisions of any other compensation plan or program maintained by the Company or any Subsidiary.

8.7 Subsidiaries. The Company may require any Subsidiary employing a Participant to assume and guarantee the Company's obligations hereunder to such Participant, either at all times or solely in the event that such Subsidiary ceases to be a Subsidiary.

8.8 Governing Law. The Program shall be construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the undersigned officer of the Company acting pursuant to authority granted to him by the Committee has executed this instrument on this 14th day of October, 1999, effective as of January 1, 2000.

By: \_\_\_\_\_  
Jeffery A. Smisek  
Executive Vice President

Supplemental Agreement No. 13

to

Purchase Agreement No. 1951

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 737 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of October 13, 1999, by and between THE BOEING COMPANY, a Delaware corporation with its principal office in Seattle, Washington, (Boeing) and CONTINENTAL AIRLINES, INC., a Delaware corporation with its principal office in Houston, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement), as amended and supplemented, relating to Boeing Model 737-500, 737-600, 737-700, 737-800, and 737-900 aircraft (the Aircraft); and

WHEREAS, Buyer has requested to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; and

WHEREAS, Buyer has requested to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; and

WHEREAS, Buyer has requested to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; and

WHEREAS, Buyer has requested to exercise [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; and

WHEREAS, Buyer has requested to exercise [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; and

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

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

WHEREAS, Boeing and Buyer have mutually agreed to amend the Agreement to incorporate the effect of these and certain other changes;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. Table of Contents and Articles:

1.1 Remove and replace, in its entirety, the "Table of Contents", with the Table of Contents attached hereto, to reflect the changes made by this Supplemental Agreement No. 13.

1.2 Remove and replace, in its entirety, page T-2 of Table 1 entitled "Aircraft Deliveries and Descriptions" that relates to Model 737-700 Aircraft with new page T-2 attached hereto for the Model 737-700 Aircraft reflecting the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

1.3 Remove and replace, in its entirety, page T-3 of Table 1 entitled "Aircraft Deliveries and Descriptions" that relates to Model 737-800 Aircraft with new page T-3 attached hereto for the Model 737-800 Aircraft reflecting the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2. Letter Agreements:



Remove and replace, in its entirety, Letter Agreement 1951-9R5, "Option Aircraft - Model 737-724 Aircraft" with Letter Agreement 1951-9R6, "Option Aircraft - Model 737-724 Aircraft", attached hereto, to reflect the exercise of the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Option Aircraft.

The Agreement will be deemed to be supplemented to the extent herein provided as of the date hereof and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first written above.

THE BOEING COMPANY                      CONTINENTAL AIRLINES, INC.

By: /s/ D. M. Hurt                      By: /s/ Brian Davis

Its: Attorney-In-Fact                      Its: Vice President

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Table 1 to  
Purchase Agreement 1951  
Aircraft Deliveries and Descriptions  
Model 737-700 Aircraft  
CFM56-7B24 Engines  
Detail Specification No. D6-38808-42 dated January 6, 1997  
Exhibit A-1

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

Table 1 to  
Purchase Agreement 1951  
Aircraft Deliveries and Descriptions  
Model 737-700 Aircraft  
CFM56-7B24 Engines  
Detail Specification No. D6-38808-42 dated January 6, 1997  
Exhibit A-2

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

1951-9R6  
October 13, 1999

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

Subject: Letter Agreement No. 1951-9R6 to  
Purchase Agreement No. 1951 - Option Aircraft -  
Model 737-724 Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-724 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-9R5 dated May 14, 1999.

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

In consideration of Buyer's purchase of the Aircraft, Boeing hereby agrees to manufacture and sell up to - [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] additional Model 737-724 Aircraft (the Option Aircraft) to Buyer, on the same terms and conditions set forth in the Agreement, except as otherwise described in Attachment A hereto, and subject to the terms and conditions set forth below.

1. Delivery.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

Month and Year of Delivery	Number of Option Aircraft
-------------------------------	------------------------------

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

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

3. Option Aircraft Deposit.

In consideration of Boeing's grant to Buyer of options to purchase the Option Aircraft as set forth herein, Buyer will pay a deposit to Boeing of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for each Option Aircraft (the Option Deposit) on the date of this Letter Agreement. In the event Buyer exercises an option herein for an Option Aircraft, the amount of the Option Deposit for such Option Aircraft will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in Article 5 of the Agreement.

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

4. Option Exercise.

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

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

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

5. Contract Terms.

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



Aircraft Supplemental Agreement).

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

#### 6. Cancellation of Option to Purchase.

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

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

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

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

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

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

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

#### 7. Applicability.

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

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

Very truly yours,

THE BOEING COMPANY

By /s/ D. M. Hurt

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 13, 1999

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

## Model 737-724 Aircraft

### 1. Option Aircraft Description and Changes.

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

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

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

(2) Changes mutually agreed upon.

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

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

### 2. Price Description.

#### 2.1 Price Adjustments.

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

2.1.2 Special Features. The price for special features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the Option Aircraft Supplemental Agreement [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2.1.3 Escalation Adjustments. The base airframe and special features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D of the Agreement.

Buyer agrees that the engine escalation provisions will be adjusted if they are changed by the engine manufacturer prior to signing the Option Aircraft Supplemental Agreement. In such case, the then-current engine escalation provisions in effect at the time of execution of the Option Aircraft Supplemental Agreement will be incorporated into such agreement.

2.1.4 Price Adjustments for Changes. Boeing may adjust the basic price and the advance payment base prices for any changes mutually agreed upon by Buyer and Boeing subsequent to the date that Buyer and Boeing enter into the Option Aircraft Supplemental Agreement.

2.1.5 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Detail Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price.

### 3. Advance Payments.

3.1 Buyer shall pay to Boeing advance payments for the Option Aircraft pursuant to the schedule for payment of advance payments provided in the Agreement.

Supplemental Agreement No. 14

to

Purchase Agreement No. 1951

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 737 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of December 13, 1999, by and between THE BOEING COMPANY, a Delaware corporation with its principal office in Seattle, Washington, (Boeing) and CONTINENTAL AIRLINES, INC., a Delaware corporation with its principal office in Houston, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement), as amended and supplemented, relating to Boeing Model 737-500, 737-600, 737-700, 737-800, and 737-900 aircraft (the Aircraft); and

WHEREAS, Buyer has requested to exercise [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; and

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

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

WHEREAS, Boeing and Buyer have mutually agreed to amend the Agreement to incorporate the effect of these and certain other changes;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. Table of Contents and Articles:

1.1 Remove and replace, in its entirety, the "Table of Contents", with the Table of Contents attached hereto, to reflect the changes made by this Supplemental Agreement No. 14.

1.3 Remove and replace, in its entirety, page T-3 of Table 1 entitled "Aircraft Deliveries and Descriptions" that relates to Model 737-800 Aircraft with new page T-3 attached hereto for the Model 737-800 Aircraft reflecting the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2. Letter Agreements:

2.1 Remove and replace, in its entirety, Letter Agreement 1951-3R7, "Option Aircraft - Model 737-824 Aircraft" with Letter Agreement 1951-3R8, "Option Aircraft - Model 737-824 Aircraft", attached hereto, to reflect the exercise of the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2.2 Add new Letter Agreement 6-1162-DMH-1020 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

The Agreement will be deemed to be supplemented to the extent herein provided as of the date hereof and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first written above.

THE BOEING COMPANY

CONTINENTAL AIRLINES, INC.

By: /s/ D. M. Hurt

By: /s/ Brian Davis

Its: Attorney-In-Fact

Its: Vice President

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Table 1 to  
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Aircraft Deliveries and Descriptions  
Model 737-700 Aircraft  
CFM56-7B24 Engines  
Detail Specification No. D6-38808-42 dated January 6, 1997  
Exhibit A-1

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

Table 1 to  
Purchase Agreement 1951  
Aircraft Deliveries and Descriptions  
Model 737-700 Aircraft  
CFM56-7B24 Engines  
Detail Specification No. D6-38808-42 dated January 6, 1997  
Exhibit A-2

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

1951-3R8  
December 13, 1999

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

Subject: Letter Agreement No. 1951-3R8 to  
Purchase Agreement No. 1951 -  
Option Aircraft - Model 737-824 Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-824 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-3R7 dated May 14, 1999.

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

In consideration of Buyer's purchase of the Aircraft, Boeing hereby agrees to manufacture and sell up to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] additional Model 737-824 Aircraft (the Option Aircraft) to Buyer, on the same terms and conditions set forth in the Agreement, except as otherwise described in Attachment A hereto, and subject to the terms and conditions set forth below.

1. Delivery.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

Month and Year of Delivery	Number of Option Aircraft
-------------------------------	------------------------------

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

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

3. Option Aircraft Deposit.

In consideration of Boeing's grant to Buyer of options to purchase the Option Aircraft as set forth herein, Buyer will pay a deposit to Boeing of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for each Option Aircraft (the Option Deposit) on the date of this Letter Agreement. In the event Buyer exercises an option herein for an Option Aircraft, the amount of the Option Deposit for such Option Aircraft will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in Article 5 of the Agreement.

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

4. Option Exercise.

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

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

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

5. Contract Terms.

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

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

6. Cancellation of Option to Purchase.

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

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

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

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

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

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

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

case the Option Deposit shall also be returned to Buyer without interest.

7. Applicability.

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

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

Very truly yours,

THE BOEING COMPANY

By /s/ D. M. Hurt

Its Attorney In Fact

ACCEPTED AND AGREED TO this

Date: December 13, 1999

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

Model 737-824 Aircraft

1. Option Aircraft Description and Changes.

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

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

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

(2) Changes mutually agreed upon.

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

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

2. Price Description.

2.1 Price Adjustments.

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

2.1.2 Special Features. The price for special features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the Option Aircraft Supplemental Agreement [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2.1.3 Escalation Adjustments. The base airframe and special features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D of the Agreement.

Buyer agrees that the engine escalation provisions will be adjusted if they are changed by the engine manufacturer prior to signing the Option Aircraft Supplemental Agreement. In such case, the then-current engine escalation provisions in effect at the time of execution of the Option Aircraft Supplemental Agreement will be incorporated into such agreement.

2.1.4 Price Adjustments for Changes. Boeing may adjust the basic price and the advance payment base prices for any changes mutually agreed upon by Buyer and Boeing subsequent to the date that Buyer and Boeing enter into the Option Aircraft Supplemental Agreement.

2.1.5 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Detail Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price.

3. Advance Payments.

3.1 Buyer shall pay to Boeing advance payments for the Option Aircraft pursuant to the schedule for payment of advance payments provided in the Purchase Agreement.

December 13, 1999  
6-1162-DMH-1020

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

Subject: Letter Agreement 6-1162-DMH-1020 to Purchase  
Agreement No. 1951 - [CONFIDENTIAL MATERIAL OMITTED  
AND FILED SEPARATELY WITH THE SECURITIES AND  
EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR  
CONFIDENTIAL TREATMENT]

Ladies and Gentlemen:

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

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

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

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

Very truly yours,

THE BOEING COMPANY

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

ACCEPTED AND AGREED TO

as of this date:\_\_\_December 13, 1999

CONTINENTAL AIRLINES, INC.

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



(Ernst & Young Logo)

Ernst & Young LLP

One Houston Center  
Suite 2400  
1221 McKinney Street  
Houston, Texas 77010-2007  
Phone: (713) 750-1500  
Fax: (713) 750-1501  
www.ey.com

January 17, 2000

The Board of Directors and Stockholders  
Continental Airlines, Inc.  
1600 Smith Street  
Houston, Texas 77002

Dear Sirs:

Note 1 of the Notes to Consolidated Financial Statements of Continental Airlines, Inc. included in its Form 10-K for the year ended December 31, 1999 describes a change in the method of accounting for the sale of mileage credits to participating partners in the OnePass program from recognizing such revenue when the credits are sold, net of accruing the incremental cost of providing the future air travel service, to deferring the revenue and recognizing it over a period approximating the period during which the mileage credits are redeemed and the service is provided.

We conclude that such change in the method of accounting is to an acceptable method which, based on your judgement to make this change and for the stated reason, is preferable in your circumstances.

Very truly yours,

/s/ Ernst & Young LLP

## SUBSIDIARIES OF CONTINENTAL AIRLINES, INC.

SUBSIDIARY	STATE OF INCORPORATION
------------	------------------------

Air Micronesia, Inc.	Delaware
----------------------	----------

Continental Express, Inc.	Delaware
---------------------------	----------

Continental Micronesia, Inc.	Delaware
------------------------------	----------

## Consent of Independent Auditors

We consent to the incorporation by reference of our reports dated January 17, 2000 with respect to the consolidated financial statements and schedule of Continental Airlines, Inc. (the "Company") included in the Annual Report (Form 10-K) for the year ended December 31, 1999 into the following:

- (i) the Company's Registration Statements on Form S-8 (Nos. 33-81324, 33-60009 and 333-06993) relating to the Company's 1994 Incentive Equity Plan;
- (ii) the Company's Registration Statement on Form S-8 (No. 333-23165) relating to the Company's 1997 Stock Incentive Plan;
- (iii) the Company's Registration Statement on Form S-8 (No. 333-57297) relating to the Company's 1998 Stock Incentive Plan;
- (iv) the Company's Registration Statements on Form S-8 (Nos. 33-81326 and 33-59995) relating to the Company's 1994 Restricted Stock Grant;
- (v) the Company's Registration Statement on Form S-8 (No. 333-16723) relating to the Company's 1997 Employee Stock Purchase Plan;
- (vi) the Company's Registration Statement on Form S-8 (No. 33-81328) relating to the Company's 1994 Employee Stock Purchase Plan;
- (vii) the Company's Registration Statement on Form S-8 (No. 333-68233) relating to the Company's Deferred Compensation Plan;
- (viii) the Registration Statement on Form S-4 (No. 333-60409) relating to the 8-1/8% Senior Notes issued by Calair Capital Corporation and guaranteed by the Company;
- (ix) the Company's Registration Statement on Form S-3 (No. 333-09739) relating to Warrants, Class A Common Stock and Class B Common Stock and sales by certain Selling Securityholders and the related Prospectus;
- (x) the Company's Registration Statement on Form S-3 (No. 333-31285) relating to the Company's Pass Through Certificates for \$250,000,000 and the related Prospectus;
- (xi) the Company's Registration Statement on Form S-3 (No. 333-29255) relating to the Company's Debt Securities (Debt Shelf) and the related Prospectus;
- (xii) the Company's Registration Statement on Form S-3 (No. 333-61601) relating to the Company's Pass Through Certificates for \$2,500,000,000 and the related Prospectus;
- (xiii) the Company's Registration Statement on Form S-3 (No. 333-79827) relating to the Company's Debt Securities (Debt Shelf) and the related Prospectus; and
- (xiv) the Company's Registration Statement on Form S-3 (No. 333-91765) relating to the Company's Pass Through Certificates for \$1,500,000,000 and the related Prospectus.

/s/ Ernst & Young LLP

Houston, Texas  
February 8, 2000

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Lawrence W. Kellner, Jeffery A. Smisek and Scott R. Peterson, or any of them, the undersigned's true and lawful attorney or attorneys to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

Date: February 8, 2000

By: /s/ Gordon M. Bethune  
Print Name: Gordon M. Bethune

## POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

Date: February 8, 2000

By: /s/ Thomas J. Barrack, Jr.  
Print Name: Thomas J. Barrack, Jr.

POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ David Bonderman  
Print Name: David Bonderman

POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ Gregory D. Brenneman  
Print Name: Gregory D. Brenneman

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Date: February 8, 2000

By: /s/ Kirbyjon Caldwell  
Print Name: Kirbyjon Caldwell

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Date: February 8, 2000

By: /s/ Patrick Foley  
Print Name: Patrick Foley



POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ Douglas McCorkindale  
Print Name: Douglas McCorkindale

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Date: February 8, 2000

By: /s/ George G. C. Parker  
Print Name: George G. C. Parker

POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ Richard W. Pogue  
Print Name: Richard W. Pogue

POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ William S. Price III  
Print Name: William S. Price III

POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ Donald L. Sturm  
Print Name: Donald L. Sturm

POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ Karen Hastie Williams  
Print Name: Karen Hastie Williams

POWER OF ATTORNEY

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Date: February 8, 2000

By: /s/ Charles A. Yamarone  
Print Name: Charles A. Yamarone

12-MOS  
DEC-31-1999  
DEC-31-1999  
1,198  
392  
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236  
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