

UNITED STATES
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, 1998

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

(State or other jurisdiction of
incorporation or organization)

74-2099724

(IRS Employer
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 of the registrant was \$1.9 billion as of February 17, 1999.

As of February 17, 1999, 11,406,732 shares of Class A Common Stock and 57,400,355 shares of Class B Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Proxy Statement for Annual Meeting
of Stockholders to be held on May 18, 1999: 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 1998 revenue passenger miles) and, together with its wholly owned subsidiaries, Continental Express, Inc. ("Express") and Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, serves 206 airports worldwide at February 1, 1999. As of February 1, 1999, Continental flies to 127 domestic and 79 international destinations and offers additional connecting service through alliances with domestic and

foreign carriers. Continental directly serves 13 European cities, eight South American cities 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 a plan, labeled the "Go Forward Plan", which was a "back to basics" approach focusing on improving profitability and financial condition, delivering a consistent, reliable, quality product to customers and improving employee morale and working conditions. The Company's 1999 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 1999 Fly to Win initiatives center around three principal themes: Grow Hub Operations, Improve Business/Leisure Mix and Strengthen Alliance Network.

Grow Hub Operations. Continental will continue to add select flights and refine its flight schedules to maximize the potential of its hubs. In addition, Continental plans to focus on expanding international traffic through service to new destinations and additional code-sharing and other marketing alliances with foreign carriers.

Management believes that by adding domestic and international flights to the Company's hubs, attracting more international passengers through alliances with foreign carriers and 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.

Improve Business/Leisure Mix. The Company's passenger load factors increased from 70.9% in 1997 to 72.1% in 1998, facilitating management of the business/leisure traveler mix on its aircraft. Since business travelers typically pay a higher fare (on a revenue-per-seat-mile basis) for the convenience of being able to make and change last minute travel plans, increases in business traffic contribute disproportionately to incremental profitability. Unrestricted business fares accounted for approximately 44.3% of the Company's domestic passenger revenue in 1998 compared to 43.8% in 1997 (excluding Express). Many of the Company's product and schedule improvements have been made to appeal to business travelers. The Company has invested in state-of-the-art revenue management and pricing systems to enhance its ability to manage its fare mix.

Strengthen Alliance Network. Management believes that strengthening the Company's network of alliance partners will allow it to compete with larger global airline alliances, better leverage the Company's hub assets and result in improved returns to the Company. Focusing on strategic global alliances allows the Company to benefit from the strengths of its alliance partners in their local markets while reducing the Company's reliance on any individual alliance partner.

The Company seeks alliance relationships that, together with the Company's own flying, will permit expanded service through Newark to major destinations in Latin America, Europe and Asia, and expanded service through Houston to Latin America and Europe as well as service to Japan. Route authorities that would be required for the Company's own service to certain of these destinations are not currently available to the Company. In November 1998, the Company began implementing its long-term global alliance with Northwest Airlines, Inc. ("Northwest"), which will continue to be phased in over a multi-year period. See "Domestic Carrier Alliances" and "Foreign Carrier Alliances" below for a discussion of alliances recently entered into with other carriers.

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 target the Company's interest and lease expenses. In 1998, the Company concentrated on securing favorable financing for new aircraft and other assets as well as buying back common stock.

In 1998 and early 1999, the Company completed a number of transactions intended to strengthen its long-term financial position and enhance earnings:

- In February 1998, the Company completed an offering of \$773 million of pass-through certificates used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of 24 aircraft delivered from February 1998 through December 1998.
- - During the first quarter of 1998, Continental completed several offerings totaling approximately \$98 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance or refinance certain airport facility projects. These bonds are payable solely from rentals paid by Continental under long-term lease agreements with the respective governing bodies.
- - In April 1998, the Company completed an offering of \$187 million of pass-through certificates used to refinance the debt related to 14 aircraft currently owned by Continental.
- - During the fourth quarter of 1998, the Company completed an offering of \$524 million of pass-through certificates to be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of up to 14 aircraft scheduled to be delivered from December 1998 through May 1999.
- - In November 1998, the Company exercised its right and called for redemption approximately half of its outstanding 8-1/2% Convertible Trust Originated Preferred Securities ("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.
- - In December 1998, the Company sold \$200 million principal amount of 8% unsecured senior notes due in December 2005. The proceeds will be used for general corporate purposes.

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

The focus in 1999 is to maintain stable cash balances while continuing to secure financing for aircraft deliveries in 1999 and beyond and, under appropriate circumstances, buy back common stock or common stock equivalents. The Company expects to continue, through refinancings and other initiatives, to eliminate excess interest and lease expenses and complete its transition from Stage 2 to Stage 3 aircraft.

Make Reliability a Reality

Customer service continues to be a principal focus in 1999. 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 1999 is to be ranked monthly by the Department of Transportation ("DOT") among the top half of major air carriers (excluding those airlines who do not report electronically) in on-time performance, baggage handling, customer satisfaction and avoidance of involuntary denied boarding. For 1998, Continental ranked sixth in on-time performance, second in baggage handling, fifth in fewest customer complaints and first in fewest involuntary denied boardings. In 1998, 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 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 who do not report electronically) in on-time performance. For 1998, a total of \$23 million of on-time bonuses were paid. This successful on-time performance bonus program continues in 1999.

In addition to programs intended to improve Continental's standings in DOT performance data, the Company has acted in a number of additional areas to enhance its attractiveness to business travelers and the travel agent community. 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. All the Company's jets expected to remain in service after 1999 now have reliable air-to-ground telephone service for customers, and its new long-range jets have state-of-the-art video equipment.

In January 1998, Continental launched its TransContinental service whereby passengers traveling coast-to-coast from Newark International Airport ("Newark") experience new enhancements on their flights, including new check-in options at nine New York locations, flexible meal options and door-to-door pick-up service. In addition, the Company successfully integrated the Boeing 777 and 737-700/800 aircraft into its fleet. The Company has also continued to refine its award-winning BusinessFirst service.

Working Together

Management believes that Continental's employees are its greatest asset, as well as 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. 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 40th in Fortune Magazine's 1998 "100 Best Companies to Work for in America" list. Continental also reached long-term agreements with a majority of its employee workgroups regarding wages, benefits and other

workplace matters.

Continental's goals for 1999 include (i) to be ranked among the top three major air carriers in employee measures such as turnover, lost time, productivity and on-the-job injury claims, (ii) to continue working with all employee groups in a way that is fair to both the employees and the Company, (iii) to continue to improve work environment safety, and (iv) to maintain 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, and has made substantial progress in doing so. 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, 1999, Continental operated 55% (237 departures) of the average daily jet departures (excluding regional jets) and, together with Express, 58% (333 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 24% of all daily departures, while the next largest carrier, American Airlines, Inc., and its commuter affiliate accounted for 14% of all daily departures.

Houston. As of February 1, 1999, Continental operated 78% (328 departures) of the average daily jet departures (excluding regional jets) and, together with Express, 82% (467 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, 1999, Continental operated 51% (86 departures) of the average daily jet departures (excluding regional jets) and, together with Express, 65% (232 departures) of all average daily departures from Hopkins International. The next largest carrier, US Airways, Inc. ("US Airways"), accounted for 6% of all daily departures.

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

As of February 1, 1999, Express served 30 destinations from Newark (15 by regional jet), 32 destinations from Bush Intercontinental (12 by regional jet) and 41 destinations from Hopkins International (13 by regional jet). In addition, commuter feed traffic is currently provided by other code-sharing partners. See "Domestic Carrier Alliances" below.

Management believes Express's turboprop and regional jet 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 such 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. 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 January 1998, the Company announced that it had entered into a long-term global alliance with Northwest ("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 will be undertaken, while preserving the separate identities of the carriers. 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 63 city-pairs at February 1, 1999, 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 has a code-sharing agreement with Gulfstream International Airlines, Inc. ("Gulfstream") which commenced in April 1997. Gulfstream serves as a connection for Continental passengers throughout Florida as well as six markets in the Bahamas.
- - Continental has a code-sharing arrangement with Colgan Air, Inc. which commenced in July 1997 on flights connecting in four cities in the eastern United States and offers connections for Continental passengers to 11 cities in the Northeastern and mid-Atlantic regions of the United States.
- - Continental has a code-sharing agreement with Mesaba Aviation, Inc. ("Mesaba"), operating as a Northwest affiliate, which commenced on January 14, 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 that began October 1, 1997 on flights connecting in Honolulu.

International Operations

International Operations. Continental directly serves destinations throughout Europe, Canada, Mexico, Central and South America, and the Caribbean, as well as Tokyo, and has extensive operations in the western Pacific conducted by CMI. As measured by 1998 available seat miles, approximately 33.8% of Continental's jet operations, including CMI, were dedicated to international traffic, compared with 31.4% in 1997. Continental anticipates that a majority of its capacity growth in 1999 will be international. As of February 1, 1999, the Company offered 132 weekly departures to 13 European cities and marketed service to 33 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 United States airline.

The Company's Newark hub is a significant international gateway. From Newark at February 1, 1999, the Company serves 13 European cities and four Canadian cities, three Mexican cities, two Central American cities, six South American cities and six Caribbean destinations, and markets other destinations through code-sharing arrangements with foreign carriers. In addition, Continental commenced non-stop service to Tokyo in November 1998, and has announced plans to begin non-stop service to Amsterdam (subject to government approval), Brussels, Tel Aviv and Zurich in 1999.

The Company's Houston hub is the focus of its operations in Mexico and Central America. As of February 1, 1999, Continental flies from Houston to 13 cities in Mexico, every country in Central America, five cities in South America, two Caribbean destinations, three cities in Canada and two cities in Europe. In addition, Continental commenced non-stop service to Tokyo in January 1999, and has been tentatively awarded non-stop service to Sao Paulo.

Continental also flies to Toronto, San Juan and Cancun from its hub in Cleveland and has announced service to London, subject to receipt of appropriate take-off and landing slots at Gatwick airport.

Continental Micronesia. CMI is a United States-certificated international air carrier engaged in the business of 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, New Caledonia 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 Honolulu, which CMI serves non-stop from both Tokyo and Guam, and Tokyo. 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 and Tokyo, 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 sole major United States carrier to operate 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 will enhance its ability to attract foreign alliance partners. See "Risk Factors Relating to Continental - Risks Regarding Continental/Northwest Alliance".

Continental believes that developing a network of international alliance partners will better leverage the Company's hub assets by attracting high-yield flow traffic and by strengthening Continental's 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 has a goal of developing alliance relationships that, together with the Company's own flying, will permit expanded service through Newark and Houston to major destinations in South America, Central America, Europe and Asia. 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"), Transavia Airlines, CSA Czech Airlines, British Midland, China Airlines, EVA Airways Corporation, an airline based in Taiwan, Virgin Atlantic Airways ("Virgin"), Viacao Aerea Sao Paulo ("VASP") and Societe Air France ("Air France"), and is in the process of implementing a code-share agreement and other joint marketing and service agreements with Compania Panamena de Aviacion, S.A., 49% of the common equity of which is owned by Continental. Upon receipt of government approval, Continental will commence code-sharing arrangements with Aerosevicios Carabobo S.A., a Venezuelan carrier, Avant Airlines, a Chilean carrier, and Air Aruba. In addition, the Northwest Alliance contemplates formation of a joint venture with KLM Royal Dutch Airlines ("KLM"), a Dutch carrier. Continental has entered into joint market agreements with Air China and Aerolineas Centrales de Colombia, 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. VASP has agreed to purchase blocks of seats on Continental flights between Newark and Rio de Janeiro and Sao Paulo. 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. Continental's agreement with Virgin also includes the purchase by Continental of blocks of seats on eight other routes flown by Virgin between the United Kingdom and the United States.

The majority of the Company's alliance agreements provide that a party may terminate the agreement upon certain changes in ownership or control of the other party. As a result of the transfer by Continental's principal stockholder of its Continental Class A common stock to an affiliate of Northwest (which affiliate is referred to hereafter together with Northwest as "Northwest"), certain of the Company's alliance partners could rely on such provision to attempt to terminate their alliance relationship with the Company. To date, none has done so, and the Company does not believe that the Northwest transaction would provide the basis for such a termination.

The Company might enter into other code-sharing, joint marketing and block-space agreements in 1999, which might include the Company undertaking the financial commitment to purchase seats from other carriers.

Employees

As of December 31, 1998, the Company had approximately 43,900 full-time equivalent employees, including approximately 19,200 customer service agents, reservations agents, ramp and other airport personnel, 7,750 flight attendants, 7,000 management and clerical employees, 6,150 pilots, 3,650 mechanics and 150 dispatchers. Labor costs are a significant component of the Company's expenses and can substantially impact airline results. In 1998, labor costs (including employee incentives) constituted 31.1% 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 40% 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 as revenue, interest rates and rental rates reach industry standards.

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 Employees	Representing Union	Contract Amendable Date
Continental Pilots	5,050	Independent Association of Continental Pilots	October 2002
Express Pilots	1,100	Independent Association of Continental Pilots	October 2002
Dispatchers	150	Transport Workers Union of America	October 2003
Continental Mechanics	3,220	International Brotherhood of Teamsters	January 2002
Express Mechanics	280	International Brotherhood of Teamsters	(Negotiations for initial contract ongoing)
CMI Mechanics	150	International Brotherhood of Teamsters	March 2001
Continental Flight Attendants	6,925	International Association of Machinists and Aerospace Workers	December 1999
Express Flight Attendants	375	International Association of Machinists and Aerospace Workers	November 1999
CMI Flight Attendants	450	International Association of Machinists and Aerospace Workers	June 2000
CMI Fleet and Passenger Service Employees	300	International Brotherhood of Teamsters	March 2001

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. Overall industry profit margins have historically been low. However, during 1995 through 1998, 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.

In 1998, Continental Airlines continued to expand its electronic ticketing ("E-Ticket") product to international destinations. E-Tickets result in lower distribution costs to the Company while providing enhanced customer and revenue information. Continental recorded over \$2.4 billion in E-Ticket sales in 1998, representing 27% of total customers traveling by the end of 1998. Further expansion in 1999 will complete the offering of E-Ticket to all international destinations, expand the number of E-Ticket machines in major airports, and enhance the Company's ability to interline with other carriers on a bilateral basis. The Company expects these features to contribute to an increase in E-Ticket usage and

a further reduction in distribution costs.

Frequent Flyer Program

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

Continental accrues the incremental cost associated with the earned flight awards based on expected redemptions. The incremental cost to transport a passenger on a free trip includes the cost of incremental fuel, meals, telecommunications, insurance and miscellaneous supplies and does not include any charge for potential displacement of revenue passengers or costs for aircraft ownership, maintenance, labor or overhead allocation. 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 less than 7% of Continental's total revenue passenger miles in each of the years 1998 and 1997.

During the fourth quarter of 1998, Continental, as part of the Northwest Alliance, entered into a frequent flyer arrangement with Northwest designed to allow Continental and Northwest to combine their frequent flyer programs while continuing to administer them as two separate programs.

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. Certain regulations require phase-out of certain aircraft and modifications to aging aircraft. Such regulations can significantly increase costs and affect a carrier's ability to compete.

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 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, public airports generally impose passenger facility charges ("PFC's") of up to \$3 per departing or connecting passenger. Congress has from time to time considered legislation increasing PFC's, and the Company is unable to predict whether PFC's will increase. With certain exceptions, these charges are passed on to the customers.

The FAA has designated John F. Kennedy, LaGuardia, O'Hare and Washington National airports as "high density traffic airports" and has limited the number of departure and arrival slots at those airports. Currently, slots at the high density traffic airports may be voluntarily sold or transferred between the carriers. The DOT has in the past reallocated slots to other carriers and reserves the right to withdraw slots. Various amendments to the slot system, proposed from time to time by the FAA, members of Congress and others, could, if adopted, significantly affect operations at the high density traffic airports or expand slot controls to other airports. Certain of such proposals could restrict the number of flights, limit transfer of the ownership of slots, increase the risk of slot withdrawals or require charges to

the Company's financial statements. The DOT recently proposed the elimination of slot restrictions at high-density airports. Continental cannot predict whether any of these proposals will be adopted.

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 has in the past generally followed 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 may 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

Leverage and Liquidity. 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, 1998, Continental had approximately \$2.7 billion (including current maturities) of long-term debt and capital lease obligations and had approximately \$1.3 billion of Continental-obligated mandatorily redeemable preferred securities of subsidiary trust and common stockholders' equity. As of December 31, 1998, Continental had \$1.4 billion in cash and cash equivalents. Continental has lines of credit totaling \$225 million and significant encumbered assets.

Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of February 8, 1999, Continental had agreed to acquire a total of 109 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 57 Boeing jet aircraft in 1999. Continental also has options for an additional 114 aircraft (exercisable subject to certain conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately \$5.4 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. As of February 8, 1999, Continental had approximately \$1.1 billion in financing arranged for such future Boeing deliveries. In addition, Continental had commitments or letters of intent for backstop financing for approximately one-third of the anticipated remaining acquisition cost of such Boeing deliveries. In addition, at February 8, 1999, Continental has firm commitments to purchase 32 spare engines related to the new Boeing aircraft for approximately \$167 million, which will be deliverable through December 2004.

As of February 8, 1999, Express had firm commitments for 37 Embraer ERJ-145 ("ERJ-145") 50-seat regional jets and 25 Embraer ERJ-135 ("ERJ-135") 37-seat regional jets, with options for an additional 125 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 19 ERJ-145 and six ERJ-135 regional jets in 1999. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 aircraft that are not financed by a third party and leased to Continental.

For 1998, cash expenditures under operating leases relating to aircraft approximated \$702 million, compared to \$626 million for 1997, and approximated \$263 million relating to facilities and other rentals compared to \$236 million in 1997. Continental expects that its operating lease expenses for 1999 will increase over 1998 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 History of Operating Losses. Continental recorded net income (including special charges) of \$383 million in 1998, \$385 million in 1997, \$319 million in 1996 and \$224 million in 1995. 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.

Aircraft Fuel. Fuel costs constitute a significant portion of Continental's operating expense. Fuel costs were approximately 10.2% of operating expenses for the year ended December 31, 1998 (excluding fleet disposition/impairment loss) and 13.6% for the year ended December 31, 1997. Fuel prices and supplies are influenced significantly by international political and economic circumstances. Continental enters into petroleum swap contracts, petroleum call option contracts and 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 a disruption of oil imports or otherwise, higher fuel prices or curtailment of scheduled airline service could result. Significant changes in fuel costs would materially affect Continental's operating results.

Labor Matters. In September 1997, the Company announced a plan to bring all employees to industry standard wages no later than the end of the year 2000. Wage increases began in 1997, and will continue to be phased in through 2000, as revenue, interest rates and rental rates reach industry standards.

Certain Tax Matters. At December 31, 1998, Continental had estimated net operating loss carryforwards ("NOLs") of \$1.1 billion 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 could be limited. Reflecting this possible limitation, Continental has recorded a valuation allowance of \$263 million at December 31, 1998.

Continental had, as of December 31, 1998, deferred tax assets aggregating \$803 million, including \$372 million of NOLs. During the first quarter of 1998, the Company consummated several transactions, the benefit of which resulted in the elimination of reorganization value in excess of amounts allocable to identifiable

assets of \$164 million. During the third and fourth quarters of 1998, the Company determined that additional NOLs of the Company's predecessor could be benefitted and accordingly reduced both the valuation allowance and routes, gates and slots by \$190 million. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would further reduce routes, gates and slots.

As a result of NOLs, Continental will not pay United States federal income taxes (other than alternative minimum tax) until it has earned approximately an additional \$1.1 billion of taxable income following December 31, 1998. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. 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 4.71% for February 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 \$102 million per year other than through the recognition of future built-in gain transactions.

On November 20, 1998, Northwest completed its acquisition of certain equity of the Company previously held by Air Partners, L.P. ("Air Partners") 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"). Based on information currently available, the Company does not believe that the Air Partners Transaction resulted in an ownership change for purposes of Section 382.

Continental Micronesia. 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. As a result of the devaluation of the yen against the dollar, a weak Japanese economy and increased fuel costs, CMI's operating earnings declined during 1996 and 1997. Although CMI's results in Asia have declined significantly in recent years, the Company successfully redeployed CMI capacity into the stronger domestic markets and CMI's most recent results have improved.

To reduce the potential negative impact on CMI's earnings, the Company has entered into forward contracts and purchased foreign currency average rate option contracts as a hedge against a portion of its expected net yen cash flow position. As of December 31, 1998, the Company had hedged approximately 100% of its first and second quarter 1999 projected net yen-denominated cash flows and 75% of its third quarter 1999 projected net yen-denominated cash flows.

Principal Stockholder. As of December 31, 1998, Northwest held approximately 13.5% of the common equity interest and 45.8% 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 50.3% 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 have 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 and a limited exception permitting a one-time ownership of approximately 50.4% of the fully diluted voting power. The Northwest Parties have 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 have also agreed to certain restrictions on the transfer of voting securities owned by them, have 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 have 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 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. The Northwest Parties have 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% 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.

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, 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.

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.

Continental's ability to implement the Northwest Alliance successfully 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; (f) Continental's ability to modify certain contracts that restrict certain aspects of the alliance; and (g) the outcome of lawsuits commenced by certain stockholders of Continental challenging the Northwest Transaction and certain related matters.

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 is in the process of implementing its alliance with Northwest. While it is not possible to predict the ultimate outcome of this litigation, management does not believe that this litigation will have a material adverse effect on Continental.

The DOT is reviewing the changes in Continental's ownership pursuant to DOT procedures for confirming the continuing fitness of airlines when their ownership changes. In connection with this review, DOT has exempted Continental and Northwest from regulatory provisions which DOT has interpreted to require approval for de facto route transfers when one airline holding international route authority acquires control of another airline holding international route authority, and has deferred action until December 10, 1999 as to its review of the governance and other agreements between Continental and Northwest to determine whether there has been a de facto route transfer.

If 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, 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, 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 Continental and Northwest offer service between their primary U.S. hubs and various other countries. If 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 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 DOT to institute a route transfer proceeding which would consider any reductions in Continental's route authorities.

Stockholder Litigation. Following the announcement of the Northwest Transaction, to the Company's knowledge as of February 1, 1999, six separate lawsuits had been filed against the Company and its Directors and certain other parties (the "Stockholder Litigation"). The complaints in the Stockholder Litigation, which were filed in the Court of Chancery of the State of Delaware in and for New Castle County and seek class certification, and which have been consolidated under the caption *In re Continental Airlines, Inc. Shareholder Litigation*, generally allege that the Company's Directors improperly accepted the Northwest Transaction in violation of their fiduciary duties owed to the public stockholders of the Company. They further allege that Delta Air Lines, Inc.

submitted a proposal to purchase the Company which, in the plaintiffs' opinion, was superior to the Northwest Transaction. The Stockholder Litigation seeks, inter alia, to enjoin the Northwest Transaction and the award of unspecified damages to the plaintiffs.

While there can be no assurance that the Stockholder Litigation will not result in a delay in the implementation of any aspect of the Northwest Transaction, or the enjoining of the Northwest Transaction, the Company believes the Stockholder Litigation to be without merit and intends to defend it vigorously.

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

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

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

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 in international regions 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. 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. Congress and the DOT have also proposed the regulation of airlines' competitive responses and other activities, including ticketing practices and the treatment of customers. Restrictions on the ownership and transfer of airline routes and takeoff and landing slots have also been proposed. The ability of United States 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. Due to the greater demand for air travel during the summer months, revenue in the airline industry in the third quarter of the year is generally significantly greater than revenue in the first quarter of the year and moderately greater than revenue in the second and fourth quarters of the year for the majority of 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, 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 and was comprised of 13 different types and series of aircraft at December 31, 1998.

Type	Total Aircraft	Owned	Leased	Seats in Standard Configuration	Average Age (In Years)
Four Engine					
747-200*	3	1	2	426	25.9
Three Engine					
DC-10-10	5	-	5	287	26.1
DC-10-30	31	6	25	242	22.8
727-200*	32	4	28	149	22.4
Two Engine					
777-200	6	1	5	283	0.2
737-800	15	-	15	155	0.4
737-700	16	-	16	124	0.5
757-200	32	5	27	183	2.6
737-500	67	15	52	104	2.7
737-300	65	14	51	128	11.4
737-200*	2	2	-	100	29.5
MD-80	69	17	52	141	14.0
DC-9-30*	20	3	17	103	26.8
	363	68	295		11.6

*Stage 2 (noise level) aircraft (excluding five 727 aircraft operated by CMI) which are scheduled to be replaced prior to the year 2000.

The table above excludes six all-cargo 727 CMI aircraft and one A300 and one 747 Continental aircraft that were removed from service in 1995 and 1998, respectively.

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

The FAA has adopted rules pursuant to the Airport Noise and Capacity Act of 1990 that require a scheduled phase-out of Stage 2 aircraft during the 1990s. As a result of Continental's acquisition of a number of new aircraft and the retirement of older Stage 2 aircraft in recent years, 84.3% of Continental's current jet fleet was composed of Stage 3 aircraft at December 31, 1998. The Company plans to retire the remainder of its Stage 2 jet fleet (excluding five 727 aircraft operated by CMI) prior to the year 2000 in order to comply with such rules. Scheduled deliveries of the Company's new Boeing aircraft on order are expected to reduce the average age of the Company's jet fleet (excluding regional jets) from 11.6 years to 8.6 years by the end of 1999.

During 1998, Continental took delivery of a total of 65 new Boeing aircraft which consisted of sixteen 737-500 aircraft, sixteen 737-700 aircraft, seventeen 737-800 aircraft, ten 757-200 aircraft and six 777-200 aircraft. The Company anticipates taking delivery of 57 new Boeing aircraft in 1999.

As of December 31, 1998, Express operated a fleet of 127 aircraft, as follows:

Type	Total Aircraft	Owned	Leased	Seats in Standard Configuration	Average Age (In Years)
Turboprop					
ATR-72	3	3	-	64	4.4
ATR-42-320	30	3	27	46	8.9
ATR-42-500	8	-	8	48	2.3
EMB-120	26	16	10	30	9.2
Beech 1900-D	25	25	-	19	2.9
Regional jets					
ERJ-145	35	-	35	50	1.0
	127	47	80		5.1

The table above excludes one ATR-42 aircraft owned by the Company

and currently leased to a third party and six EMB-120s owned by the Company but removed from service for remarketing. On January 26, 1999, one such EMB-120 was sold.

During 1998, Express took delivery of 18 ERJ-145 aircraft. Express anticipates taking delivery of another 18 ERJ-145 aircraft and six new ERJ-135 aircraft in 1999.

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. In April 1997 and January 1999, the City of Houston completed the offering of \$190 million and \$46 million, respectively, aggregate principal amount of tax-exempt special facilities revenue bonds (the "IAH Bonds"). The IAH Bonds are unconditionally guaranteed by Continental. In connection therewith, the Company has entered into long-term leases (or amendments to existing leases) with the City of Houston providing for the Company to make rental payments sufficient to service the related tax-exempt bonds, which have a term no longer than 30 years. The majority of the Company's expansion and improvements at Bush Intercontinental are expected to be completed during the summer of 1999.

In 1998, the Company built a wide-body aircraft maintenance hangar in Honolulu, Hawaii at an approximate cost of \$25 million. The construction was financed by tax-exempt special facilities revenue bonds issued by the State of Hawaii. In connection therewith, the Company has entered into long-term leases providing for the Company to make rental payments sufficient to service the related tax-exempt bonds.

In 1998, Continental completed construction of a new hangar and improvements to a cargo facility at Newark. Continental completed the financing of these projects in April 1998 with \$23 million of tax-exempt bonds issued by the New Jersey Economic Development Authority. Continental is also planning a major facility expansion at Newark which will require, among other matters, agreements to be reached with the applicable airport authority and significant tax-exempt bond financing for the project.

Continental has commenced the expansion of its facilities at Hopkins International, which expansion is expected to be completed in the third quarter of 1999. The expansion, which will include a new jet concourse for the regional jet service offered by Express, as well as other facility improvements, is expected to cost approximately \$156 million and is being 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. In connection therewith, Continental has entered into a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds.

The Company has lease agreements with the City and County of Denver covering ten gates and several support facilities at Denver International Airport. The gates and 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.

CMI operates a hub on the island of Guam. In September 1996, the Guam International Airport Authority completed the first phase of a \$240 million airport terminal expansion and renovation project. This provided new arrival facilities, inbound baggage carousels and

customs halls and increased the number of gates available to CMI from six to 12. The second (and final) phase of the project was completed in November 1998. This added five new gates, additional ticket counters and a new pier-sort outbound baggage system. The completed project tripled the size of the terminal complex.

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 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 reoccupy 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 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 severely 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. Continental believes that because of agreements restricting Northwest's right to exercise control over Continental, the companies remain independent competitors; Northwest's stock acquisition was made solely for investment purposes and thus is expressly exempt under Section 7 of the Clayton Act; and Northwest's stock acquisition was necessary in order for Northwest and Continental to enter into an alliance agreement that is highly pro-competitive. 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.

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 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 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.

Stockholder Litigation

Following the announcement of the Northwest Transaction, to the Company's knowledge as of February 1, 1999, six separate lawsuits had been filed against the Company and its Directors and certain other parties. The complaints in the Stockholder Litigation, which were filed in the Court of Chancery of the State of Delaware in and for New Castle County and seek class certification, and which have been consolidated under the caption *In re Continental Airlines, Inc. Shareholder Litigation*, generally allege that the Company's Directors improperly accepted the Northwest Transaction in violation of their fiduciary duties owed to the public stockholders of the Company. They further allege that Delta Air Lines, Inc. submitted a proposal to purchase the Company which, in the plaintiffs' opinion, was superior to the Northwest Transaction. The Stockholder Litigation seeks, *inter alia*, to enjoin the Northwest Transaction and the award of unspecified damages to the plaintiffs.

While there can be no assurance that the Stockholder Litigation will not result in a delay in the implementation of any aspect of the Northwest Transaction, or the enjoining of the Northwest Transaction, the Company believes the Stockholder Litigation to be without merit and intends to defend it vigorously.

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 A common stock and Class B common stock as reported on the New York Stock Exchange during 1997 and 1998.

	Class A Common Stock		Class B Common Stock	
	High	Low	High	Low
1997 First Quarter . . .	33-3/4	27	33-5/8	27
Second Quarter. . .	36-3/4	30-1/8	35-7/8	29-1/2
Third Quarter . . .	41-7/16	34	41-3/8	34
Fourth Quarter. . .	50-1/2	38-1/2	50-3/16	38-5/8
1998 First Quarter . . .	64-1/4	47-3/4	62-1/16	44
Second Quarter. . .	64-1/2	55-3/4	64	54-1/16
Third Quarter . . .	64-3/4	36-1/2	65-1/8	35-3/4
Fourth Quarter. . .	43-5/16	30-7/8	42-13/16	28-7/8

As of February 17, 1999, there were approximately 2,953 and 15,494 holders of record of Continental's Class A common stock and Class B common stock, respectively.

The Company has paid no cash dividends on its common stock. Because management believes it is important to continue strengthening the Company's balance sheet and liquidity, the Company has no current intention of paying cash dividends on its common stock. During 1998, the Company's Board of Directors authorized the expenditure of up to \$300 million to repurchase shares of the Company's Class A and Class B common stock or securities convertible into Class B common stock. As of February 17, 1999, the Company has repurchased 4,952,700 Class B common shares for \$240 million. Certain of the Company's credit agreements and indentures restrict the ability of the Company and certain of its subsidiaries to pay cash dividends by imposing minimum unrestricted cash requirements on the Company, limiting the amount of such dividends 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, 1998, 1997, 1996, 1995 and 1994 and for each of the five years in the period ended December 31, 1998.

ITEM 6. SELECTED FINANCIAL DATA (Continued)

	1998	December 31, (1) (2)		1995	1994
		1997	1996		
Operating revenue.	\$7,951	\$7,213	\$6,360	\$5,825	\$5,670
Operating income (loss). . .	701	716	525	385	(11)
Income (loss) before extraordinary charge . . .	387	389	325	224	(613)
Net income (loss).	383	385	319	224	(613)
Earnings (loss) per common share:					
Income (loss) before extraordinary charge .	6.40	6.72	5.87	4.07	(11.88)
Net income (loss). . . .	6.34	6.65	5.75	4.07	(11.88)
Earnings (loss) per common share assuming dilution:					
Income (loss) before extraordinary charge .	5.06	5.03	4.25	3.37	(11.88)
Net income (loss). . . .	5.02	4.99	4.17	3.37	(11.88)

ITEM 6. SELECTED FINANCIAL DATA (Continued)

	1998	1997	December 31, (1)		1994
			1996	1995	
Total assets	\$7,086	\$5,830	\$5,206	\$4,821	\$4,601
Debt and capital lease obligations in default (3)	-	-	-	-	490
Long-term debt and capital lease obligations	2,480	1,568	1,624	1,658	1,202
Minority interest (4)	-	-	15	27	26
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	53

- (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 1998, 1997, 1996 and 1995. 1998 results include a \$122 million fleet disposition/impairment charge resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft. 1996 results include a \$128 million fleet disposition charge 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 \$108 million gain (\$30 million after taxes) from the System One transactions. 1994 results include a provision of \$447 million associated with the planned early retirement of certain aircraft and closed or underutilized airport and maintenance facilities and other assets.
- (2) No cash dividends were paid on common stock during the periods shown.
- (3) The Company's failure to make certain required payments in 1994 to certain lenders and aircraft lessors constituted events of default under the respective agreements with such parties. These events of default were cured in 1995.
- (4) Continental purchased UMDA'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") are 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, fare sale activities, excise and similar taxes, changing levels of operations, fuel prices, foreign currency exchange rates and general economic conditions. To date, the recent turmoil in the world's financial markets has not had a material adverse impact on the Company's results of operations, although the Company has experienced yield degradations in domestic and certain international markets. 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 have improved. In addition, the Company believes it is well positioned to respond to market conditions in the event of a sustained economic downturn for the following reasons: underdeveloped hubs with strong local traffic; a flexible fleet plan; a strong cash balance, a \$225 million unused revolving credit facility and a well developed alliance network.

Results of Operations

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three years ended December 31, 1998.

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 before taxes) 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 10.6%, \$706 million, during 1998 as compared to 1997. The increase was due to a 12.5% increase in revenue passenger miles, partially offset by a 2.6% 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.

Other operating revenue increased 5.1%, \$15 million, due to an increase in revenue related to the Company's frequent flyer program ("OnePass").

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 net operating losses ("NOLs").

On August 11, 1998, Continental announced that CMI plans 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 will be replaced by DC-10-30 aircraft and the Boeing 727 aircraft will be replaced with a reduced number of Boeing 737 aircraft. In addition, Continental Express, Inc. ("Express"), a wholly owned subsidiary of the Company, will accelerate the retirement of certain turboprop aircraft by December 2000, including its fleet of 32 Embraer 120 ("EMB-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 before taxes) in the third quarter of 1998.

Other operating expense increased 10.5%, \$157 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 Corporation ("America West Holdings") stock.

Comparison of 1997 to 1996. The Company recorded consolidated net income of \$385 million and \$319 million for the years ended December 31, 1997 and 1996, respectively, including a \$77 million fleet disposition loss (\$128 million before taxes) in 1996 and after-tax extraordinary charges relating to the early extinguishment of debt of \$4 million and \$6 million in 1997 and 1996, respectively. Management believes that the Company benefitted in the first three quarters of 1996 and in the first quarter of 1997 from the expiration of the ticket tax on December 31, 1995 and December 31, 1996, respectively. The ticket tax was reinstated on August 27, 1996 and again 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 expiration, can be precisely determined. Additionally, the Company benefitted in the first six months of 1996 from the recognition of previously unbenefitted post-reorganization NOLs.

Passenger revenue increased 13.4%, \$789 million, during 1997 compared to 1996. The increase was due to a 14.3% increase in revenue passenger miles on capacity growth of 9.9% offset by a 1.1% decrease in yield.

Cargo and mail revenue increased 11.2%, \$26 million, during 1997 compared to 1996 due to an increase in cargo capacity and mail volumes, primarily in international markets.

Other operating revenue increased 14.8%, \$38 million, from 1996 to 1997 primarily as a result of an increase in revenue related to frequent flyer mileage credits sold to participating partners in the OnePass program.

Wages, salaries and related costs increased 17.1%, \$265 million, during 1997 as compared to 1996 due in part to a 9.6% increase in the average number of full-time equivalent employees from approximately 34,300 for the year ended December 31, 1996 to 37,600 for the year ended December 31, 1997. Wages and salaries also increased in 1997 due to a \$29 million accrual for the impact of the tentative collective bargaining agreement with the pilots and an increase in employee incentives of \$29 million.

Aircraft fuel expense increased 14.3%, \$111 million, from 1996 to 1997 primarily due to a 10.5% increase in the quantity of jet fuel used from 1.228 billion gallons during 1996 to 1.357 billion gallons during 1997, resulting from increased flying. In addition, the average price per gallon, net of fuel hedging gains of \$65 million in 1996, increased 3.3% from 60.9 cents in 1996 to 62.9 cents in 1997.

Aircraft rentals increased 8.3%, \$42 million, from 1996 to 1997, primarily as a result of the delivery of new aircraft throughout 1997, net of retirements.

Commissions expense increased 11.2%, \$57 million, in 1997 compared to 1996, primarily due to increased passenger revenue.

Maintenance, materials and repairs increased 16.5%, \$76 million, during 1997 as compared to 1996, principally due to the volume and timing of engine overhauls, increase in component costs and routine maintenance as part of the Company's ongoing maintenance program. Aircraft maintenance expense was reduced by \$16 million in 1997 due to the reversal of reserves that are no longer required as a result of the acquisition of 10 aircraft previously leased by the Company.

Other rentals and landing fees increased 12.9%, \$45 million, during 1997 compared to 1996 due to higher facilities rentals and landing fees resulting from increased operations.

During the third quarter of 1996, the Company recorded a fleet disposition loss of \$77 million (\$128 million before taxes), related primarily to (i) the writedown of Stage 2 aircraft inventory to its estimated fair value; and (ii) a provision for costs associated with the return of leased aircraft at the end of their respective lease terms.

Other operating expense increased 14.9%, \$194 million, in 1997 as compared to 1996, primarily as a result of increases in passenger services, advertising and publicity, reservations and sales expense and other miscellaneous expense.

Interest income increased 30.2%, \$13 million, in 1997 compared to the prior year principally due to an increase in the average invested balance of cash and cash equivalents.

Interest capitalized increased \$30 million in 1997 compared to 1996 as a result of higher average purchase deposits for flight equipment resulting from the pending acquisition of new aircraft.

Other nonoperating income (expense) for the year ended December 31, 1996 included an \$18 million gain related to the sale of America West Holdings common stock and warrants.

The income tax provision for the year ended December 31, 1997 and 1996 of \$237 million and \$86 million, respectively, consists of federal, state and foreign income taxes. During the second quarter of 1996, the Company had fully utilized previously unbenefitted post-reorganization NOLs, and began accruing income tax expense.

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, 1998 is as follows:

	1998	Net Increase/ (Decrease) 1998-1997	1997	Net Increase/ (Decrease) 1997-1996	1996
Revenue pas- senger miles (millions) (1) . . .	53,910	12.5 %	47,906	14.3 %	41,914
Available seat miles (millions) (2) . . .	74,727	10.6 %	67,576	9.9 %	61,515
Passenger load factor (3)	72.1%	1.2 pts.	70.9%	2.8 pts.	68.1%
Breakeven pas- senger load factor (4), (5). . . .	61.4%	1.4 pts.	60.0%	(0.7)pts.	60.7%
Passenger revenue per available seat mile (cents)	9.10	(1.0)%	9.19	2.9 %	8.93
Total revenue per available seat mile (cents)	9.98	(1.1)%	10.09	3.0 %	9.80
Operating cost per available seat mile (cents) (5)	8.93	(1.5)%	9.07	3.4 %	8.77
Average yield per revenue passenger mile (cents) (6)	12.62	(2.6)%	12.96	(1.1)%	13.10
Average fare per revenue passenger	\$155.95	3.53%	\$150.63	5.1 %	\$143.27
Revenue passengers (thousands)	43,625	5.9 %	41,210	7.5 %	38,332
Average length of aircraft flight (miles)	1,044	8.0 %	967	7.9 %	896
Average daily utilization of each aircraft (hours) (7)	10:13	0.0 %	10:13	2.3 %	9:59
Actual aircraft in fleet at end of period (8)	363	7.7 %	337	6.3 %	317

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 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 carrier in 1998 and 1997, respectively, and includes 358 million available seat miles, together with related revenue passenger miles and enplanements, operated by other carriers but purchased and marketed by Continental in 1998.

- (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) 1998 excludes a fleet disposition/impairment loss totaling \$122 million and 1996 excludes a fleet disposition loss totaling \$128 million.
- (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 (six in 1998 and 1997 and four in 1996) at CMI.

Liquidity and Capital Resources

During 1998 and early 1999, the Company completed a number of transactions intended to strengthen its long-term financial position and enhance earnings:

- - In February 1998, the Company completed an offering of \$773 million of pass-through certificates used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of 24 aircraft delivered from February 1998 through December 1998.
- - During the first quarter of 1998, Continental completed several offerings totaling approximately \$98 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance or refinance certain airport facility projects. These bonds are payable solely from rentals paid by Continental under long-term lease agreements with the respective governing bodies.
- - In April 1998, the Company completed an offering of \$187 million of pass-through certificates used to refinance the debt related to 14 aircraft currently owned by Continental.
- - During the fourth quarter of 1998, the Company completed an offering of \$524 million of pass-through certificates to be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of up to 14 aircraft scheduled to be delivered from December 1998 through May 1999.
- - In November 1998, the Company exercised its right and called for redemption approximately half of its outstanding 8-1/2% Convertible Trust Originated Preferred Securities ("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.
- - In December 1998, the Company sold \$200 million principal amount of 8% unsecured senior notes due in December 2005. The proceeds will be used for general corporate purposes.
- - In February 1999, the Company completed an offering of \$806 million of pass-through certificates to be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of up to 22 aircraft scheduled to be delivered from March 1999 through September 1999.

At the direction of an independent trustee, the cash proceeds from the pass-through certificate transactions are deposited with an escrow agent and enable the Company to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of new aircraft. As of February 8, 1999,

approximately \$1.1 billion of the proceeds remain on deposit. If any funds remain as deposits at the end of the specified delivery periods, such funds will be distributed back to the certificate holders.

As of December 31, 1998, Continental had approximately \$2.7 billion (including current maturities) of long-term debt and capital lease obligations, and had approximately \$1.3 billion of Continental-obligated mandatorily redeemable preferred securities of subsidiary trust and common stockholders' equity, a ratio of 2.1 to 1, compared to 1.6 to 1 at December 31, 1997.

As of December 31, 1998, the Company had \$1.4 billion in cash and cash equivalents (excluding restricted cash), compared to \$1.0 billion as of December 31, 1997. Net cash provided by operating activities decreased \$80 million during the year ended December 31, 1998 compared to the same period in the prior year primarily due to an increase in accounts receivable due to increased operations. Net cash used by investing activities for the year ended December 31, 1998 compared to the same period in the prior year increased \$41 million, primarily as a result of higher capital and fleet-related expenditures in 1998 offset by higher purchase deposits refunded in connection with aircraft delivered in 1998. Net cash provided by financing activities increased \$474 million primarily due to a decrease in payments on long-term debt and capital lease obligations and an increase in proceeds received from the issuance of long-term debt.

Continental has lines of credit totaling \$225 million, and significant encumbered assets.

Deferred Tax Assets. During the first quarter of 1998, the Company consummated several transactions, the benefit of which resulted in the elimination of reorganization value in excess of amounts allocable to identifiable assets of \$164 million. During the third and fourth quarters of 1998, the Company determined that additional NOLs of the Company's predecessor could be benefited and accordingly reduced both the valuation allowance and routes, gates and slots by \$190 million. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would further reduce routes, gates and slots. As of December 31, 1998, the Company had deferred tax assets aggregating \$803 million, including \$372 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 \$1.1 billion of taxable income following December 31, 1998. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change". In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. 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 4.71% for February 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 \$102 million per year other than through the recognition of future built-in gain transactions.

On November 20, 1998, an affiliate of Northwest Airlines, Inc. ("Northwest") completed its acquisition of certain equity of the Company previously held by Air Partners, L.P. ("Air Partners") 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"). Based on information currently available, the Company does not believe that the Air Partners transaction resulted in an ownership change for purposes of Section 382.

Purchase Commitments. Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of February 8, 1999, Continental had agreed to acquire a total of 109 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 57 Boeing jet aircraft in 1999. Continental also has options for an additional 114 aircraft (exercisable subject to certain conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately \$5.4 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. As of February 8, 1999, Continental had approximately \$1.1 billion in financing arranged for such future Boeing deliveries. In addition, Continental has commitments or letters of intent for backstop financing for approximately one-third of the anticipated remaining acquisition cost of such Boeing deliveries. In addition, at February 8, 1999, Continental has firm commitments to purchase 32 spare engines related to the new Boeing aircraft for approximately \$167 million which will be deliverable through December 2004. Additional financing will be needed to satisfy the Company's capital commitments for other aircraft and aircraft-related expenditures such as engines, spare parts, simulators and related items. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments. Deliveries of new Boeing aircraft are expected to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

As of February 8, 1999, Express had firm commitments for 37 Embraer ERJ-145 ("ERJ-145") regional jets and 25 Embraer ERJ-135 ("ERJ-135") regional jets, with options for an additional 125 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 19 ERJ-145 and six ERJ-135 regional jets in 1999. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 1999 capital expenditures, exclusive of fleet plan requirements, to aggregate \$254 million, primarily relating to mainframe, software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment. Continental's capital expenditures during 1998 aggregated \$179 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.

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

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

The Company has also initiated communications and on-site visits with its significant suppliers, vendors and governmental agencies with which its systems interface and exchange data or upon which its business depends. The Company is coordinating efforts with these parties to minimize the extent to which its business may be vulnerable to their failure to remediate their own Year 2000 problems. The Company's business is dependent upon certain domestic and foreign governmental organizations or entities such as the Federal Aviation Administration ("FAA") that provide essential aviation industry infrastructure. There can be no assurance that the systems of such third parties on which the Company's business relies (including those of the FAA) will be modified on a timely basis. The Company's business, financial condition or results of operations could be materially adversely affected by the failure of its equipment or systems or those operated by other parties to operate properly beyond 1999. Although the Company currently has day-to-day operational contingency plans, management is in the process of updating these plans for possible Year 2000-specific operational requirements. The Company anticipates completing the

revision of current contingency plans and the creation of additional contingency plans by September 1999. In addition, the Company will continue to monitor third-party (including governmental) readiness and will modify its contingency plans accordingly. While the Company does not currently expect any significant modification of its operations in response to the Year 2000 issue, in a worst-case scenario the Company could be required to alter its operations significantly.

The total cost of the Company's Year 2000 project (excluding internal payroll) is currently estimated at \$16-18 million and has been and will be funded through cash from operations. As of December 31, 1998, the Company had incurred and expensed approximately \$15 million relating to its Year 2000 project. The cost of the Year 2000 project is limited by the substantial outsourcing of the Company's systems and the significant implementation of new systems following the Company's emergence from bankruptcy. The costs of the Company's Year 2000 project and the date on which the Company believes it will be completed are based on management's best estimates and include assumptions regarding third-party modification plans. However, in particular due to the potential impact of third-party modification plans, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated.

Effective January 1, 1999, eleven of the fifteen countries comprising the European Union began a transition to a single monetary unit, the "euro", which is scheduled to be completed by July 1, 2002. The Company has developed processes designed to allow it to effectively operate in euros. Management does not anticipate that the implementation of this single currency plan will have a material effect on the Company's operations or financial condition.

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

In 1998, Continental completed construction of a new hangar and improvements to a cargo facility at Continental's hub at Newark International Airport ("Newark"). Continental completed the financing of these projects in April 1998 with \$23 million of tax-exempt bonds issued by the New Jersey Economic Development Authority. Continental is also planning a major facility expansion at Newark which would require, among other matters, agreements to be reached with the applicable airport authority and significant tax-exempt bond financing for the project.

In 1998, the Company built a wide-body aircraft maintenance hangar in Honolulu, Hawaii at an approximate cost of \$25 million. Construction of the hangar was financed by tax-exempt special facilities revenue bonds issued by the State of Hawaii. In connection therewith, the Company has entered into long-term leases providing for the Company to make rental payments sufficient to service the related tax-exempt bonds.

Continental has commenced the expansion of its facilities at its Hopkins International Airport hub in Cleveland, which expansion is expected to be completed in the third quarter of 1999. The expansion, which will include a new jet concourse for the regional jet service offered by Express, as well as other facility improvements, is expected to cost approximately \$156 million and is being 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. In connection therewith, Continental has entered into a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds.

Employees. In September 1997, the Company announced a plan to bring all employees to industry standard wages no later than the end of the year 2000. Wage increases began in 1997, and will continue to be phased in through 2000 as revenue, interest rates and rental rates reach industry standards.

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 Employees	Representing Union	Contract Amendable Date
Continental Pilots	5,050	Independent Association of Continental Pilots	October 2002
Express Pilots	1,100	Independent Association of Continental Pilots	October 2002
Dispatchers	150	Transport Workers Union of America	October 2003
Continental Mechanics	3,220	International Brotherhood of Teamsters	January 2002
Express Mechanics	280	International Brotherhood of Teamsters	(Negotiations for initial contract ongoing)
CMI Mechanics	150	International Brotherhood of Teamsters	March 2001
Continental Flight Attendants	6,925	International Association of Machinists and Aerospace Workers	December 1999
Express Flight Attendants	375	International Association of Machinists and Aerospace Workers	November 1999
CMI Flight Attendants	450	International Association of Machinists and Aerospace Workers	June 2000
CMI Fleet and Passenger Service Employees	300	International Brotherhood of Teamsters	March 2001

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

Other. As a result of the decline of the yen against the dollar, a weak Japanese economy and increased fuel costs, CMI's operating earnings declined during 1996 and 1997. Although CMI's results in Asia have declined significantly in recent years, the Company successfully redeployed CMI capacity into the stronger domestic markets and CMI's most recent results have improved.

In addition, the Company has entered into petroleum call option contracts, petroleum swap contracts and jet fuel purchase commitments to provide some short-term protection (generally three to six months) against a sharp increase in jet fuel prices, and has entered into forward contracts and purchased foreign currency average rate option contracts to hedge a portion of its Japanese yen-denominated ticket sales against a significant depreciation in the value of the yen versus the United States dollar.

During 1998, Continental began block-space arrangements whereby it is committed to purchase capacity on other carriers at an aggregate cost of approximately \$ 150 million per year. These arrangements are for 10 years. Pursuant to other block-space arrangements, other carriers are committed to purchase capacity at a cost of approximately \$100 million on Continental.

Management believes that the Company's costs are likely to be affected in the future by (i) higher aircraft rental expense as new aircraft are delivered, (ii) higher wages, salaries and related costs as the Company compensates its employees comparable to industry average, (iii) changes in the costs of materials and services (in particular, the cost of fuel, which can fluctuate significantly in response to global market conditions), (iv) changes in governmental regulations and taxes affecting air transportation and the costs charged for airport access, including

new security requirements, (v) changes in the Company's fleet and related capacity and (vi) the Company's continuing efforts to reduce costs throughout its operations, including reduced maintenance costs for new aircraft, reduced distribution expense from using Continental's electronic ticket product, 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 1998, aircraft fuel accounted for 10.2% of the Company's operating expenses (excluding fleet disposition/impairment loss). Based on the Company's 1999 projected fuel consumption, a one cent change in the average annual price per gallon of aircraft fuel would impact the Company's annual aircraft fuel expense by approximately \$12 million, after the effect of hedging instruments and jet fuel purchase commitments in place as of December 31, 1998. In order to provide short-term protection (generally three to six months), the Company has entered 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, 1998, the Company had hedged approximately 25% of its projected 1999 fuel requirements, including 93% related to the first quarter and 9% related to the second quarter using petroleum swap contracts. The Company estimates that at December 31, 1998, a ten percent change in the price per gallon of aircraft fuel would have changed the fair value of the existing petroleum swap contracts by \$8 million.

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. The result of a uniform 25% strengthening in the value of the U.S. dollar from December 31, 1998 levels relative to the yen would result in an estimated decrease in operating income of approximately \$13 million for 1999, after the effect of hedging instruments in place. However, the Company is attempting to mitigate the effect of certain potential foreign currency losses by purchasing foreign currency average rate option contracts and entering into forward contracts that effectively enable it to sell Japanese yen expected to be received from yen-denominated ticket sales over the next nine to twelve months at specified dollar amounts. As of December 31, 1998, the Company had purchased average rate options and entered into forward contracts to hedge approximately 100% of its first and second quarter 1999 projected net yen-denominated cash flows and 75% of its third quarter 1999 projected net yen-denominated cash flows. The Company estimates that at December 31, 1998, a 25% strengthening in the value of the U.S. dollar relative to the yen would have increased the fair value of the existing average rate options and forward contracts by \$22 million.

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 \$599 million of variable-rate debt as of December 31, 1998. The Company has mitigated its exposure on certain variable-rate debt by entering into an interest rate cap (notional amount of \$125 million as of December 31, 1998) 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 1.0% during 1999 as compared to 1998, the Company's projected 1999 interest expense would increase by approximately \$5 million. The interest rate cap does not mitigate this increase in interest expense materially.

As of December 31, 1998, the fair value of \$1.52 billion (carrying value) of the Company's fixed-rate debt was estimated to be \$1.47 billion, 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 1.0% decrease in interest rates, was approximately \$70 million as of December 31, 1998. The fair value of the remaining fixed-rate debt (with a carrying value of \$287 million 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.

If 1999 average short-term interest rates decreased by 1.0% over 1998 average rates, the Company's projected interest income from short-term investments would decrease by approximately \$13 million during 1999.

Investments in Equity Securities. Continental's investment in America West Holdings at December 31, 1998, which was recorded at its fair value of \$3 million and includes unrealized gains of \$1 million, has exposure to price risk. This risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in prices quoted by stock exchanges and amounts to less than \$1 million.

The Company also has a 12.4% investment in AMADEUS Global Travel Distribution S.A. ("AMADEUS") and a 49% equity investment in Compania Panamena de Aviacion, S.A. ("COPA") which are also subject to price risk. However, since a readily determinable market value does not exist for either AMADEUS or COPA (each is privately held), the Company is unable to quantify the amount of price risk sensitivity inherent in these investments. At December 31, 1998, the carrying value of these investments was \$95 million and \$53 million, respectively. At December 31, 1997, the carrying value of AMADEUS was \$95 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Consolidated Financial Statements

	Page No.
Report of Independent Auditors	F-2
Consolidated Statements of Operations for each of the Three Years in the Period Ended December 31, 1998	F-3
Consolidated Balance Sheets as of December 31, 1998 and 1997	F-5
Consolidated Statements of Cash Flows for each of the Three Years in the Period Ended December 31, 1998	F-7
Consolidated Statements of Redeemable Preferred Stock and Common Stockholders' Equity for each of the Three Years in the Period Ended December 31, 1998	F-10
Notes to Consolidated Financial Statements	F-15

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, 1998 and 1997, 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, 1998. 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 generally accepted auditing standards. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Houston, Texas
January 20, 1999

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

	Year Ended December 31,		
	1998	1997	1996
Operating Revenue:			
Passenger	\$7,366	\$6,660	\$5,871
Cargo and mail	275	258	232
Other	310	295	257
	7,951	7,213	6,360
Operating Expenses:			
Wages, salaries and related costs	2,218	1,814	1,549
Aircraft fuel	727	885	774
Aircraft rentals	659	551	509
Commissions	583	567	510
Maintenance, materials and repairs . . .	582	537	461
Other rentals and landing fees	414	395	350
Depreciation and amortization	294	254	254
Fleet disposition/impairment losses:			
Jet	65	-	128
Turboprop	57	-	-
Other	1,651	1,494	1,300
	7,250	6,497	5,835
Operating Income	701	716	525
Nonoperating Income (Expense):			
Interest expense	(178)	(166)	(165)
Interest income	59	56	43
Interest capitalized	55	35	5
Other, net	11	(1)	20
	(53)	(76)	(97)
Income before Income Taxes, Minority Interest and Extraordinary Charge	648	640	428
Income Tax Provision	(248)	(237)	(86)

(continued on next page)

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

	Year Ended December 31,		
	1998	1997	1996
Income before Minority Interest and Extraordinary Charge	\$ 400	\$ 403	\$ 342
Minority Interest	-	-	(3)
Distributions on Preferred Securities of Trust, net of applicable income taxes of \$7, \$8 and \$8, respectively	(13)	(14)	(14)
Income before Extraordinary Charge.	387	389	325
Extraordinary Charge, net of applicable income taxes of \$2, \$2 and \$4, respectively	(4)	(4)	(6)
Net Income.	383	385	319
Preferred Dividend Requirements and Accretion to Liquidation Value	-	(2)	(5)
Income Applicable to Common Shares.	\$ 383	\$ 383	\$ 314
Earnings per Common Share:			
Income before Extraordinary Charge.	\$ 6.40	\$ 6.72	\$ 5.87
Extraordinary Charge.	(0.06)	(0.07)	(0.12)
Net Income.	\$ 6.34	\$ 6.65	\$ 5.75
Earnings per Common Share Assuming Dilution:			
Income before Extraordinary Charge.	\$ 5.06	\$ 5.03	\$ 4.25
Extraordinary Charge.	(0.04)	(0.04)	(0.08)
Net Income.	\$ 5.02	\$ 4.99	\$ 4.17

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, 1998	December 31, 1997
Current Assets:		
Cash and cash equivalents, including restricted cash and cash equivalents of \$11 and \$15, respectively.	\$1,399	\$1,025
Accounts receivable, net of allowance for doubtful receivables of \$22 and \$23, respectively	449	361
Spare parts and supplies, net of allowance for obsolescence of \$46 and \$51, respectively	166	128
Deferred income taxes.	234	111
Prepayments and other assets	106	103
Total current assets	2,354	1,728
Property and Equipment:		
Owned property and equipment:		
Flight equipment.	2,459	1,636
Other	582	456
	3,041	2,092
Less: Accumulated depreciation	625	473
	2,416	1,619
Purchase deposits for flight equipment	410	437
Capital leases:		
Flight equipment.	361	274
Other	56	40
	417	314
Less: Accumulated amortization	178	145
	239	169
Total property and equipment	3,065	2,225
Other Assets:		
Routes, gates and slots, net of accumulated amortization of \$283 and \$270, respectively.	1,181	1,425
Reorganization value in excess of amounts allocable to identifiable assets, net of accumulated amortization of \$71 in 1997.	-	164
Investments.	151	104
Other assets, net.	335	184
Total other assets	1,667	1,877
Total Assets	\$7,086	\$5,830

(continued on next page)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1998	December 31, 1997
Current Liabilities:		
Current maturities of long-term debt	\$ 184	\$ 243
Current maturities of capital leases	47	40
Accounts payable	843	781
Air traffic liability.	854	746
Accrued payroll and pensions		265158
Accrued other liabilities.	249	317
Total current liabilities	2,442	2,285
Long-Term Debt.	2,267	1,426
Capital Leases.	213	142
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes.	372	435
Accruals for aircraft retirements and excess facilities	95	123
Other.	393	261
Total deferred credits and other long-term liabilities.	860	819
Commitments and Contingencies		
Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures (1)		
	111	242
Common Stockholders' Equity:		
Class A common stock - \$.01 par, 50,000,000 shares authorized; 11,406,732 shares issued and outstanding in 1998 and 8,379,464 shares issued and outstanding in 1997	-	-
Class B common stock - \$.01 par, 200,000,000 shares authorized; 53,370,741 shares issued in 1998 and 50,512,010 shares issued and outstanding in 1997	1	1
Additional paid-in capital	634	641
Retained earnings.	659	276
Accumulated other comprehensive income	(88)	(2)
Treasury Stock - 399,524 Class B shares in 1998, at cost	(13)	-
Total common stockholders' equity	1,193	916
Total Liabilities and Stockholders' Equity	\$7,086	\$5,830

(1) The sole assets of the Trust were convertible subordinated debentures. At December 31, 1998 and 1997, the debentures had an aggregate principal amount of \$115 and \$249 million, respectively, bore interest at the rate of 8-1/2% per annum and were to mature on December 1, 2020. In November and December 1998, approximately \$134 million of such securities converted into 5,558,649 shares of Class B common stock, and in January 1999, the remainder of such securities were converted into 4,752,522 shares of Class B common stock.

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,		
	1998	1997	1996
Cash Flows From Operating Activities:			
Net income	\$ 383	\$ 385	\$ 319
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	241	212	72
Depreciation	211	162	153
Fleet disposition/impairment losses	122	-	128
Amortization	83	92	101
Other, net	(4)	34	11
Changes in operating assets and liabilities:			
Increase in air traffic liability	108	85	82
Increase in accounts receivable	(102)	(1)	(42)
Increase in spare parts and supplies	(71)	(38)	(43)
Increase in accounts payable	59	71	103
Other	(150)	(42)	(53)
Net cash provided by operating activities	880	960	831
Cash Flows from Investing Activities:			
Purchase deposits paid in connection with future aircraft deliveries	(818)	(409)	(116)
Purchase deposits refunded in connection with aircraft delivered	758	141	20
Capital expenditures, net of returned purchase deposits in 1996	(610)	(417)	(198)
Investment in partner airline	(53)	-	-
Proceeds from disposition of property and equipment	46	29	11
Other	(21)	(1)	32
Net cash used by investing activities	(698)	(657)	(251)

(continued on next page)

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

	Year Ended December 31,		
	1998	1997	1996
Cash Flows From Financing Activities:			
Proceeds from issuance of			
long-term debt, net	\$ 737	\$ 517	\$ 797
Payments on long-term debt and			
capital lease obligations	(423)	(676)	(975)
Purchase of Class B treasury stock . . .	(223)	-	-
Proceeds from sale-leaseback			
transactions	71	39	47
Proceeds from issuance of common stock .	56	24	18
Dividends paid on preferred securities			
of trust	(22)	(22)	(22)
Purchase of warrants to purchase			
Class B common stock	-	(94)	(50)
Redemption of preferred stock	-	(48)	-
Other	-	(18)	(13)
Net cash provided (used) by financing			
activities	196	(278)	(198)

(continued on next page)

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

	Year Ended December 31,		
	1998	1997	1996
Net Increase in Cash and Cash Equivalents	\$ 378	\$ 25	\$ 382
Cash and Cash Equivalents Beginning of Period (1)	1,010	985	603
Cash and Cash Equivalents End of Period (1)	\$1,388	\$1,010	\$ 985
Supplemental Cash Flows Information:			
Interest paid	\$ 157	\$ 156	\$ 161
Income taxes paid	\$ 25	\$ 12	\$ 4
Financing and Investing Activities Not Affecting Cash:			
Property and equipment acquired through the issuance of debt	\$ 425	\$ 207	\$ 119
Conversion of trust originated preferred securities	\$ 134	\$ -	\$ -
Capital lease obligations incurred	\$ 124	\$ 22	\$ 32
Reduction of capital lease obligations in connection with refinanced aircraft	\$ -	\$ 97	\$ -
Financed purchase deposits for flight equipment, net	\$ -	\$ 14	\$ 19

(1) Excludes restricted cash of \$11 million, \$15 million, \$76 million and \$144 million at December 31, 1998, 1997, 1996 and 1995, respectively.

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, 1995 . .	\$ 41	\$ 723	\$ (428)	\$ 10	\$ -	\$ -
Net Income	-	-	319	-	319	-
Purchase of Warrants	-	(50)	-	-	-	-
Accumulated Dividends:						
Series A 12% Cumulative						
Preferred Stock	5	(5)	-	-	-	-
Additional Minimum Pension						
Liability, net of applicable						
income taxes of \$2	-	-	-	6	6	-
Unrealized Gain on Marketable						
Equity Securities, net of						
applicable income taxes						
of \$1	-	-	-	4	4	-
Reclassification to realized						
gains	-	-	-	(18)	-	-
Other	-	20	-	-	-	-
Balance, December 31, 1996 . .	46	688	(109)	2	329	-

(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	\$ -	\$ -	\$ 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 Gain 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	-	9	-	-	-	-
Conversion of Trust Originated Preferred Securities into Common Stock	-	(32)	-	-	-	160
Other	-	16	-	-	-	-
Balance, December 31, 1998	-	\$ 634	\$ 659	\$ (88)	\$297	\$ (13)

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, 1995	397,948	12,602,112	42,856,548	-
Conversion of Class A to Class B Common Stock by Air Canada	-	(3,322,112)	3,322,112	-
Forfeiture of Restricted Class B Common Stock	-	-	(60,000)	60,000
Purchase of Common Stock	-	-	(133,826)	133,826
Reissuance of Treasury Stock	-	-	193,826	(193,826)
Preferred Stock In-kind Dividend	49,134	-	-	-
Issuance of Common Stock pursuant to Stock Plans and Awards	-	-	1,764,683	-
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

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 1998 revenue passenger miles) and, together with its wholly owned subsidiaries, Continental Express, Inc. ("Express"), and Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, serves 206 airports worldwide on December 31, 1998. As of December 31, 1998, Continental flies to 127 domestic and 79 international destinations and offers additional connecting service through alliances with domestic and foreign carriers. Continental directly serves 13 European cities, eight South American cities 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. Approximately \$11 million and \$15 million of cash and cash equivalents at December 31, 1998 and 1997, respectively, were held in restricted arrangements relating primarily to payments for workers' compensation claims and in accordance with the terms of certain other agreements.

(d) Spare Parts and Supplies -

Flight equipment expendable parts and supplies are valued at average cost. An allowance for obsolescence for flight equipment expendable parts and supplies is accrued to allocate the costs of these assets, less an estimated residual value, over the estimated useful lives of the related aircraft and engines.

(e) Property and Equipment -

Property and equipment were recorded at fair market values as of April 27, 1993. Subsequent purchases were recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Effective January 1, 1998, the Company increased the depreciable life on certain new generation Boeing aircraft from 25 to 30 years. The Company also increased the estimated residual values on certain Stage 3 and new generation Boeing aircraft from 10% to 15%. All owned turboprop aircraft are depreciated over an 18-year useful life with an estimated residual value of 10%. Flight and ground equipment under capital leases are depreciated on a straight-line method over the respective original lease terms. Ground property and equipment, including airport facility improvements, are depreciated on a straight-line method from 2 to 25 years.

(f) Intangible Assets -

During 1998, the Company determined that it would be able to recognize additional net operating losses ("NOLs") attributable to the Company's predecessor as a result of the completion of several transactions resulting in recognition of built-in gains for federal income tax purposes. This benefit was used to reduce to zero reorganization value in excess of amounts allocable to identifiable assets in the first quarter of 1998. During the third and fourth quarters of 1998, the Company determined that additional NOLs of the Company's predecessor could be benefitted and accordingly reduced the deferred tax valuation allowance and routes, gates and slots by \$190 million.

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, 1998	Accumulated Amortization at December 31, 1998
Routes	\$ 754	\$123
Gates	327	120
Slots	100	40
	\$1,181	\$283

Reorganization Value In Excess of Amounts Allocable to Identifiable Assets

Reorganization value in excess of amounts allocable to identifiable assets, arising from Continental's emergence from bankruptcy reorganization in 1993, was amortized on a straight-line basis over 20 years.

(g) 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.

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. The resulting revenue, net of the estimated incremental cost of the credits sold, is recorded in the accompanying Consolidated Statements of Operations during the period in which the credits are sold as other operating revenue.

(h) 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.

(i) 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.

(j) 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.

(k) Advertising Costs -

The Company expenses the costs of advertising as incurred. Advertising expense was \$102 million, \$98 million and \$76 million for the years ended December 31, 1998, 1997 and 1996, respectively.

(l) 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.

(m) 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.

(n) Recently Issued Accounting Standards -

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 will adopt 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 approximately a \$5 million cumulative effect of change in accounting, net of tax, in the first quarter of 1999.

(o) 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):

	1998	1997	1996
Numerator:			
Income before extraordinary charge.	\$387	\$389	\$325
Extraordinary charge, net of applicable income taxes	(4)	(4)	(6)
Net income	383	385	319
Preferred stock dividends	-	(2)	(5)
Numerator for basic earnings per share - income available to common stockholders	383	383	314
Effect of dilutive securities:			
Preferred Securities of Trust	11	14	15
6-3/4% convertible subordinated notes	9	11	8
Series A convertible debentures	-	-	1
	20	25	24
Other	-	(4)	(3)
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions	\$403	\$404	\$335
Denominator:			
Denominator for basic earnings per share - weighted-average shares	60.3	57.6	54.6
Effect of dilutive securities:			
Employee stock options	1.7	1.6	2.2
Warrants	0.9	3.5	5.9
Preferred Securities of Trust	9.8	10.3	10.3
6-3/4% convertible subordinated notes	7.6	7.6	5.8
Restricted Class B common stock	-	0.4	0.8
Series A convertible debentures	-	-	0.7
Dilutive potential common shares	20.0	23.4	25.7
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions	80.3	81.0	80.3

Options to purchase 2,909,130 and 2,643,426 shares of the Company's Class B common stock, par value \$.01 per share ("Class B common stock"), during the third and fourth quarters of 1998, respectively, were not included in the computation of diluted earnings per share in 1998 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):

	1998	1997
Secured		
Notes payable, interest rates of 5.00% to 7.52%, payable through 2019	\$ 886	\$ 201
Floating rate notes, interest rates of LIBOR plus 0.75% to 1.25%, Eurodollar plus 1.0%, or Commercial Paper, payable through 2009.	223	174
Notes payable, interest rates of 7.13% to 7.15%, payable through 1999 and floating rates thereafter of LIBOR plus 2%, payable through 2011.	86	91
Notes payable, interest rates of 8.0% to 9.97%, payable through 2019	66	124
Revolving credit facility totaling \$160 million, floating interest rates of LIBOR or Eurodollar plus 1.125%, payable through 1999.	57	160
Credit facility, floating interest rate of LIBOR or Eurodollar plus 1.125%, payable through 2002.	-	275
Floating rate note, interest rate of LIBOR or Eurodollar plus 1.375%, payable through 2004.	-	75
Notes payable, interest rates of 10.0% to 14.0%, payable through 2005	-	54
Floating rate notes, interest rates of LIBOR plus 2.50% to 3.75%, payable through 2005.	-	30
Other.	-	2
Unsecured		
Senior notes payable, 9.5%, payable through 2001.	250	250
Credit facility, floating interest rate of LIBOR or Eurodollar plus 1.125%, payable through 2002.	245	-
Convertible subordinated notes, interest rate of 6.75%, payable through 2006	230	230
Senior notes payable, interest rate of 8.0%, payable through 2005.	200	-
Notes payable, interest rate of 8.125%, payable through 2008.	110	-
Floating rate note, interest rate of LIBOR or Eurodollar plus 1.375%, payable through 2004.	74	-
Other.	24	3
	2,451	1,669
Less: current maturities.	184	243
Total.	\$2,267	\$1,426

At December 31, 1998 and 1997, the LIBOR and Eurodollar rates associated with Continental's indebtedness approximated 5.1% and 5.8% and 5.1% and 5.8%, respectively. The Commercial Paper rate was 5.5% as of December 31, 1998.

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 0.25% per annum on the unused portion, and a \$75 million term loan commitment with a current floating interest rate of Libor or Eurodollar plus 1.375%. At December 31, 1998 and 1997, 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.

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, 1998, 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 \$758 million and was restricted from paying cash dividends in excess of \$533 million.

In March 1996, the Company issued \$230 million of 6-3/4% Convertible Subordinated Notes (the "Notes"). The Notes are convertible into shares of Class B common stock prior to their maturity date, April 15, 2006, at a conversion price of \$30.195 per share. The Notes are redeemable at the option of the Company on or after April 15, 1999, at specified redemption prices.

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

Year ending December 31,	
1999.	\$184
2000.	182
2001.	419
2002.	236
2003.	122

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 renewal options, and some aircraft leases include purchase options.

At December 31, 1998, 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):

Year ending December 31,	Capital Leases	Operating Leases
1999.	\$ 66	\$ 738
2000.	55	729
2001.	56	711
2002.	30	637
2003.	24	575
Later years	98	4,818
Total minimum lease payments	329	\$8,208
Less: amount representing interest.	69	
Present value of capital leases.	260	
Less: current maturities of capital leases.	47	
Long-term capital leases	\$213	

Not included in the above operating lease table is approximately \$404 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 \$422 million 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, 1998, the Company, including Express, had 350 and 31 aircraft under operating and capital leases, respectively. These leases have remaining lease terms ranging from one month to 21 years.

The Company's total rental expense for all operating leases, net of sublease rentals, was \$922 million, \$787 million and \$719 million in 1998, 1997 and 1996, respectively.

During 1997, the Company acquired 10 aircraft previously leased by it. Aircraft maintenance expense in the second quarter of 1997 was reduced by approximately \$16 million due to the reversal of reserves that were no longer required as a result of the transaction.

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 with the offset to other comprehensive income and then subsequently recognized as a component of fuel expense when the underlying fuel being hedged is used. The ineffective portion of these call 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 quarter ended December 31, 1998.

At December 31, 1998, the Company had petroleum swap contracts outstanding with an aggregate notional amount of approximately \$82 million and a fair value of approximately \$6 million (loss), which has been recorded in other current liabilities with the offset to other comprehensive income, net of applicable income taxes. The loss will be recognized in earnings within the next six months. The Company recognized gains of approximately \$65 million under this risk reduction strategy in 1996. Such gains were classified as a reduction in aircraft fuel expense in the accompanying consolidated statements of operations.

Additionally, as of December 31, 1998, the Company had entered into jet fuel purchase commitments of approximately \$53 million that relate to jet fuel to be delivered and used during the first quarter of 1999.

Foreign Currency Exchange Risk Management

The Company uses a combination of foreign currency average rate option and forward contracts to hedge against the currency risk associated with Japanese yen denominated ticket sales for the next nine to twelve months. The average rate option 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 with the offset to other comprehensive income and then subsequently recognized as a component of passenger revenue when the underlying sales transaction is recognized as revenue. 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 the quarter ended December 31, 1998.

At December 31, 1998, the Company had average rate option and forward contracts outstanding with an aggregate notional amount of approximately \$78 million and \$76 million, respectively. The fair value of these instruments was \$3 million (loss) as of December 31, 1998 which has been recorded in other current liabilities with the offset to other comprehensive income, net of applicable income taxes. The loss 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 has a notional amount of \$125 million as of December 31, 1998 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, to other comprehensive income. The fair value of the interest rate cap was not material as of December 31, 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 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 (in millions):

Cumulative effect of adopting SFAS 133 as of October 1, 1998, net	\$ 1
(Gains)/losses reclassified into earnings from other comprehensive income, net	-
Change in fair value of derivatives, net	(7)
Accumulated derivative loss included in other comprehensive income as of December 31, 1998, net	\$ (6)

Fair Value of 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) Investment in Equity Securities -

Continental's investment in America West Holdings Corporation ("America West Holdings") is classified as available-for-sale and carried at an aggregate market value of \$3 million and \$9 million at December 31, 1998 and 1997, respectively. Included in stockholders' equity at December 31, 1998 and 1997 are net unrealized gains of \$1 million and \$4 million, respectively.

In June 1998, the Company sold its remaining 317,140 shares of America West Holdings Class B common stock realizing net proceeds of approximately \$8.9 million and recognizing a gain of \$6 million. The gain is included in Other, net in the accompanying Consolidated Statements of Operations.

In February 1996, Continental sold approximately 1.4 million of the 1.8 million shares it owned in America West Holdings, realizing net proceeds of \$25 million and recognizing a gain of \$13 million. In May 1996, the Company sold all of its 802,860 America West Holdings warrants, realizing net proceeds of \$7 million and recognizing a gain of \$5 million. The gains are included in Other, net in the accompanying Consolidated Statements of Operations.

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, 1998, the excess of the amount at which the investment is carried and the amount of underlying equity in the net assets was \$43 million. This difference is being amortized over the investment's estimated useful life of 40 years.

As of December 31, 1998, Continental had a 12.4% interest in AMADEUS Global Travel Distribution S.A. ("AMADEUS") with a carrying value of \$95 million. Since a readily determinable market value does not exist for the Company's investment in AMADEUS, the investment is carried at cost.

(c) Debt -

The fair value of the Company's debt with a carrying value of \$1.98 billion and \$1.49 billion at December 31, 1998 and 1997, 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 \$1.88 billion and \$1.47 billion, respectively. The fair value of the remaining debt (with a carrying value of \$473 million and \$179 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.

(d) Preferred Securities of Trust -

As of December 31, 1998, the fair value of Continental's 8-1/2% Convertible Trust Originated Preferred Securities ("TOPrS") (with a carrying value of \$111 million), estimated based on market prices, approximated \$159 million. The carrying value of the TOPrS was \$242 million and the fair value approximated \$514 as of December 31, 1997. See Note 6.

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 and 4,986,500 TOPrS outstanding at December 31, 1998 and 1997, respectively. 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 - REDEEMABLE PREFERRED, PREFERRED, TREASURY AND COMMON STOCK

Redeemable Preferred and Preferred Stock

During the year ended December 31, 1997, the Company's board of directors declared and issued 13,165 additional shares of Series A 12% Cumulative Preferred Stock ("Series A 12% Preferred") in lieu of cash dividends. In April 1997, Continental redeemed for cash all of the 460,247 shares of its Series A 12% Preferred then outstanding for \$100 per share plus accrued dividends thereon. The redemption price, including accrued dividends, totaled \$48 million.

Continental has 10 million shares of authorized preferred stock, none of which was outstanding as of December 31, 1998 or 1997.

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. Holders of shares of Class A common stock and Class B common stock are entitled to receive dividends when and if declared by the Company's board of directors. 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 1998 and 1997, 12,200 and 900,536 shares of the Company's Class A common stock, respectively, were so converted.

Treasury Stock

During 1998, the Company's Board of Directors authorized the expenditure of up to \$300 million to repurchase shares of the Company's Class A and Class B common stock or securities convertible into Class B common stock. No time limit was placed on the duration of the repurchase program. Subject to applicable securities law, such purchases occur at times and in amounts that the Company deems appropriate. As of December 31, 1998, the Company had repurchased 4,452,700 shares of Class B common stock for \$223 million.

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.

Warrants

As of December 31, 1997, the Company had outstanding 3,039,468 Class A Warrants and 308,343 Class B Warrants. The warrants entitled the holder to purchase one share of Class A common stock or Class B common stock as follows: (i) 2,298,134 Class A Warrants and 186,134 Class B Warrants with an exercise price \$7.50 per share, and (ii) 741,334 Class A Warrants and 122,209 Class B Warrants with an exercise price of \$15.00 per share. During 1998, all remaining Class A and Class B Warrants outstanding were exercised.

On June 2, 1997, the Company purchased from Air Partners warrants to purchase 3,842,542 shares of Class B common stock for \$94 million, the intrinsic value of the warrants (the difference between the closing market price of the Class B common stock on May 28, 1997 (\$34.25) and the applicable exercise price).

On November 21, 1996, Air Partners exercised its right to sell to the Company, and the Company subsequently purchased, for \$50 million, Warrants to purchase 2,614,379 shares of Class B common stock pursuant to an agreement with the Company entered into earlier in 1996.

Stock Options

On May 21, 1998, the stockholders of the Company approved the Continental Airlines, Inc. 1998 Stock Incentive Plan (the "98 Incentive Plan") 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 98 Incentive Plan, the aggregate number of shares of Class B common stock that may be issued under the 98 Incentive Plan may not exceed 5,500,000 shares, which may be originally issued or treasury shares or a combination thereof. The maximum number of shares of Class B common stock that may be subject to options granted to any one individual during any calendar year may not exceed 750,000 shares. In early December 1998, the Company offered certain employees who were granted options during the period from May 21, 1998 to November 20, 1998 (excluding the Company's executive officers, certain other officers and members of its Board) the opportunity to exchange such options for a lesser number of new options bearing an exercise price equal to the closing price of the Class B common stock on the date of grant, which was lower than that of the exchanged options. Employees who exchanged their options forfeited the vesting on their old options and received 65 new options for every 100 old options exchanged. As a result, 1,874,000 old options were exchanged for 1,218,100 new options. The new options are subject to a new four-year vesting schedule commencing on the date of grant. The exchange did not result in recognition of compensation expense. The total shares remaining available for grant under the 98 Incentive Plan at December 31, 1998 was 990,000. Stock options granted under the 98 Incentive Plan generally vest over a period of four years and have a term of five years.

On May 16, 1997, the stockholders of the Company approved the Continental Airlines, Inc. 1997 Stock Incentive Plan, as amended (the "97 Incentive Plan"), under which the Company may award restricted stock or grant options to purchase shares of Class B common stock to non-employee directors of the Company and employees of the Company or its subsidiaries. Subject to adjustment as provided in the 97 Incentive Plan, the aggregate number of shares of Class B common stock that may be issued under the 97 Incentive Plan may not exceed 2,000,000 shares, which may be originally issued or treasury shares or a combination thereof. The maximum number of shares of Class B common stock that may be subject to options granted to any one individual during any calendar year may not exceed 200,000 shares (subject to adjustment as provided in the 97 Incentive Plan). The total shares remaining available for grant under the 97 Incentive Plan at December 31, 1998 was 563,988. Stock options granted under the 97 Incentive Plan generally vest over a period of three years and have a term of five years.

Under the Continental Airlines, Inc. 1994 Incentive Equity Plan, as amended (the "94 Incentive Plan" and, together with the 97 Incentive Plan and the 98 Incentive Plan, the "Incentive Plans"), key officers and employees of the Company and its subsidiaries received stock options and/or restricted stock. The 94 Incentive Plan also provided for each outside director to receive on the day following the annual stockholders' meeting options to purchase 5,000 shares of Class B common stock. The maximum number of shares of Class B common stock that may be issued under the 94 Incentive Plan may not in the aggregate exceed 9,000,000. The total remaining shares available for grant under the 94 Incentive Plan at December 31, 1998 was 201,754.

Under the terms of the Incentive 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. 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 97 Incentive Plan and the 94 Incentive Plan. As a result, all outstanding options and restricted stock under these plans became exercisable and fully vested, respectively.

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

	Options	1998 Weighted- Average Exercise Price	Options	1997 Weighted- Average Exercise Price	Options	1996 Weighted- Average Exercise Price
Outstanding at Beginning of Year.	5,998	\$22.62	5,809	\$17.37	4,769	\$ 8.41
Granted*	6,504	\$43.75	1,968	\$29.34	3,307	\$25.07
Exercised	(807)	\$19.53	(1,582)	\$11.72	(1,747)	\$ 8.23
Cancelled. . . .	(2,012)	\$55.18	(197)	\$22.49	(520)	\$14.83
Outstanding at End of Year . . .	9,683	\$30.31	5,998	\$22.62	5,809	\$17.37
Options exercisable at end of year.	5,174	\$23.56	1,229	\$20.61	656	\$11.18

*The option price for all stock options is equal to 100% of the fair market value at the date of grant.

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, 1998 (share data in thousands):

Options Outstanding

Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$3.88-\$8.00	915	2.25	\$7.46
\$8.19-\$28.19	1,881	2.44	\$22.68
\$28.25-\$34.75	3,443	3.75	\$29.23
\$34.88-\$35.00	2,306	4.90	\$35.00
\$35.31-\$56.81	1,138	4.62	\$55.05
\$3.88-\$56.81	9,683	3.73	\$30.31

Options Exercisable

Range of Exercise Prices	Exercisable	Weighted Average Exercise Price
\$3.88-\$8.00	915	\$ 7.46
\$8.19-\$28.19	1,881	\$22.68
\$28.25-\$34.75	2,222	\$29.25
\$34.88-\$35.00	2	\$35.00
\$35.31-\$56.81	154	\$47.72
\$3.88-\$56.81	5,174	\$23.56

Restricted Stock

The Incentive Plans permit awards of restricted stock to participants, subject to one or more restrictions, including a restriction period, and a purchase price, if any, to be paid by the participant. Under the 98 Incentive Plan, the 97 Incentive Plan and the 94 Incentive Plan, 250,000, 100,000 and 600,000 shares, respectively, have been authorized for issuance, of which 250,000, 100,000 and 35,000 shares were available for grant at December 31, 1998.

Additionally, on March 4, 1994, the Board approved a one-time grant of 2,014,000 shares of restricted Class B common stock to substantially all employees at or below the manager level. These shares were issued at no cost to the employees and vested in 25 percent increments on each of January 2, 1995, 1996, 1997 and 1998.

Employee Stock Purchase Plans

On May 16, 1997, the stockholders of the Company approved the Continental Airlines, Inc. 1997 Employee Stock Purchase Plan (the "97 Stock Purchase Plan"). Under the 97 Stock Purchase Plan, all employees of the Company 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. Subject to adjustment, a maximum of 1,750,000 shares of Class B common stock are authorized for issuance under the 97 Stock Purchase Plan. In January 1999, 132,928 shares of Class B common stock were issued for \$28.47 per share relating to contributions made in fourth quarter of 1998. During 1998 and 1997, 305,978 and 148,186 shares of Class B common stock were issued at prices ranging from \$29.33 to \$49.41 in 1998 and \$23.38 to \$29.33 in 1997.

Under the Continental Airlines, Inc. 1994 Employee Stock Purchase Plan, as amended (the "94 Stock Purchase Plan"), which terminated on December 31, 1996, substantially all employees of the Company could purchase shares of Class B common stock at 85% of the lower of the fair market value on the first or last business day of a calendar quarter. Subject to adjustment, a maximum of 8,000,000 shares of Class B common stock were authorized for purchase under the 94 Stock Purchase Plan. During 1997, 1996 and 1995, 70,706, 191,809 and 518,428 shares, respectively, of Class B common stock were issued at a price of \$19.55 in 1997 and at prices ranging from \$15.81 to \$23.96 in 1996 and \$4.31 to \$10.63 in 1995 in connection with the 94 Stock Purchase Plan.

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 1998, 1997 and 1996, respectively: risk-free interest rates of 4.9%, 6.1% and 5.8%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 40% for 1998, 34% for 1997 and 39% for 1996; and a weighted-average expected life of the option of 3.0 years, 2.5 years and 2.6 years. The weighted average grant date fair value of the stock options granted in 1998, 1997 and 1996 was \$13.84, \$7.87 and \$7.55 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 1998, 1997 and 1996, respectively: risk free interest rates of 4.7%, 5.2% and 5.2%; dividend yields of 0%; expected volatility of 40% for 1998, 34% for 1997 and 39% for 1996; and an expected life of .25 years for 1998, .33 years for 1997 and .25 years for 1996. The weighted-average fair value of the purchase rights granted in 1998, 1997 and 1996 was \$9.10, \$7.38 and \$5.75, 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 \$18 million, \$11 million and \$9 million for the years ended December 31, 1998, 1997 and 1996, respectively. Basic EPS would have been reduced by 30 cents, 18 cents and 17 cents for the years ended December 31, 1998, 1997 and 1996, respectively, and diluted EPS would have been reduced by 23 cents, 14 cents and 11 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	Loss on Derivative Instruments	Total
Balance at December 31, 1995	\$ (8)	\$ 18	\$ -	\$ 10
Current year change in other compre- hensive income.	6	(14)	-	(8)
Balance at December 31, 1996	(2)	4	-	2
Current year change in other compre- hensive income.	(4)	-	-	(4)
Balance at December 31, 1997	(6)	4	-	(2)
Current year change in other compre- hensive income.	(76)	(4)	(6)	(86)
Balance at December 31, 1998	\$(82)	\$ -	\$ (6)	\$ (88)

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, 1998, 1997 and 1996, total expense for the defined contribution plan was \$8 million, \$6 million and \$7 million, respectively.

The following table sets forth the defined benefit pension plans' change in projected benefit obligation for 1998 and 1997:

	1998	1997
	(in millions)	
Projected benefit obligation at beginning of year	\$ 846	\$ 604
Service cost	55	38
Interest cost.	69	51
Plan amendments.	110	-
Actuarial gains, net	178	176
Benefits paid.	(28)	(23)
Projected benefit obligation at end of year	\$1,230	\$ 846

The following table sets forth the defined benefit pension plans' change in the fair value of plan assets for 1998 and 1997:

	1998	1997
	(in millions)	
Fair value of plan assets at beginning of year	\$ 633	\$ 508
Actual return on plan assets	75	83
Employer contributions	101	65
Benefits paid	(28)	(23)
Fair value of plan assets at end of year	\$ 781	\$ 633

Pension cost recognized in the accompanying Consolidated Balance Sheets is computed as follows:

	1998	1997
	(in millions)	
Funded status of the plans - net underfunded	\$ (449)	\$ (213)
Unrecognized net actuarial loss	256	93
Unrecognized prior service cost	113	9
Net amount recognized	(80)	(111)
Prepaid benefit cost	2	16
Accrued benefit liability	(320)	(136)
Intangible asset	113	-
Accumulated other comprehensive income	125	9
Net amount recognized	\$ (80)	\$ (111)

Net periodic defined benefit pension cost for 1998, 1997 and 1996 included the following components:

	1998	1997	1996
	(in millions)		
Service cost	\$ 55	\$ 38	\$ 38
Interest cost	69	51	45
Expected return on plan assets	(64)	(49)	(38)
Amortization of prior service cost	6	1	1
Amortization of unrecognized net actuarial loss	4	-	-
Settlement gain	-	-	(1)
Net periodic benefit cost	\$ 70	\$ 41	\$ 45

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 \$1.2 billion, \$1.1 billion and \$771 million, respectively, as of December 31, 1998, and \$762 million, \$620 million and \$529 million, respectively, as of December 31, 1997.

During 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 (including 32,500 and 50,000 shares of Class B common stock with a fair market value of \$1.1 million and \$2.4 million as of December 31, 1998 and 1997, respectively), long-term debt securities and short-term investments.

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.00% to 7.25%, 7.25% and 7.75% for 1998, 1997 and 1996, respectively. The expected long-term rate of return on assets (which is used to calculate the Company's return on pension assets for the current year) was 9.25% to 9.50% for 1998, and 9.25% for each of 1997 and 1996. The weighted average rate of salary increases was 5.30% for 1998, and 4.90% for each of 1997 and 1996. The 1983 Group Annuity Mortality Table (GAM 83) was used to develop the 1997 and 1998 end-of-year disclosure amounts and 1998 pension cost. The 1984 Unisex Pensioners Mortality Table (UP 84) was used to develop 1996 end-of-year disclosure and 1996 and 1997 pension cost. The unrecognized net gain (loss) is amortized on a straight-line basis over the average remaining service period of employees expected to receive a plan benefit.

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 15.0% 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, 1998, 1997 and 1996 was \$86 million, \$105 million and \$68 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, 1998, 1997 and 1996 are as follows (in millions):

	Amount			Percent		
	1998	1997	1996	1998	1997	1996
Income tax provision at United States statutory rates . .	\$227	\$224	\$150	35.0 %	35.0 %	35.0 %
State income tax provision	10	9	6	1.5	1.4	1.4
Reorganization value in excess of amounts allocable to identifiable assets	-	4	5	-	0.6	1.2
Meals and entertainment disallowance	10	9	7	1.5	1.4	1.6
Net operating loss not previously benefitted	-	(15)	(88)	-	(2.3)	(20.5)
Other	1	6	6	0.3	1.0	1.4
Income tax provision, net	\$248	\$237	\$ 86	38.3 %	37.1 %	20.1 %

The significant component of the provision for income taxes for the year ended December 31, 1998, 1997 and 1996 was a deferred tax provision of \$231 million, \$220 million and \$80 million, respectively. The provision for income taxes for the period ended December 31, 1998, 1997 and 1996 also reflects a current tax provision in the amount of \$17 million, \$17 million and \$6 million, respectively, as the Company is in an alternative minimum tax position for federal income tax purposes and pays current state 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, 1998 and 1997 are as follows (in millions):

	1998	1997
Spare parts and supplies, fixed assets and intangibles	\$ 536	\$ 639
Deferred gain.	57	63
Capital and safe harbor lease activity . .	46	49
Other, net	39	39
Gross deferred tax liabilities	678	790
Accrued liabilities.	(347)	(370)
Revaluation of leases.	(2)	(16)
Net operating loss carryforwards	(372)	(631)
Investment tax credit carryforwards. . . .	(45)	(45)
Minimum tax credit carryforward.	(37)	(21)
Gross deferred tax assets.	(803)	(1,083)
Deferred tax assets valuation allowance. .	263	617
Net deferred tax liability	138	324
Less: current deferred tax (asset) liability	(234)	(111)
Non-current deferred tax liability	\$ 372	\$ 435

At December 31, 1998, the Company had estimated NOLs of \$1.1 billion 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 could be limited. Reflecting this possible limitation, the Company has recorded a valuation allowance of \$263 million at December 31, 1998.

Continental had, as of December 31, 1998, deferred tax assets aggregating \$803 million, including \$372 million of NOLs and a valuation allowance of \$263 million. During the first quarter of 1998, the Company consummated several transactions, the benefit of which resulted in the elimination of reorganization value in excess of amounts allocable to identifiable assets of \$164 million. During the third and fourth quarters of 1998, the Company determined that additional NOLs of the Company's predecessor could be benefited and accordingly reduced both the valuation allowance and routes, gates and slots by \$190 million. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would further reduce routes, gates and slots.

NOTE 12 - ACCRUALS FOR AIRCRAFT RETIREMENTS AND EXCESS FACILITIES

In August 1998, the Company announced that CMI plans 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 will be 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 will accelerate the retirement of certain turboprop aircraft by December 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 an evaluation 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.

During 1996, the Company made the decision to accelerate the replacement of certain aircraft between August 1997 and December 1999. As a result of its decision to accelerate the replacement of these aircraft, the Company recorded a fleet disposition charge of \$128 million. The fleet disposition charge related primarily to (i) the writedown of Stage 2 aircraft inventory, which is not expected to be consumed through operations, to its estimated fair value; and (ii) a provision for costs associated with the return of leased aircraft at the end of their respective lease terms. The majority of the aircraft are being accounted for as operating leases and therefore the Company will continue to recognize rent and amortization expenses on these aircraft until they are removed from service.

During 1994, the Company recorded a \$447 million provision associated with (i) the planned early retirement of certain aircraft (\$278 million) and (ii) closed or underutilized airport and maintenance facilities and other assets (\$169 million).

The following represents the activity within these accruals during the three years ended December 31, 1998 (in millions):

	1998	1997	1996
Total accruals at beginning of year. . .	\$151	\$205	\$220
Net cash payments:			
Aircraft related.	(34)	(27)	(52)
Underutilized facilities and other. . .	(30)	(13)	(17)
Increase/(decrease) in accrual for			
grounded aircraft	-	(16)	-
Fleet disposition charge for cost of			
return of leased aircraft		-	54
Fleet disposition/impairment loss			
for the retirement of aircraft. . . .	63	-	-
Other.	5	2	-
Total accruals at end of year.	155	151	205
Portion included in accrued other			
liabilities	(60)	(28)	(17)
Accrual for aircraft retirements and			
excess facilities	\$ 95	\$123	\$188

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 12 years).

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of January 20, 1999, Continental had agreed to acquire a total of 113 Boeing jet aircraft through 2005, approximately 57 of which are expected to be delivered in 1999. Continental also has options for an additional 114 aircraft (exercisable subject to certain conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately \$5.5 billion. Continental currently plans to finance its new Boeing aircraft with a combination of enhanced pass through trust certificates, lease equity and other third-party financing, subject to availability and market conditions. As of January 20, 1999, Continental had approximately \$354 million in financing arranged for such future Boeing deliveries. In addition, Continental had commitments or letters of intent for backstop financing for approximately one-third of the anticipated remaining acquisition cost of such Boeing deliveries. In addition, at January 20, 1999, Continental has firm commitments to purchase 32 spare engines related to the new Boeing aircraft for approximately \$167 million, which will be deliverable through December 2004. 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 20, 1999, Express had firm commitments for 38 Embraer ERJ-145 ("ERJ-145") 50-seat regional jets and 25 Embraer ERJ-135 ("ERJ-135") 37-seat regional jets, with options for an additional 125 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 19 ERJ-145 and six ERJ-135 regional jets in 1999. Neither Express nor Continental will have any obligation to take any ERJ-145 firm aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 1999 capital expenditures, exclusive of fleet plan requirements, to aggregate \$254 million primarily relating to mainframe, software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment.

Continental 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 reoccupy the terminal.

During 1998, Continental began block space arrangements whereby it is committed to purchase capacity on other carriers at an aggregate cost of approximately \$150 million per year. These arrangements are for 10 years. Pursuant to other block-space arrangements, other carriers are committed to purchase capacity at a cost of approximately \$100 million on Continental.

Approximately 40% 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 17% of the Company's employees) become amendable in November and December 1999. Negotiations are expected to begin in the third quarter of 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 severely 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. Continental believes that because of agreements restricting Northwest's right to exercise control over Continental, the companies remain independent competitors; Northwest's stock acquisition was made solely for investment purposes and thus is expressly exempt under Section 7 of the Clayton Act; and Northwest's stock acquisition was necessary in order for Northwest and Continental to enter into an alliance agreement that is highly pro-competitive. 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.

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, the Company's long-term global alliance agreement with Northwest entered into in connection with Air Partners' disposition of its interest in Continental to Northwest (see Note 14) 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 1998, 1997 and 1996, other than those discussed elsewhere in the Notes to Consolidated Financial Statements.

In connection with certain synergies agreements, Continental paid Air Canada, a former significant stockholder of the Company, \$30 million and \$16 million for the years ended December 31, 1997 and 1996, respectively, and Air Canada paid Continental \$16 million and \$17 million in 1997 and 1996, respectively, primarily relating to aircraft maintenance.

The Company and America West Airlines, Inc. ("America West"), a subsidiary of America West Holdings, 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 of the Company and holds a significant interest in 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 \$15 million, \$16 million and \$15 million in 1998, 1997 and 1996, respectively, and America West paid Continental \$27 million, \$23 million and \$22 million in 1998, 1997 and 1996, respectively.

In May 1996, Air Canada converted all of its 3,322,112 shares of Class A common stock into Class B common stock (pursuant to certain rights granted to it under the Company's Certificate of Incorporation) and sold, on the open market, 4,400,000 shares of the Company's common stock pursuant to the Secondary Offering.

On November 21, 1996, Air Partners, a significant stockholder of the Company, exercised its right to sell to the Company, and the Company subsequently purchased, for \$50 million, warrants to purchase 2,614,379 shares of Class B common stock (representing a portion of the total warrants held by Air Partners) pursuant to an agreement entered into earlier in 1996 with the Company.

In April 1997, Continental redeemed for cash all of the 460,247 outstanding shares of its Series A 12% Preferred held by an affiliate of Air Canada for \$100 per share plus accrued dividends thereon. The redemption price, including accrued dividends, totaled \$48 million.

On June 2, 1997, the Company purchased for \$94 million from Air Partners warrants to purchase 3,842,542 shares of Class B common stock (representing a portion of the total warrants held by Air Partners). The purchase price represented the intrinsic value of the warrants (the difference between the closing market price of the Class B common stock on May 28, 1997 (\$34.25) and the applicable exercise price).

In July 1997, the Company purchased the rights of United Micronesia Development Association, Inc. ("UMDA") to receive future payments under a services agreement between UMDA and CMI (pursuant to which CMI was to pay UMDA approximately 1% of the gross revenues of CMI, as defined, through January 1, 2012, which payment by CMI to UMDA totaled \$1 million, \$6 million and \$6 million in 1997, 1996 and 1995, respectively) and UMDA's 9% interest in AMI, terminated the Company's obligations to UMDA under a settlement agreement entered into in 1987, and terminated substantially all of the other contractual arrangements between the Company, AMI and CMI, on the one hand, and UMDA on the other hand, for an aggregate consideration of \$73 million.

In connection with the Company's \$320 million secured term loan financing, entered into in 1996, CMI paid UMDA a dividend of approximately \$13 million in 1996.

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.

NOTE 15 - SEGMENT REPORTING

Continental adopted Statement of Financial Accounting Standards No. 131 - "Disclosure About Segments of an Enterprise and Related Information" ("SFAS 131") during the first quarter of 1998. SFAS 131 established standards for reporting information about operating segments in annual financial statements as well as related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Continental has one reportable operating segment (air transportation).

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

	1998 Operating Revenue	1997 Operating Revenue	1996 Operating Revenue
Domestic (U.S.)	\$5,620	\$5,215	\$4,761
Atlantic	995	778	494
Latin America	769	572	406
Pacific	567	648	699
	\$7,951	\$7,213	\$6,360

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.

NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 1998 and 1997 is as follows (in millions, except per share data):

	March 31	Three Months Ended		December 31
		June 30	September 30	
1998				
Operating revenue	\$1,854	\$2,036	\$2,116	\$1,945
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 (a)	\$ 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 (a)	\$ 1.06	\$ 2.06	\$ 0.97	\$ 0.91

(continued on next page)

	March 31	Three Months Ended		December 31
		June 30	September 30	
1997				
Operating revenue	\$1,698	\$1,786	\$1,890	\$1,839
Operating income	146	231	207	132
Nonoperating income (expense), net	(22)	(23)	(21)	(10)
Net income	74	128	110	73
Earnings per common share:				
Income before extraordinary charge (a)	\$ 1.28	\$ 2.22	\$ 1.97	\$ 1.26
Extraordinary charge, net of tax	-	-	(0.07)	-
Net income (a)	\$ 1.28	\$ 2.22	\$ 1.90	\$ 1.26
Earnings per common share assuming dilution:				
Income before extraordinary charge (a)	\$ 0.96	\$ 1.63	\$ 1.48	\$ 0.97
Extraordinary charge, net of tax	-	-	(0.04)	-
Net income (a)	\$ 0.96	\$ 1.63	\$ 1.44	\$ 0.97

(a) 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 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 \$122 million (\$77 million after tax) relating to its decision to accelerate the retirement of certain jet and turboprop aircraft.

During the third quarter of 1997, in connection with the prepayment of certain indebtedness, Continental recorded a \$4 million after tax extraordinary charge relating to early extinguishment of debt.

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 public 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 18, 1999.

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 18, 1999.

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 18, 1999.

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 18, 1999.

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, 1998
Consolidated Balance Sheets as of December 31, 1998 and 1997
Consolidated Statements of Cash Flows for each of the Three
Years in the Period Ended December 31, 1998
Consolidated Statements of Redeemable Preferred Stock and
Common Stockholders' Equity for each of the Three Years
in the Period Ended December 31, 1998
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:

- (i) Report dated November 3, 1998 with respect to Item 7.
Financial Statements and Exhibits, related to the
offering of Continental Airlines, Inc.'s Pass Through
Certificates Series 1998-3.
- (ii) Report dated November 20, 1998 with respect to Item 5.
Other Events, related to the Northwest Transaction.
- (iii) Report dated December 8, 1998 with respect to Item 7.
Financial Statements and Exhibits, related to the
offering of Continental Airlines, Inc.'s 8% Notes due
December 15, 2005.

- (d) See accompanying Index to Exhibits.

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements of Continental Airlines, Inc. as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated January 20, 1999 (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 20, 1999

CONTINENTAL AIRLINES, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1998, 1997, and 1996
(In millions)

	Allowance for Doubtful Receivables	Allowance for Obsolescence
Balance, December 31, 1995 . . .	\$ 44	\$ 36
Additions charged to expense .	16	18
Deductions from reserve. . . .	(31)	(8)
Other.	(2)	1
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

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 25, 1999

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 25, 1999.

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/ MICHAEL P. BONDS Michael P. Bonds	Vice President and Controller (Principal Accounting Officer)
THOMAS J. BARRACK, JR.* Thomas J. Barrack, Jr.	Director
LLOYD M. BENTSEN, JR.* Lloyd M. Bentsen, Jr.	Director
DAVID BONDERMAN* David Bonderman	Director
/s/GREGORY D. BRENNEMAN Gregory D. Brenneman	Director
PATRICK FOLEY* Patrick Foley	Director
DOUGLAS McCORKINDALE* Douglas McCorkindale	Director

GEORGE G. C. PARKER* Director
George G. C. Parker

RICHARD W. POGUE* Director
Richard W. Pogue

WILLIAM S. PRICE III* Director
William Price III

DONALD L. STURM* Director
Donald L. Sturm

KAREN HASTIE WILLIAMS* Director
Karen Hastie Williams

CHARLES A. YAMARONE* Director
Charles A. Yamarone

*By /s/ LAWRENCE W. KELLNER
Lawrence W. Kellner
Attorney in-fact
February 25, 1999

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.
- 4.4 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 Governance Agreement dated January 25, 1998 among the Company, Newbridge Parent Corporation ("Newbridge") and Northwest Airlines Corporation ("Northwest") -- incorporated by reference to Exhibit 99.1 to Continental's Current Report on Form 8-K dated January 25, 1998 (File no. 0-9781).
- 4.7(a) First Amendment to the Governance Agreement dated March 2, 1998. (3)
- 4.7(b) Second Amendment to the Governance Agreement dated November 20, 1998 -- incorporated by reference to Exhibit 99.6 to the 11/98 8-K.
- 4.8 Supplemental Agreement dated November 20, 1998 among the Company, Newbridge and Northwest -- incorporated by reference to Exhibit 99.7 to the 11/98 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 November 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 Airlines Holdings Corporation, Air Partners and Wilmington Trust Company, as Trustee -- incorporated by reference to Exhibit 99.4 to the 11/98 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").
- 10.2 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. (3)
- 10.4* Amended and restated employment agreement between the Company and Gregory Brenneman, dated as of November 20, 1998. (3)

- 10.5* Amended and restated employment agreement dated as of November 15, 1995 between the Company and Lawrence Kellner -- incorporated by reference to Exhibit 10.3 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (File no. 0-9781) (the "1996 Q2 10-Q").
- 10.5(a)* Amendment dated as of November 20, 1998 to Mr. Kellner's employment agreement. (3)
- 10.6* Amended and restated employment agreement dated as of November 15, 1995 between the Company and C.D. McLean -- incorporated by reference to Exhibit 10.8 to the 1995 10-K.
- 10.6(a)* Amendment dated as of November 20, 1998 to Mr. McLean's employment agreement. (3)
- 10.7* Form of amendment to employment agreements, dated as of April 19, 1996, between the Company and, respectively, Lawrence Kellner and C.D. McLean -- incorporated by reference to Exhibit 10.4 to the 1996 Q2 10-Q.
- 10.8* Form of amendment to employment agreements, dated as of September 30, 1996, between the Company and, respectively, Lawrence Kellner and C.D. McLean -- incorporated by reference to Exhibit 10.3 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 (File no. 0-9781) (the "1996 Q3 10-Q").
- 10.9* Amended and restated employment agreement, as amended, between the Company and Jeffery Smisek -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (File no. 0-9781) (the "1997 Q1 10-Q").
- 10.9(a)* Amendment dated as of November 20, 1998 to Mr. Smisek's employment agreement. (3)
- 10.10* 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 Q2 10-Q").
- 10.11* Stay Bonus Agreement between the Company and Gregory Brenneman -- incorporated by reference to Exhibit 10.4 to the 1998 Q2 10-Q.
- 10.12* Stay Bonus Agreement between the Company and Lawrence Kellner -- incorporated by reference to Exhibit 10.5 to the 1998 Q2 10-Q.

- 10.13* Stay Bonus Agreement between the Company and C.D. McLean -- incorporated by reference to Exhibit 10.6 to the 1998 Q2 10-Q.
- 10.14* Stay Bonus Agreement between the Company and Jeffery Smisek -- incorporated by reference to Exhibit 10.7 to the 1998 Q2 10-Q.
- 10.15* Forms of Stay Bonus Agreements for other executive officers -- incorporated by reference to Exhibit 10.8 to the 1998 Q2 10-Q.
- 10.16* 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.
- 10.17* 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).
- 10.17(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).
- 10.17(b)* Second Amendment to 1994 Equity Plan -- incorporated by reference to Exhibit 4.3(c) to the 1996 S-8.
- 10.17(c)* Third Amendment to 1994 Equity Plan -- incorporated by reference to Exhibit 10.4 to the 1996 Q3 10-Q.
- 10.17(d)* Fourth Amendment to 1994 Equity Plan -- incorporated by reference to Exhibit 10.10(d) to the 1997 10-K.
- 10.17(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.
- 10.17(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.
- 10.17(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.
- 10.18* 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).
- 10.18(a)* First Amendment to 1997 Incentive Plan -- incorporated by reference to Exhibit 10.11(a) to the 1997 10-K.

- 10.18(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.
- 10.18(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.
- 10.19* Amendment and Restatement of the 1994 Equity Plan and the 1997 Incentive Plan. (3)
- 10.20* 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").
- 10.20(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.
- 10.21* Continental Airlines, Inc. Deferred Compensation Plan -- incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration Statement (No. 333-68233).
- 10.22* 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.
- 10.23 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)
- 10.23(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). (1)
- 10.23(b) Supplemental Agreement No. 6 to P.A. 1783, dated June 13, 1996 -- incorporated by reference to Exhibit 10.6 to the 1996 Q2 10-Q. (1)
- 10.23(c) Supplemental Agreement No. 7 to P.A. 1783, dated July 23, 1996 -- incorporated by reference to Exhibit 10.6(a) to the 1996 Q2 10-Q. (1)
- 10.23(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)
- 10.23(e) Letter Agreement No. 6-1162-GOC-044 to P.A. 1783, dated March 21, 1997 -- incorporated by reference to Exhibit 10.4 to the 1997 Q1 10-Q. (1)
- 10.23(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)
- 10.23(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)
- 10.23(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 Q3 10-Q"). (1)
- 10.23(i) Supplemental Agreement No. 12, including side letter, to P.A. 1783, dated September 29, 1998. (2)(3)
- 10.23(j) Supplemental Agreement No. 13 to P.A. 1783, dated November 16, 1998. (2)(3)
- 10.23(k) Supplemental Agreement No. 14, including side letter, to P.A. 1783, dated December 17, 1998. (2)(3)
- 10.24 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

- 10.24(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)
- 10.24(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)
- 10.24(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)
- 10.24(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)
- 10.24(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 Q2 10-Q. (1)
- 10.24(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 Q3 10-Q. (1)
- 10.24(g) Supplemental Agreement No. 7, including side letters, to P.A. 1951, dated November 12, 1998. (2)(3)
- 10.24(h) Supplemental Agreement No. 8, including side letters, to P.A. 1951, dated December 7, 1998. (2)(3)
- 10.24(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 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)
- 10.25(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)
- 10.26 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)
- 10.26(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 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)
- 10.27(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)
- 10.27(b) Supplemental Agreement No. 2, including side letter, to P.A. 2061, dated July 30, 1998. (2)(3)
- 10.27(c) Supplemental Agreement No. 3, including side letter, to P.A. 2061, dated September 25, 1998. (2)(3)
- 10.28 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. (2)(3)
- 10.29 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.
- 10.29(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

Continental's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 0-9781).

- 10.30 Airport Use and Lease Agreement dated as of January 1, 1998 between the Company and the City of Houston, Texas regarding Bush Intercontinental. (3)
- 10.30(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. (3)
- 10.30(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. (3)
- 10.30(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. (3)
- 10.31 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).
- 10.31(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. (3)
- 10.32 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.
- 10.33 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)
- 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)
- 99.1 Deferred Compensation Plan Trust Agreement, effective as of January 1, 1999, between Continental Airlines, Inc. and Chase Bank of Texas, N.A. (3)

* 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.

FIRST AMENDMENT

TO THE

GOVERNANCE AGREEMENT

This First Amendment to the Governance Agreement dated as of March 2, 1998, is by and among Continental Airlines, Inc., a Delaware corporation (the "Company"), Newbridge Parent Corporation, a Delaware corporation (the "Stockholder"), and Northwest Airlines Corporation, a Delaware corporation that is the holder of all of the outstanding stock of the Stockholder ("Parent").

WHEREAS, the Company, the Stockholder and the Parent have entered into that certain Governance Agreement dated as of January 25, 1998 (the "Governance Agreement"), pursuant to which the Parent and the Stockholder have agreed, among other things, that they and their respective Affiliates will not, subject to certain exceptions set forth in the Governance Agreement, Beneficially Own any Voting Securities in excess of the Permitted Percentage; and

WHEREAS, the Parent and the Stockholder have proposed to enter into a Purchase Agreement (the "Barlow Agreement") with Barlow Investors III, LLC, a California limited partnership ("Barlow"), and the guarantors signatory thereto, pursuant to which the Parent and the Stockholder would acquire Beneficial Ownership of 979,000 shares of Class A Common Stock Beneficially Owned by Barlow;

WHEREAS, the Parent and the Stockholder entering into the Barlow Agreement would cause them to Beneficially Own Voting Securities in excess of the Permitted Percentage as in effect on the date hereof; and

WHEREAS, the Parent and the Stockholder have requested that the Company consent to their entering into the Barlow Agreement, and the Company is willing to agree thereto subject to the terms and conditions of this First Amendment; and

WHEREAS, the Company, the Parent and the Stockholder desire to clarify the effect of the conversion of shares of Class A Common Stock to Class B Common Stock by the holders thereof under Section 1.01 of the Governance Agreement.

NOW THEREFORE, the Company, the Stockholder and the Parent, intending to be legally bound, hereby agree as follows:

1. Capitalized terms not otherwise defined herein shall have their respective meanings set forth in the Governance Agreement.

2. Section 1.01(d) of the Governance Agreement is amended and restated to read in its entirety as set forth below:

(d) (i) Except as otherwise set forth in this subsection (d), if at any time the Parent or the Stockholder becomes aware that it and its Affiliates Beneficially Own more than the Permitted Percentage, then the Parent shall promptly notify the Company, and the Parent and the Stockholder, as appropriate, shall promptly take all action necessary to reduce the amount of Voting Securities Beneficially Owned by such Persons to an amount not greater than the Permitted Percentage.

(ii) If the Voting Securities Beneficially Owned by the Stockholder and its Affiliates exceed the Permitted Percentage (A) solely by reason of repurchases of Voting Securities by the Company or (B) as a result of the transactions otherwise permitted by the terms of this Agreement, then the Stockholder shall not be required to reduce the amount of Voting Securities Beneficially Owned by such Persons and the percentage of the Fully Diluted Voting Power represented by the Voting Securities Beneficially Owned by such Persons shall become the Permitted Percentage.

(iii) Notwithstanding the provisions of Section 1.01(a), if the Voting Securities Beneficially Owned by the Stockholder and its Affiliates exceed the Permitted Percentage solely by reason of the Parent's and the Stockholder's entering into (A) the Purchase Agreement dated as of March 2, 1998 (the "Barlow Agreement") among the Parent, the Stockholder, Barlow Investors III, LLC, a California limited liability company ("Barlow"), and the guarantors signatory thereto, respecting the sale by Barlow of 979,000 shares of Class A Common Stock to the Stockholder, and (B) the Investment Agreement, and the purchase of (C) the 979,000 shares of Class A Common Stock pursuant to the Barlow Agreement, and (D) Voting Securities pursuant

to the Investment Agreement, the Stockholder and its Affiliates shall not be required to reduce the amount of Voting Securities Beneficially Owned by such Persons; provided that the Permitted Percentage shall not be changed as a result thereof, and, if the Fully Diluted Voting Power of the Voting Securities Beneficially Owned by the Stockholder and its Affiliates is subsequently reduced to or below the Permitted Percentage, neither the Stockholder, the Parent, nor any of their respective Affiliates shall Beneficially Own any Voting Securities in excess of the Permitted Percentage after such reduction.

(iv) Notwithstanding the provisions of Section 1.01(a), if the Voting Securities Beneficially Owned by the Stockholders and its Affiliates exceed the Permitted Percentage solely by reason of the conversion of shares of Class A Common Stock into shares of Class B Common Stock by the holders thereof, the Stockholder and its Affiliates shall not be required to reduce the amount of Voting Securities Beneficially Owned by such Persons; provided that, the Permitted Percentage shall not be changed as a result of any such conversion, and if the Fully Diluted Voting Power of the Voting Securities Beneficially Owned by the Stockholder and its Affiliates is subsequently reduced to or below the Permitted Percentage, neither the Stockholder, the Parent, nor any of their respective Affiliates shall Beneficially Own any Voting Securities in excess of the Permitted Percentage after such reduction.

3. The Company hereby represents and warrants to the Parent and the Stockholder that this First Amendment to the Governance Agreement has been approved by a Majority Vote.

4. This First Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

5. Except as expressly modified by this First Amendment to the Governance Agreement, all of the terms, conditions and provisions of the Governance Agreement shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to the Governance Agreement to be executed as of the date first referred to above.

Northwest Airlines Corporation

By:
Douglas M Steenland
Senior Vice President,
General Counsel
and Secretary

Newbridge Parent Corporation

By:
Douglas M Steenland
Vice President, Secretary
and Assistant Treasurer

By:
Continental Airlines, Inc.

By:
Jeffery A. Smisek
Executive Vice President,
General Counsel
and Secretary

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

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

W I T N E S S E T H:

WHEREAS, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of November 15, 1995, as amended by Amendment to Employment Agreement dated as of April 19, 1996 and Amendment to Employment Agreement dated as of September 30, 1996 (as so amended, the "Existing Agreement"); and

WHEREAS, Air Partners, L.P., its partners and certain affiliates have entered into an Investment Agreement dated as of January 25, 1998, as amended, with Northwest Airlines Corporation and its affiliate (the "Investment Agreement"), which investment agreement provides for the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock and warrants held by Air Partners, L.P., subject to certain conditions; and

WHEREAS, the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. contemplated by the Investment Agreement (the "Acquisition") will, upon the closing thereof, constitute a Change in Control for purposes of the Company's 1994 Incentive Equity Plan, as amended, the Company's 1997 Stock Incentive Plan, as amended, the Company's Executive Bonus Program and the Existing Agreement; and

WHEREAS, the Human Resources Committee and the Board of Directors of the Company have deemed it advisable and in the best interests of the Company and its stockholders to assure management continuity for the Company and, consistent therewith, have authorized the execution, delivery and performance by the Company of this Agreement;

WHEREAS, in connection therewith, the parties desire to amend the Existing Agreement and restate it, as so amended, in its entirety as this Agreement, effective as of the Effective Date (as defined below);

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

ARTICLE 1: EMPLOYMENT AND DUTIES

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

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

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

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

2.1 Term. Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a five-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive five-year period as of the fifth anniversary of the Effective Date and as of the last day of each successive five-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months

before the last day of any such five-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the five-year term of employment during which such notice is given.

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

(i) upon Executive's death;

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

(iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;

(iv) upon the conviction of Executive for a felony or any crime involving moral turpitude; or

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

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

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

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Board of Directors;

(iii) the occurrence of acts or conduct on the part of Company, its Board of Directors, or its officers, representatives or stockholders which prevent Executive from, or substantively hinder Executive in, performing his duties or responsibilities pursuant to this Agreement;

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

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

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in Executive's then current annual base salary, or any reduction in Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., 0% to 125% of base salary) or any material change in the frequency of payment thereof or the performance factors on which such bonus is based, shall constitute a material breach by Company of this Agreement; or

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

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

3.1 Base Salary. During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$750,000.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his base salary in an amount which is at least as great as that in effect on the Effective Date (i.e., 0% to 125% of base salary) and shall not change in any material respect the payment frequency thereof or the performance factors on which such bonus is based.

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

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

3.5 Supplemental Executive Retirement Plan.

(i) Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 1.6% times (b) the number of Executive's credited years of service (as defined below) under the Plan times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Airlines Retirement Plan beginning at January 1, 1995; provided, however, that if Executive is paid the Termination Payment under this Agreement, Executive shall be further credited with three (3) additional years of service under the Plan. For purposes hereof, Executive's final average compensation shall be equal to the greater of (1) \$750,000 or (2) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding his termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, and (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998. All benefits under the Plan

shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date. For purposes hereof, "Retirement Date" is defined as the later of (A) the date on which Executive attains (or in the event of his earlier death, would have attained) age 65 or (B) the date of his retirement from employment with Company. If Executive is not married on the Retirement Date, benefits under the Plan will be paid to Executive during his lifetime in the form of the Base Benefit. If Executive is married on the Retirement Date, benefits under the Plan will be paid in the form of a joint and survivor annuity that is actuarially equivalent (as defined below) to the Base Benefit, with Executive's spouse as of the Retirement Date being entitled during her lifetime after Executive's death to a benefit (the "Survivor's Benefit") equal to 50% of the benefit payable to Executive during their joint lifetimes. In the event of Executive's death prior to the Retirement Date, his surviving spouse, if he is married on the date of his death, will receive beginning on the Retirement Date an amount equal to the Survivor's Benefit calculated as if Executive had retired with a joint and survivor annuity on the date before his date of death. The amount of any benefits payable to Executive and/or his spouse under the Continental Airlines Retirement Plan shall be offset against benefits due under the Plan. Executive shall be vested immediately with respect to benefits due under the Plan. If Executive's employment with Company terminates for any reason prior to February 14, 1999, Company shall provide further benefits under the Plan to ensure that Executive is treated for all purposes as if he were fully vested under the Continental Airlines Retirement Plan.

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

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

(iv) Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

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

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

(i) Automobile - Company will continue to lease an automobile (including replacements therefor) of Executive's choice for Executive's use in accordance with its current practices with respect thereto during the term of this Agreement. Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease.

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

(iii) Parking - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

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

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and, if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Stock Incentive Plan (the "1998 Plan"), and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (iii) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (iv) provide Executive and his eligible dependents with Continuation Coverage (as such term is defined in paragraph 4.7) for a period of three years beginning on the effective date of such termination.

4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, and:

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

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Plan, and other Awards (as defined in

the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, and (2) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable.

4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (iv) of paragraph 4.1.

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

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

4.6 Liquidated Damages. In light of the difficulties in estimating the damages upon termination of this Agreement, Company and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be received by Executive as liquidated damages. Payment of the

Termination Payment and the Existing Severance pursuant to paragraphs 4.1, 4.2 or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

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

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

(ii) "Existing Severance" shall mean the sum of five million sixty two thousand five hundred dollars (\$5,062,500), which sum represents the severance payable to Executive upon termination of employment by him after a Change in Control (as defined in the Existing Agreement) caused by the Acquisition under the Existing Agreement;

(iii) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and his eligible family members (as such eligibility is in effect on the date hereof), a UATP card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any of its affiliates or any successor or successors thereto (a "Similar Card")) in Executive's name for charging flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, a Gold Elite OnePass Card (or similar highest category successor frequent flyer card) in Executive's name for use on the CO system, a membership for Executive and Executive's spouse in the Company's President's Club (or any successor program maintained in the CO system) and reimbursement (while an officer of the Company) of up to \$10,000 annually for U.S. federal, state or local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits at the lowest published fare (i.e., 21 day advance purchase coach fare or other lowest available fare) for the applicable flight on the date of such flight, regardless of the actual fare class booked or flown, or as otherwise required by law);

(iv) "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of ten years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for Executive's lifetime or a

shorter period if such prerequisites become unavailable to the Company for use by Executive; and

(v) "Termination Payment" shall mean an amount equal to three times the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment and (2) a deemed annual bonus which shall be equal to the Bonus Percentage of the amount described in clause (1) of this paragraph 4.7(v). The "Bonus Percentage" shall be a percentage equal to the annual percentage of base salary (i.e., 0% to 125%) paid or payable to a participant under the Company's Executive Bonus Program (or any successor plan or program) with respect to the most recent fiscal year ended prior to Executive's termination of employment.

Executive agrees that, after receipt of an invoice or other accounting statement therefor, he will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on Executive's UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.7(ii) hereof. Executive agrees that the credit availability under Executive's UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full, the credit availability under Executive's UATP card (or Similar Card) will be restored. The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits at the lowest published fare (i.e., 21 day advance purchase coach fare or other lowest available fare) for the applicable flight on the date of such flight, regardless of the actual fare class booked or flown, or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period with respect to which the Company is obligated to provide up to \$10,000 of reimbursement for income taxes as described in paragraph 4.7(iii) above, Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be so reimbursed to Executive, and Executive understands that the Company will not make any gross-up payment to Executive with respect to the income attributable to such reimbursement. Executive agrees that he will not resell or permit to be resold any tickets issued on the CO system in connection with the Flight Benefits. Executive shall be issued a UATP card (or Similar Card), a Gold Elite OnePass Card (or similar highest category successor frequent flyer card), a membership card in the Company's Presidents Club (or any successor program maintained in the CO system) for Executive and Executive's spouse, an appropriate flight pass identification card and an Employee Travel Card, each valid at all times during the term of Executive's Flight Benefits.

ARTICLE 5: MISCELLANEOUS

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

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

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

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

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

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

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

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

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

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

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

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

5.10 Successors. This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

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

5.12 Entire Agreement. Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv) and any awards under the Company's stock incentive or similar plans, and (ii) that certain Stay Bonus Agreement dated as of April 14, 1998 between Company and Executive, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Without limiting the scope of the preceding sentence, all prior understandings and agreements among the parties hereto relating to the subject matter hereof (including, without limitation, the Existing Agreement, but only from and after the Effective Date) are, as of the Effective Date, null and void and of no further force and effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

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

5.14 Executive Bonus Program. Executive agrees that the

payment to Executive of the Existing Severance hereunder will not be deemed to be "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" within the meaning of clause (d) of the last sentence of Section 5 of the Company's Executive Bonus Program, as in effect on the date hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the 20th day of November, 1998, but to be effective as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By: _____
Name: Jeffery A. Smisek
Title: Executive Vice President

"EXECUTIVE"

GORDON M. BETHUNE

APPROVED:

Thomas J. Barrack, Jr.
Chair, Human Resources Committee

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

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

W I T N E S S E T H:

WHEREAS, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of November 15, 1995, as amended by Amendment to Employment Agreement dated as of April 19, 1996 and Amendment to Employment Agreement dated as of September 30, 1996 (as so amended, the "Existing Agreement"); and

WHEREAS, Air Partners, L.P., its partners and certain affiliates have entered into an Investment Agreement dated as of January 25, 1998, as amended, with Northwest Airlines Corporation and its affiliate (the "Investment Agreement"), which investment agreement provides for the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock and warrants held by Air Partners, L.P., subject to certain conditions; and

WHEREAS, the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. contemplated by the Investment Agreement (the "Acquisition") will, upon the closing thereof, constitute a Change in Control for purposes of the Company's 1994 Incentive Equity Plan, as amended, the Company's 1997 Stock Incentive Plan, as amended, the Company's Executive Bonus Program and the Existing Agreement; and

WHEREAS, the Human Resources Committee and the Board of Directors of the Company have deemed it advisable and in the best interests of the Company and its stockholders to assure management continuity for the Company and, consistent therewith, have authorized the execution, delivery and performance by the Company of this Agreement;

WHEREAS, in connection therewith, the parties desire to amend the Existing Agreement and restate it, as so amended, in its entirety as this Agreement, effective as of the Effective Date (as defined below);

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

ARTICLE 1: EMPLOYMENT AND DUTIES

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

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

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

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

2.1 Term. Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for a five-year period beginning on the Effective Date. Said term of employment shall be extended automatically for an additional successive five-year period as of the fifth anniversary of the Effective Date and as of the last day of each successive five-year period of time thereafter that this Agreement is in effect; provided, however, that if, prior to the date which is six months

before the last day of any such five-year term of employment, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the five-year term of employment during which such notice is given.

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

(i) upon Executive's death;

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

(iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;

(iv) upon the conviction of Executive for a felony or any crime involving moral turpitude; or

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

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

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

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Chief Executive Officer or the Board of Directors;

(iii) the occurrence of acts or conduct on the part of Company, its Board of Directors, or its officers, representatives or stockholders which prevent Executive from, or substantively hinder Executive in, performing his duties or responsibilities pursuant to this Agreement;

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

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

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in Executive's then current annual base salary, or any reduction in Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., 0% to 125% of base salary) or any material change in the frequency of payment thereof or the performance factors on which such bonus is based, shall constitute a material breach by Company of this Agreement; or

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

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

3.1 Base Salary. During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$575,000.00 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level which is not less than the maximum participation level made available to any Company executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his base salary in an amount which is at least as great as that in effect on the Effective Date (i.e., 0% to 125% of base salary) and shall not change in any material respect the payment frequency thereof or the performance factors on which such bonus is based.

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

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

3.5 Supplemental Executive Retirement Plan.

(i) Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 1.6% times (b) the number of Executive's credited years of service (as defined below) under the Plan times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Airlines Retirement Plan beginning at January 1, 1995; provided, however, that if Executive is paid the Termination Payment under this Agreement, Executive shall be further credited with three (3) additional years of service under the Plan. For purposes hereof, Executive's final average compensation shall be equal to the greater of (1) \$575,000 or (2) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding his termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, and (ii) any Stay Bonus paid to Executive

pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998. All benefits under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date. For purposes hereof, "Retirement Date" is defined as the later of (A) the date on which Executive attains (or in the event of his earlier death, would have attained) age 65 or (B) the date of his retirement from employment with Company. If Executive is not married on the Retirement Date, benefits under the Plan will be paid to Executive during his lifetime in the form of the Base Benefit. If Executive is married on the Retirement Date, benefits under the Plan will be paid in the form of a joint and survivor annuity that is actuarially equivalent (as defined below) to the Base Benefit, with Executive's spouse as of the Retirement Date being entitled during her lifetime after Executive's death to a benefit (the "Survivor's Benefit") equal to 50% of the benefit payable to Executive during their joint lifetimes. In the event of Executive's death prior to the Retirement Date, his surviving spouse, if he is married on the date of his death, will receive beginning on the Retirement Date an amount equal to the Survivor's Benefit calculated as if Executive had retired with a joint and survivor annuity on the date before his date of death. The amount of any benefits payable to Executive and/or his spouse under the Continental Airlines Retirement Plan shall be offset against benefits due under the Plan. Executive shall be vested immediately with respect to benefits due under the Plan. If Executive's employment with Company terminates for any reason prior to the date which is the fifth anniversary of Executive's first date of employment by the Company, Company shall provide further benefits under the Plan to ensure that Executive is treated for all purposes as if he were fully vested under the Continental Airlines Retirement Plan.

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

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

(iv) Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

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

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

(i) Automobile - Company will continue to lease an automobile (including replacements therefor) of Executive's choice for Executive's use in accordance with its current practices with respect thereto during the term of this Agreement. Company agrees to take such actions as may be necessary to permit Executive, at his option, to acquire title to any automobile subject to such a lease at the completion of

the lease term by Executive paying the residual payment then owing under the lease.

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

(iii) Parking - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

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

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and, if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Stock Incentive Plan (the "1998 Plan"), and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (iii) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (iv) provide Executive and his eligible dependents with Continuation Coverage (as such term is defined in paragraph 4.7) for a period of three years beginning on the effective date of such termination.

4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, and:

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

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall

(1) cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Plan, and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, and (2) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable.

4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the Company shall pay Executive on or before the effective date of such termination a lump sum, cash payment in an amount equal to the Existing Severance, the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (iv) of paragraph 4.1.

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

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

4.6 Liquidated Damages. In light of the difficulties in estimating the damages upon termination of this Agreement, Company

and Executive hereby agree that the payments and benefits, if any, to be received by Executive pursuant to this Article 4 shall be received by Executive as liquidated damages. Payment of the Termination Payment and the Existing Severance pursuant to paragraphs 4.1, 4.2 or 4.3 shall be in lieu of any severance benefit Executive may be entitled to under any severance plan or policy maintained by Company.

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

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

(ii) "Existing Severance" shall mean the sum of three million eight hundred eighty-one thousand two hundred fifty dollars (\$3,881,250), which sum represents the severance payable to Executive upon termination of employment by him after a Change in Control (as defined in the Existing Agreement) caused by the Acquisition under the Existing Agreement;

(iii) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and his eligible family members (as such eligibility is in effect on the date hereof), a UATP card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any of its affiliates or any successor or successors thereto (a "Similar Card")) in Executive's name for charging flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, a Gold Elite OnePass Card (or similar highest category successor frequent flyer card) in Executive's name for use on the CO system, a membership for Executive and Executive's spouse in the Company's President's Club (or any successor program maintained in the CO system) and reimbursement (while an officer of the Company) of up to \$10,000 annually for U.S. federal, state or local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits at the lowest published fare (i.e., 21 day advance purchase coach fare or other lowest available fare) for the applicable flight on the date of such flight, regardless of the actual fare class booked or flown, or as otherwise required by law);

(iv) "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other

incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive; and

(v) "Termination Payment" shall mean an amount equal to three times the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment and (2) a deemed annual bonus which shall be equal to the Bonus Percentage of the amount described in clause (1) of this paragraph 4.7(v). The "Bonus Percentage" shall be a percentage equal to the annual percentage of base salary (i.e., 0% to 125%) paid or payable to a participant under the Company's Executive Bonus Program (or any successor plan or program) with respect to the most recent fiscal year ended prior to Executive's termination of employment.

Executive agrees that, after receipt of an invoice or other accounting statement therefor, he will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on Executive's UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.7(ii) hereof. Executive agrees that the credit availability under Executive's UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full, the credit availability under Executive's UATP card (or Similar Card) will be restored. The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits at the lowest published fare (i.e., 21 day advance purchase coach fare or other lowest available fare) for the applicable flight on the date of such flight, regardless of the actual fare class booked or flown, or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period with respect to which the Company is obligated to provide up to \$10,000 of reimbursement for income taxes as described in paragraph 4.7(iii) above, Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be so reimbursed to Executive, and Executive understands that the Company will not make any gross-up payment to Executive with respect to the income attributable to such reimbursement. Executive agrees that he will not resell or permit to be resold any tickets issued on the CO system in connection with the Flight Benefits. Executive shall be issued a UATP card (or Similar Card), a Gold Elite OnePass Card (or similar highest category successor frequent flyer card), a membership card in the Company's Presidents Club (or any successor program maintained in the CO system) for Executive and Executive's spouse, an appropriate flight pass identification card and an Employee Travel Card, each valid at all times during the term of Executive's Flight Benefits.

ARTICLE 5: MISCELLANEOUS

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

5.2 Notices. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified

mail, return receipt requested, postage prepaid, addressed as follows:

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

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

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

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

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

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

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

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

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

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

5.10 Successors. This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

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

5.12 Entire Agreement. Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(iv) and any awards under the Company's stock incentive or similar plans, and (ii) that certain Stay Bonus Agreement dated as of April 14, 1998 between Company and Executive, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Without limiting the scope of the preceding sentence, all prior understandings and agreements among the parties hereto relating to the subject matter hereof (including, without limitation, the Existing Agreement, but only from and after the Effective Date) are, as of the Effective Date, null and void and of no further force and effect. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 Deemed Resignations. Any termination of Executive's

employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors and from the board of directors of any affiliate of Company.

5.14 Executive Bonus Program. Executive agrees that the payment to Executive of the Existing Severance hereunder will not be deemed to be "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" within the meaning of clause (d) of the last sentence of Section 5 of the Company's Executive Bonus Program, as in effect on the date hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the 20th day of November, 1998, but to be effective as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By: _____
Name: Jeffery A. Smisek
Title: Executive Vice President

"EXECUTIVE"

GREGORY D. BRENNEMAN

APPROVED:

Thomas J. Barrack, Jr.
Chair, Human Resources Committee

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement (this "Amendment") is made by and between Continental Airlines, Inc., This Amendment to Employment Agreement (this "Amendment") is made by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and Lawrence W. Kellner ("Executive").

Recitals:

WHEREAS, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of November 15, 1995, as amended by Amendment to Employment Agreement dated as of April 19, 1996 and Amendment to Employment Agreement dated as of September 30, 1996 (as so amended, the "Existing Agreement"); and

WHEREAS, Air Partners, L.P., its partners and certain affiliates have entered into an Investment Agreement dated as of January 25, 1998, as amended, with Northwest Airlines Corporation and its affiliate (the "Investment Agreement"), which investment agreement provides for the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock and warrants held by Air Partners, L.P., subject to certain conditions; and

WHEREAS, the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. contemplated by the Investment Agreement (the "Acquisition") will, upon the closing thereof, constitute a Change in Control for purposes of the Company's 1994 Incentive Equity Plan, as amended, the Company's 1997 Stock Incentive Plan, as amended, the Company's Executive Bonus Program and the Existing Agreement; and

WHEREAS, the Human Resources Committee and the Board of Directors of the Company have deemed it advisable and in the best interests of the Company and its stockholders to assure management continuity for the Company and, consistent therewith, have authorized the execution, delivery and performance by the Company of this Amendment;

NOW THEREFORE, in consideration of the premises, the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Paragraph 1.2 of the Existing Agreement is hereby amended to read in its entirety as follows:

"1.2 Position. Company shall employ Executive in the position of Executive Vice President and Chief Financial Officer, or in such other position or positions as the parties may mutually agree."

2. Paragraph 2.1 of the Existing Agreement is hereby amended to read in its entirety as follows:

"2.1 Term. Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive through the date which is two years and a day after the date of closing of the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. (the "Acquisition") contemplated by the Investment Agreement dated as of January 25, 1998, as amended, among Air Partners, L.P., its partners and certain affiliates and Northwest Airlines Corporation and its affiliate (the "Investment Agreement")."

3. For purposes of Paragraph 2.3 of the Existing Agreement only, the term "Effective Date" shall be construed to mean the date of this Amendment.

4. A new Paragraph 3.5 is hereby added to the Existing Agreement to read in its entirety as follows:

"3.5 Supplemental Executive Retirement Plan.

(i) Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 1.6% times (b) the number of Executive's credited years of service (as defined below) under the Plan times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Airlines Retirement

Plan beginning at January 1, 1995; provided, however, that if Executive is paid the Termination Payment under this Agreement, Executive shall be further credited with three (3) additional years of service under the Plan. For purposes hereof, Executive's final average compensation shall be equal to the greater of (1) \$420,000.00 or (2) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by the Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding his termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, and (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998. All benefits under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date. For purposes hereof, "Retirement Date" is defined as the later of (A) the date on which Executive attains (or in the event of his earlier death, would have attained) age 65 or (B) the date of his retirement from employment with Company. If Executive is not married on the Retirement Date, benefits under the Plan will be paid to Executive during his lifetime in the form of the Base Benefit. If Executive is married on the Retirement Date, benefits under the Plan will be paid in the form of a joint and survivor annuity that is actuarially equivalent (as defined below) to the Base Benefit, with Executive's spouse as of the Retirement Date being entitled during her lifetime after Executive's death to a benefit (the "Survivor's Benefit") equal to 50% of the benefit payable to Executive during their joint lifetimes. In the event of Executive's death prior to the Retirement Date, his surviving spouse, if he is married on the date of his death, will receive beginning on the Retirement Date an amount equal to the Survivor's Benefit calculated as if Executive had retired with a joint and survivor annuity on the date before his date of death. The amount of any benefits payable to Executive and/or his spouse under the Continental Airlines Retirement Plan shall be offset against benefits due under the Plan. Executive shall be vested immediately with respect to benefits due under the Plan. If Executive's employment with Company terminates for any reason prior to the date which is the fifth anniversary of Executive's first date of employment by the Company, Company shall provide further benefits under the Plan to ensure that Executive is treated for all purposes as if he were fully vested under the Continental Airlines Retirement Plan.

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

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

(iv) Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan."

5. Paragraph 4.1 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment; provided, however, that

Executive shall be provided with Flight Benefits for the remainder of Executive's lifetime, the benefits described in paragraph 3.5 shall continue to be payable, the benefits described in clauses (2) through (4) of paragraph 4.7(vi) shall be provided for the time periods specified therein and Company shall cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Stock Incentive Plan (the "1998 Plan"), and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination."

6. Paragraph 4.2 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except the benefits described in paragraph 3.5 shall continue to be payable, and if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall (a) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment (as such term is defined in paragraph 4.7) and cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Plan, and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (b) provide Executive with Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, (c) provide Executive with Outplacement Services (as such term is defined in paragraph 4.7), and (d) provide Executive and his eligible dependents with Continuation Coverage (as such term is defined in paragraph 4.7) for the Severance Period."

7. Paragraph 4.3 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of employment, except Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, the benefits described in paragraph 3.5 shall continue to be payable, and if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (a), (c) and (d) of paragraph 4.2."

8. Paragraph 4.7(ii) of the Existing Agreement is hereby amended to read in its entirety as follows:

"(ii) "Change in Control" shall have the meaning assigned to such term in the 1998 Plan (as adopted by the Board of Directors on April 14, 1998 and in effect on such date, it being understood that such term shall be the new Change in Control term contained in the 1998 Plan, and not the alternate Change in Control term (identical to that contained in the 1997 Stock Incentive Plan) also set forth in the 1998 Plan for the eventuality that the Acquisition does not close); provided, however, that Company and Executive agree that the Acquisition will, upon the closing thereof, constitute a Change in Control (as defined in this Agreement prior to the amendment to this Agreement dated as of November 20, 1998) and will be considered to be, and to have the effect of, a Change in Control under this Agreement."

9. Paragraph 4.7(vi) of the Existing Agreement is hereby amended to read in its entirety as follows:

"(vi) "Outplacement Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by

Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;"

10. This Amendment shall be dated as of the date set forth below, but shall be effective as of the date of closing of the Acquisition as contemplated by the Investment Agreement.

11. The Existing Agreement, as amended by this Amendment, is hereby ratified and confirmed and shall continue in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the 20th day of November, 1998.

CONTINENTAL AIRLINES, INC.

By: _____
Name:
Title:

EXECUTIVE

Lawrence W. Kellner

APPROVED:

Thomas J. Barrack, Jr.
Chair, Human Resources Committee

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement (this "Amendment") is made by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and C.D. McLean ("Executive").

Recitals:

WHEREAS, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of November 15, 1995, as amended by Amendment to Employment Agreement dated as of April 19, 1996 and Amendment to Employment Agreement dated as of September 30, 1996 (as so amended, the "Existing Agreement"); and

WHEREAS, Air Partners, L.P., its partners and certain affiliates have entered into an Investment Agreement dated as of January 25, 1998, as amended, with Northwest Airlines Corporation and its affiliate (the "Investment Agreement"), which investment agreement provides for the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock and warrants held by Air Partners, L.P., subject to certain conditions; and

WHEREAS, the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. contemplated by the Investment Agreement (the "Acquisition") will, upon the closing thereof, constitute a Change in Control for purposes of the Company's 1994 Incentive Equity Plan, as amended, the Company's 1997 Stock Incentive Plan, as amended, the Company's Executive Bonus Program and the Existing Agreement; and

WHEREAS, the Human Resources Committee and the Board of Directors of the Company have deemed it advisable and in the best interests of the Company and its stockholders to assure management continuity for the Company and, consistent therewith, have authorized the execution, delivery and performance by the Company of this Amendment;

NOW THEREFORE, in consideration of the premises, the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Paragraph 1.2 of the Existing Agreement is hereby amended to read in its entirety as follows:

"1.2 Position. Company shall employ Executive in the position of Executive Vice President - Operations, or in such other position or positions as the parties may mutually agree."

2. Paragraph 2.1 of the Existing Agreement is hereby amended to read in its entirety as follows:

"2.1 Term. Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive through the date which is two years and a day after the date of closing of the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. (the "Acquisition") contemplated by the Investment Agreement dated as of January 25, 1998, as amended, among Air Partners, L.P., its partners and certain affiliates and Northwest Airlines Corporation and its affiliate (the Investment Agreement)."

3. For purposes of Paragraph 2.3 of the Existing Agreement only, the term "Effective Date" shall be construed to mean the date of this Amendment.

4. A new Paragraph 3.5 is hereby added to the Existing Agreement to read in its entirety as follows:

"3.5 Supplemental Executive Retirement Plan.

(i) Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 1.6% times (b) the number of Executive's credited years of service (as defined below) under the Plan times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Airlines Retirement Plan beginning at January 1, 1995; provided, however, that if Executive is paid the Termination Payment under this

Agreement, Executive shall be further credited with three (3) additional years of service under the Plan. For purposes hereof, Executive's final average compensation shall be equal to the greater of (1) \$375,000.00 or (2) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by the Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding his termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, and (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998. All benefits under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date. For purposes hereof, "Retirement Date" is defined as the later of (A) the date on which Executive attains (or in the event of his earlier death, would have attained) age 65 or (B) the date of his retirement from employment with Company. If Executive is not married on the Retirement Date, benefits under the Plan will be paid to Executive during his lifetime in the form of the Base Benefit. If Executive is married on the Retirement Date, benefits under the Plan will be paid in the form of a joint and survivor annuity that is actuarially equivalent (as defined below) to the Base Benefit, with Executive's spouse as of the Retirement Date being entitled during her lifetime after Executive's death to a benefit (the "Survivor's Benefit") equal to 50% of the benefit payable to Executive during their joint lifetimes. In the event of Executive's death prior to the Retirement Date, his surviving spouse, if he is married on the date of his death, will receive beginning on the Retirement Date an amount equal to the Survivor's Benefit calculated as if Executive had retired with a joint and survivor annuity on the date before his date of death. The amount of any benefits payable to Executive and/or his spouse under the Continental Airlines Retirement Plan shall be offset against benefits due under the Plan. Executive shall be vested immediately with respect to benefits due under the Plan. If Executive's employment with Company terminates for any reason prior to the date which is the fifth anniversary of Executive's first date of employment by the Company, Company shall provide further benefits under the Plan to ensure that Executive is treated for all purposes as if he were fully vested under the Continental Airlines Retirement Plan.

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

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

(iv) Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan."

5. Paragraph 4.1 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment; provided, however, that Executive shall be provided with Flight Benefits for the remainder of Executive's lifetime, the benefits described in

paragraph 3.5 shall continue to be payable, the benefits described in clauses (2) through (4) of paragraph 4.7(vi) shall be provided for the time periods specified therein and Company shall cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Stock Incentive Plan (the "1998 Plan"), and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination."

6. Paragraph 4.2 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except the benefits described in paragraph 3.5 shall continue to be payable, and if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall (a) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment (as such term is defined in paragraph 4.7) and cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Plan, and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (b) provide Executive with Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, (c) provide Executive with Outplacement Services (as such term is defined in paragraph 4.7), and (d) provide Executive and his eligible dependents with Continuation Coverage (as such term is defined in paragraph 4.7) for the Severance Period."

7. Paragraph 4.3 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of employment, except Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, the benefits described in paragraph 3.5 shall continue to be payable, and if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (a), (c) and (d) of paragraph 4.2."

8. Paragraph 4.7(ii) of the Existing Agreement is hereby amended to read in its entirety as follows:

"(ii) "Change in Control" shall have the meaning assigned to such term in the 1998 Plan (as adopted by the Board of Directors on April 14, 1998 and in effect on such date, it being understood that such term shall be the new Change in Control term contained in the 1998 Plan, and not the alternate Change in Control term (identical to that contained in the 1997 Stock Incentive Plan) also set forth in the 1998 Plan for the eventuality that the Acquisition does not close); provided, however, that Company and Executive agree that the Acquisition will, upon the closing thereof, constitute a Change in Control (as defined in this Agreement prior to the amendment to this Agreement dated as of November 20, 1998) and will be considered to be, and to have the effect of, a Change in Control under this Agreement."

9. Paragraph 4.7(vi) of the Existing Agreement is hereby amended to read in its entirety as follows:

"(vi) "Outplacement Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years

beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;"

10. This Amendment shall be dated as of the date set forth below, but shall be effective as of the date of closing of the Acquisition as contemplated by the Investment Agreement.

11. The Existing Agreement, as amended by this Amendment, is hereby ratified and confirmed and shall continue in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the 20th day of November, 1998.

CONTINENTAL AIRLINES, INC.

By: _____
Name:
Title:

EXECUTIVE

C.D. McLean

APPROVED:

Thomas J. Barrack, Jr.
Chair, Human Resources Committee

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement (this "Amendment") is made by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and Jeffery A. Smisek ("Executive").

Recitals:

WHEREAS, Company and Executive are parties to that certain Amended and Restated Employment Agreement dated as of November 15, 1995, as amended by Amendment to Employment Agreement dated as of April 19, 1996 and Amendment to Employment Agreement dated as of September 30, 1996 (as so amended, the "Existing Agreement"); and

WHEREAS, Air Partners, L.P., its partners and certain affiliates have entered into an Investment Agreement dated as of January 25, 1998, as amended, with Northwest Airlines Corporation and its affiliate (the "Investment Agreement"), which investment agreement provides for the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock and warrants held by Air Partners, L.P., subject to certain conditions; and

WHEREAS, the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. contemplated by the Investment Agreement (the "Acquisition") will, upon the closing thereof, constitute a Change in Control for purposes of the Company's 1994 Incentive Equity Plan, as amended, the Company's 1997 Stock Incentive Plan, as amended, the Company's Executive Bonus Program and the Existing Agreement; and

WHEREAS, the Human Resources Committee and the Board of Directors of the Company have deemed it advisable and in the best interests of the Company and its stockholders to assure management continuity for the Company and, consistent therewith, have authorized the execution, delivery and performance by the Company of this Amendment;

NOW THEREFORE, in consideration of the premises, the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Paragraph 1.2 of the Existing Agreement is hereby amended to read in its entirety as follows:

"1.2 Position. Company shall employ Executive in the position of Executive Vice President, General Counsel and Secretary, or in such other position or positions as the parties may mutually agree."

2. Paragraph 2.1 of the Existing Agreement is hereby amended to read in its entirety as follows:

"2.1 Term. Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive through the date which is two years and a day after the date of closing of the acquisition by an affiliate of Northwest Airlines Corporation of beneficial ownership of the Class A common stock held by Air Partners, L.P. (the "Acquisition") contemplated by the Investment Agreement dated as of January 25, 1998, as amended, among Air Partners, L.P., its partners and certain affiliates and Northwest Airlines Corporation and its affiliate (the "Investment Agreement")."

3. For purposes of Paragraph 2.3 of the Existing Agreement only, the term "Effective Date" shall be construed to mean the date of this Amendment.

4. A new Paragraph 3.5 is hereby added to the Existing Agreement to read in its entirety as follows:

"3.5 Supplemental Executive Retirement Plan.

(i) Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 1.6% times (b) the number of Executive's credited years of service (as defined below) under the Plan times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Airlines Retirement Plan beginning at January 1, 1995; provided, however, that if Executive is paid the Termination Payment under this

Agreement, Executive shall be further credited with three (3) additional years of service under the Plan. For purposes hereof, Executive's final average compensation shall be equal to the greater of (1) \$350,000.00 or (2) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by the Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding his termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, and (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998. All benefits under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date. For purposes hereof, "Retirement Date" is defined as the later of (A) the date on which Executive attains (or in the event of his earlier death, would have attained) age 65 or (B) the date of his retirement from employment with Company. If Executive is not married on the Retirement Date, benefits under the Plan will be paid to Executive during his lifetime in the form of the Base Benefit. If Executive is married on the Retirement Date, benefits under the Plan will be paid in the form of a joint and survivor annuity that is actuarially equivalent (as defined below) to the Base Benefit, with Executive's spouse as of the Retirement Date being entitled during her lifetime after Executive's death to a benefit (the "Survivor's Benefit") equal to 50% of the benefit payable to Executive during their joint lifetimes. In the event of Executive's death prior to the Retirement Date, his surviving spouse, if he is married on the date of his death, will receive beginning on the Retirement Date an amount equal to the Survivor's Benefit calculated as if Executive had retired with a joint and survivor annuity on the date before his date of death. The amount of any benefits payable to Executive and/or his spouse under the Continental Airlines Retirement Plan shall be offset against benefits due under the Plan. Executive shall be vested immediately with respect to benefits due under the Plan. If Executive's employment with Company terminates for any reason prior to the date which is the fifth anniversary of Executive's first date of employment by the Company, Company shall provide further benefits under the Plan to ensure that Executive is treated for all purposes as if he were fully vested under the Continental Airlines Retirement Plan.

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

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

(iv) Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan."

5. Paragraph 4.1 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of his employment; provided, however, that Executive shall be provided with Flight Benefits for the remainder of Executive's lifetime, the benefits described in

paragraph 3.5 shall continue to be payable, the benefits described in clauses (2) through (4) of paragraph 4.7(vi) shall be provided for the time periods specified therein and Company shall cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Stock Incentive Plan (the "1998 Plan"), and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination."

6. Paragraph 4.2 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except the benefits described in paragraph 3.5 shall continue to be payable, and if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall (a) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment (as such term is defined in paragraph 4.7) and cause all options and shares of restricted stock awarded to Executive, including, without limitation, any such awards under Company's 1998 Plan, and other Awards (as defined in the 1998 Plan) made to Executive under the 1998 Plan, to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (b) provide Executive with Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, (c) provide Executive with Outplacement Services (as such term is defined in paragraph 4.7), and (d) provide Executive and his eligible dependents with Continuation Coverage (as such term is defined in paragraph 4.7) for the Severance Period."

7. Paragraph 4.3 of the Existing Agreement is hereby amended to read in its entirety as follows:

"4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of employment, except Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, the benefits described in paragraph 3.5 shall continue to be payable, and if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clauses (a), (c) and (d) of paragraph 4.2."

8. Paragraph 4.7(ii) of the Existing Agreement is hereby amended to read in its entirety as follows:

"(ii) "Change in Control" shall have the meaning assigned to such term in the 1998 Plan (as adopted by the Board of Directors on April 14, 1998 and in effect on such date, it being understood that such term shall be the new Change in Control term contained in the 1998 Plan, and not the alternate Change in Control term (identical to that contained in the 1997 Stock Incentive Plan) also set forth in the 1998 Plan for the eventuality that the Acquisition does not close); provided, however, that Company and Executive agree that the Acquisition will, upon the closing thereof, constitute a Change in Control (as defined in this Agreement prior to the amendment to this Agreement dated as of November 20, 1998) and will be considered to be, and to have the effect of, a Change in Control under this Agreement."

9. Paragraph 4.7(vi) of the Existing Agreement is hereby amended to read in its entirety as follows:

"(vi) "Outplacement Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of

employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of his position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;"

10. This Amendment shall be dated as of the date set forth below, but shall be effective as of the date of closing of the Acquisition as contemplated by the Investment Agreement.

11. The Existing Agreement, as amended by this Amendment, is hereby ratified and confirmed and shall continue in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the 20th day of November, 1998.

CONTINENTAL AIRLINES, INC.

By: _____
Name:
Title:

EXECUTIVE

Jeffery A. Smisek

APPROVED:

Thomas J. Barrack, Jr.
Chair, Human Resources Committee

AMENDMENT AND RESTATEMENT OF 1994 PLAN AND 1997 PLAN

WHEREAS, both the Company's 1994 Incentive Equity Plan, as amended (the "1994 Plan") and the Company's 1997 Stock Incentive Plan, as amended (the "1997 Plan") contain provisions different from those contained in the Company's 1998 Stock Incentive Plan; and

WHEREAS, the Company desires to utilize the unused shares authorized under the 1994 Plan and the 1997 Plan for future Awards (as defined therein) thereunder, and wishes to have consistent terms and conditions of its stock incentive plans with respect to all Awards made thereunder from and after the date of closing of the acquisition of Air Partners' interest in the Company contemplated by the Investment Agreement dated as of January 25, 1998 among Northwest Airlines Corporation, Newbridge Parent Corporation, Air Partners, L.P., the partners of Air Partners, L.P. signatory thereto, Bonderman Family Limited Partnership, 1992 Air, Inc. and Air Saipan, Inc., as amended by Amendment No. 1 thereto dated as of February 27, 1998 (such date of closing being referred to herein as the "Closing");

NOW THEREFORE, BE IT RESOLVED, that the terms and provisions of each of the 1994 Plan and the 1997 Plan be amended and restated in their entirety, with respect to grants of Awards thereunder from and after the date of Closing (but not with respect to Awards outstanding prior to the date of Closing), to be identical to the terms and provisions of the Company's 1998 Stock Incentive Plan, and that the form of Option Agreements and Restricted Stock Agreements approved or to be approved in connection with the Company's 1998 Stock Incentive Plan be approved for usage in connection with the Company's 1998 Stock Incentive Plan be approved for usage in connection with Awards made under the 1994 Plan and the 1997 Plan from and after the date of Closing, and that the Company is authorized to perform its obligations thereunder; provided, however, that no such amendment and restatement shall affect the share amounts set forth in the 1994 Plan or the 1997 Plan, or shall affect Awards outstanding thereunder prior to the date of Closing.

Supplemental Agreement No. 12

to

Purchase Agreement No. 1783

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 757-224 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of September 29, 1998 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. 1783 dated March 18, 1993, as amended and supplemented, relating to Boeing Model 757-224 aircraft (the Agreement); and

WHEREAS, Buyer wishes to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

WHEREAS, Boeing and Buyer have agreed to amend the Agreement to incorporate certain other changes as set forth herein;

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 a new Table of Contents (attached hereto) to reflect amendment of the Agreement as of the date of this Supplemental Agreement.

1.2 Remove and replace, in its entirety, Article 1, Subject Matter of Sale, with new Article 1 (attached hereto) to incorporate a revised number of Block C Aircraft.

1.3 Remove and replace, in its entirety, Article 2, Delivery, Title and Risk of Loss, with new Article 2 (attached hereto) to incorporate a revised delivery schedule for the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Block C Aircraft.

1.4 Remove and replace, in its entirety, Article 3, Price of Aircraft, with new Article 3 (attached hereto) to incorporate revised Advance Payment Base Prices for the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Block C Aircraft.

1.5 Remove and replace, in its entirety, the Delivery Schedule for Model 757-224 Aircraft, following Article 15, with a revised delivery schedule (attached hereto) to incorporate current Aircraft delivery data.

2. Letter Agreements:

2.1 Remove and replace, in its entirety, Letter Agreement 1783-10R3, Option Aircraft, with a new revision 1783-10R4 to reflect [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. Payment of Additional Advance Payments.

Within three (3) business days after execution of this Supplemental Agreement, Buyer shall transfer to Boeing's account at Chase Manhattan Bank, New York, N.Y., the sum of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] which sum represents advance payments then due with respect to the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Option Aircraft being exercised as of the effective date of the Supplemental Agreement.

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY

CONTINENTAL AIRLINES, INC.

By: /s/ John A. McGarvey

By: /s/ Brian Davis

Its: Attorney-In-Fact

Its: Vice President

TABLE OF CONTENTS

ARTICLES		Page	Revised By
ARTICLE 1.	Subject Matter of Sale.....	1-1	SA#12
ARTICLE 2.	Delivery, Title and Risk of Loss....	2-1	SA#12
ARTICLE 3.	Price of Aircraft.....	3-1	SA#12
ARTICLE 4.	Taxes.....	4-1	
ARTICLE 5.	Payment.....	5-1	
ARTICLE 6.	Excusable Delay.....	6-1	
ARTICLE 7.	Changes to the Detail Specification.	7-1	SA#4
ARTICLE 8.	Federal Aviation Requirements and Certificates	8-1	
ARTICLE 9.	Representatives, Inspection, Flights and Test Data.....	9-1	
ARTICLE 10.	Assignment, Resale or Lease.....	10-1	
ARTICLE 11.	Termination for Certain Events.....	11-1	
ARTICLE 12.	Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance.....	12-1	
ARTICLE 13.	Buyer Furnished Equipment and Spare Parts.....	13-1	SA#2
ARTICLE 14.	Contractual Notices and Requests....	14-1	
ARTICLE 15.	Miscellaneous.....	15-1	
Schedule for Delivery of Model 757-224 Aircraft			SA#12

TABLE OF CONTENTS (Continued)

EXHIBITS

EXHIBIT A	Aircraft Configuration	A-1	SA#8
EXHIBIT B	Product Assurance Document	B-1	SA#2
EXHIBIT C	Customer Support Document	C-1	SA#2
EXHIBIT D	Price Adjustments Due to Economic Fluctuations - Airframe and Engines	D-1	SA#11
EXHIBIT E	Buyer Furnished Equipment Provisions Document	E-1	SA#4
EXHIBIT F	Defined Terms Document	F-1	SA#2

LETTER AGREEMENTS

1783-1	Spare Parts Support		SA#2
1783-2	Seller Purchased Equipment		SA#2
1783-4	Waiver of Aircraft Demonstration Flights		SA#2
1783-5	Promotional Support		SA#2
1783-6	Configuration Matters		SA#2
1783-7	Price Adjustment on Rolls-Royce Engines		SA#2
1783-8	Spare Parts Provisioning		SA#2
1783-9R1	Escalation Sharing		SA#10
1783-10R4	Option Aircraft		SA#12
6-1162-WLJ-359	Aircraft Performance Guarantees		SA#2
6-1162-WLJ-367R5	Disclosure of Confidential Info		SA#9
6-1162-WLJ-369	Additional Considerations		SA#2
6-1162-WLJ-372	Conditions Relating to Purchase Agreement		SA#2

TABLE OF CONTENTS (Continued)

6-1162-WLJ-380	Performance Guarantees, Demonstrated Compliance	SA#2
6-1162-WLJ-384	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES EXCHANGE AND COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#2
6-1162-WLJ-391R1	Special Purchase Agreement Provisions	SA#4
6-1162-WLJ-393	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES EXCHANGE AND COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#2
6-1162-WLJ-405	Certain Additional ContractuaL Matters	SA#2
6-1162-WLJ-409	Satisfaction of Conditions Relating to the Purchase Agreement	SA#2
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6-1162-RGP-946R1	Special Provisions Relating to the Rescheduled Aircraft	SA#5
6-1162-MMF-289R1	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES EXCHANGE AND COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#10
6-1162-MMF-319	Special Provisions Relating to the Rescheduled Aircraft	SA#7
6-1162-GOC-132	Special Matters	SA#10

TABLE OF CONTENTS (Continued)

SUPPLEMENTAL AGREEMENTS	Dated as of:
Supplemental Agreement No. 1	April 29, 1993
Supplemental Agreement No. 2	November 4, 1993
Supplemental Agreement No. 3	November 19, 1993
Supplemental Agreement No. 4	March 31, 1995
Supplemental Agreement No. 5	November 30, 1995
Supplemental Agreement No. 6	June 13, 1996
Supplemental Agreement No. 7	July 23, 1996
Supplemental Agreement No. 8	October 27, 1996
Supplemental Agreement No. 9	August 13, 1997
Supplemental Agreement No.10	October 10, 1997
Supplemental Agreement No. 11	July 30, 1998
Supplemental Agreement No. 12	September 29, 1998

ARTICLE 1. Subject Matter of Sale.

1.1 The Aircraft. Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of the following Boeing Model 757-224 aircraft (the Aircraft).

1.1.1 Block A, A-1 and B Aircraft. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] manufactured in accordance with Boeing detail specification D924N104-3, dated as of even date herewith, as described in Exhibit A, and as modified from time to time in accordance with this Agreement (Detail Specification).

1.2 Additional Goods and Services. In connection with the sale of the Aircraft, Boeing will also provide to Buyer certain other things under this Agreement, including data, documents, training and services, all as described in this Agreement.

1.3 Performance Guarantees. Any performance guarantees applicable to the Aircraft will be expressly included in this Agreement. Where performance guarantees are included in this Agreement other than within the Detail Specification, such guarantees will be treated as being incorporated in the Detail Specification by this reference.

1.4 Defined Terms. For ease of use, certain terms are treated as defined terms in this Agreement. Such terms are identified with a capital letter and set forth and/or defined in Exhibit F.

ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

Month and Year of Delivery	Quantity of Aircraft
-------------------------------	----------------------

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. Boeing will give Buyer at least 7 days' notice of the delivery date of the Aircraft. If an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at a facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Documents of Title. Upon delivery of and payment for each Aircraft, Boeing shall deliver to Buyer a bill of sale duly conveying to Buyer good title to such Aircraft free and clear of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Special Features are the features listed in Exhibit A which have been selected by Buyer.

3.1.2 Base Airframe Price is the Aircraft Basic Price excluding the price of Special Features and Engines.

3.1.3 Engine Price is the price established by the Engine manufacturer for the Engines installed on the Aircraft including all accessories, equipment and parts set forth in Exhibit D.

3.1.4 Aircraft Basic Price is comprised of the Base Airframe Price, the Engine Price and the price of the Special Features.

3.1.5 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Airframe, Engine and Special Features) as calculated pursuant to Exhibit D.

3.1.6 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.1.7 Price First Published is the first price published by Boeing for the same model of aircraft to be delivered in the same general time period as the affected Aircraft and is used to establish the Base Airframe Price when the Base Airframe Price was not established at the time of execution of this Agreement.

3.2 Aircraft Basic Price.

3.2.1 Block A Aircraft. The Aircraft Basic Price of the Block A Aircraft, expressed in July 1992 dollars, is set forth below:

Base Airframe Price:	[CONFIDENTIAL MATERIAL
Special Features	OMITTED AND FILED
Engine Price	SEPARATELY WITH THE
	SECURITIES AND EXCHANGE
Block A Aircraft	COMMISSION PURSUANT TO
Basic Price	A REQUEST FOR
	CONFIDENTIAL TREATMENT]

3.2.2 Block A-1 and Block B Aircraft. The Aircraft Basic Price of the Block A-1 and Block B Aircraft with delivery, expressed in July 1992 dollars, is set forth below:

Base Airframe Price:	[CONFIDENTIAL MATERIAL
Special Features	OMITTED AND FILED
Engine Price	SEPARATELY WITH THE
	SECURITIES AND EXCHANGE
Block A-1/B Aircraft	COMMISSION PURSUANT TO
Basic Price	A REQUEST FOR
	CONFIDENTIAL TREATMENT]

The special features value above for the Block A-1 and Block B Aircraft incorporates the special features reprice activity noted in Exhibit A-1 which includes Exhibit A, Change Orders 1,2, and 3 plus accepted Master Changes as of June 1, 1996.

3.2.2 Block C Aircraft. The Aircraft Basic Price of the Block C Aircraft with delivery, expressed in July 1997 dollars, is set forth below:

Base Airframe Price:	[CONFIDENTIAL MATERIAL
Special Features	OMITTED AND FILED
Engine Price	SEPARATELY WITH THE
	SECURITIES AND EXCHANGE
Block C Aircraft	COMMISSION PURSUANT TO
Basic Price	A REQUEST FOR
	CONFIDENTIAL TREATMENT]

The special features value above for the Block C Aircraft incorporates the special features reprice activity noted in Exhibit A-1 which includes Exhibit A, Change Orders 1,2, and 3 plus accepted Master Changes as of June 1, 1996.

3.3 Aircraft Price.

3.3.1 Block A Aircraft, Block A-1 Aircraft and Block B Aircraft. The Aircraft Price of the Block A Aircraft, Block A-1 Aircraft and Block B Aircraft will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1.1 the Block A Aircraft Basic Price, which is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and the Block A-1 Aircraft and Block B Aircraft which is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] ; plus

3.3.1.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Airframe and Engine - Block A, Block A-1 and Block B Aircraft) plus

3.3.1.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.3.1 Block C Aircraft. The Aircraft Price of the Block C Aircraft will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1.1 the Block C Aircraft Basic Price, which is [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; plus

3.3.1.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Airframe and Engine - Block C Aircraft) plus

3.3.1.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
---	--

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of the first Aircraft scheduled for delivery in a calendar year (First Aircraft), Boeing will increase or decrease the Advance Payment Base Price of the First Aircraft and all Aircraft scheduled for delivery after the First Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

Continental Airlines, Inc.
Delivery Schedule for Model 757-224 Aircraft

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR
CONFIDENTIAL TREATMENT]

September 29, 1998
1783-10R4

Continental Airlines, Inc.
2929 Allen Parkway
Houston, Texas 77019

Subject: Letter Agreement No. 1783-10R4 to
Purchase Agreement No. 1783 - Option Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1783 dated March 18, 1993 (the Purchase Agreement) between THE BOEING COMPANY (Boeing) and CONTINENTAL AIRLINES, INC. (Buyer) relating to Model 757-224 aircraft (Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1783-10R3.

All terms used and not defined herein shall have the same meaning as in the Purchase 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 757-224 Aircraft (the Option Aircraft) to Buyer, on the same terms and conditions set forth in the Purchase 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, and concurrent with Buyer's payment to Boeing of initial advance payments required under Supplemental Agreement No. 6 to the Purchase Agreement for the Aircraft, 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). 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 Purchase 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 Purchase Agreement to add the applicable Option Aircraft to the Purchase 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 Purchase Agreement, as the case may be:

(i) purchase of an Aircraft under the Purchase Agreement for any reason not attributable to the canceling 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 Purchase 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 canceled 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 Purchase Agreement by an Option Aircraft Supplemental Agreement as firm Aircraft shall benefit from all the applicable terms, conditions and provisions of the Purchase 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/ John A. McGarvey

Its Attorney-in-Fact

ACCEPTED AND AGREED TO this

Date: September 29, 1998

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D924N104-3, dated March 18, 1993, as amended and revised pursuant to the Purchase Agreement.

1.2 Changes. The Option Aircraft Detail Specification shall be revised to include:

(1) Changes applicable to the basic Model 757-200 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 airframe and base engine price (pursuant to Article 3 of the Purchase 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 Purchase Agreement.

Buyer agrees that the engine escalation provisions will be adjusted if they are changed by the engine manufacturer prior to the 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.

2.1.6 Certification of Rolls-Royce Engines. It is understood by the parties that the price offered hereunder of the Rolls-Royce Engines may be adjusted by Rolls-Royce to reflect changes required to be incorporated to satisfy any new or amended United States Federal Aviation Administration (FAA) regulations. Therefore, in the event that after May 31, 1990, the FAA or other applicable U.S. Federal Agency issues new rules or regulations or changes or amends then-existing rules or regulations, and such new, changed or amended rules or regulations require changes to or modification of the Engines (Engine Modifications), then: (i) Boeing shall adjust the purchase price of the Option Aircraft in the amount by which Rolls-Royce revises its price of the Engines to Boeing as a result of such Engine Modifications; (ii) if the Engine Modifications require any change, modification or alteration to the Option Aircraft (Option Aircraft Modifications), the charge for making the Option Aircraft Modifications shall be added to the purchase price of the Option Aircraft; (iii) notwithstanding the provisions of paragraph 1 of this Letter Agreement, the time of delivery of the Option Aircraft shall be extended to the extent of

any delay attributable to the Engine or Option Aircraft Modifications and said delay shall be deemed excusable; and (iv) Boeing shall, if necessary, revise the Option Aircraft Detail Specification as required to reflect the effects of the Engine Modifications or Option Aircraft Modifications.

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.

Supplemental Agreement No. 13

to

Purchase Agreement No. 1783

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 757-224 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of November 16, 1998 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. 1783 dated March 18, 1993, as amended and supplemented, relating to Boeing Model 757-224 aircraft (the Agreement); and

WHEREAS, Buyer wishes to remove the remaining [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

WHEREAS, Buyer wishes to remove the remaining [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

WHEREAS, Buyer wishes to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

WHEREAS, Boeing and Buyer have agreed to amend the Agreement to incorporate certain other changes as set forth herein;

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 a new Table of Contents (attached hereto) to reflect amendment of the Agreement as of the date of this Supplemental Agreement.

2. Letter Agreements:

2.1 Remove in its entirety, Letter Agreement 1783-10R4, Option Aircraft, to reflect the removal of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

[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 and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY CONTINENTAL AIRLINES, INC.

By: /s/ J. A. McGarvey By: /s/ Brian Davis

Its: Attorney-In-Fact Its: Vice President

TABLE OF CONTENTS

ARTICLE 1.	Subject Matter of Sale.....	1-1	SA#12
ARTICLE 2.	Delivery, Title and Risk of Loss....	2-1	SA#12
ARTICLE 3.	Price of Aircraft.....	3-1	SA#12
ARTICLE 4.	Taxes.....	4-1	
ARTICLE 5.	Payment.....	5-1	
ARTICLE 6.	Excusable Delay.....	6-1	
ARTICLE 7.	Changes to the Detail Specification.	7-1	SA#4
ARTICLE 8.	Federal Aviation Requirements and Certificates	8-1	
ARTICLE 9.	Representatives, Inspection, Flights and Test Data.....	9-1	
ARTICLE 10.	Assignment, Resale or Lease.....	10-1	
ARTICLE 11.	Termination for Certain Events.....	11-1	
ARTICLE 12.	Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance.....	12-1	
ARTICLE 13.	Buyer Furnished Equipment and Spare Parts.....	13-1	SA#2
ARTICLE 14.	Contractual Notices and Requests....	14-1	
ARTICLE 15.	Miscellaneous.....	15-1	
	Schedule for Delivery of Model 757-224 Aircraft		SA#12

TABLE OF CONTENTS (Continued)

EXHIBITS

EXHIBIT A	Aircraft Configuration	A-1	SA#8
EXHIBIT B	Product Assurance Document	B-1	SA#2
EXHIBIT C	Customer Support Document	C-1	SA#2
EXHIBIT D	Price Adjustments Due to Economic Fluctuations - Airframe and Engines	D-1	SA#11
EXHIBIT E	Buyer Furnished Equipment Provisions Document	E-1	SA#4
EXHIBIT F	Defined Terms Document	F-1	SA#2

LETTER AGREEMENTS

1783-1	Spare Parts Support		SA#2
1783-2	Seller Purchased Equipment		SA#2
1783-4	Waiver of Aircraft Demonstration Flights		SA#2
1783-5	Promotional Support		SA#2
1783-6	Configuration Matters		SA#2
1783-7	Price Adjustment on Rolls-Royce Engines		SA#2
1783-8	Spare Parts Provisioning		SA#2
1783-9R1	Escalation Sharing		SA#10
6-1162-WLJ-359	Aircraft Performance Guarantees		SA#2
6-1162-WLJ-367R5	Disclosure of Confidential Info		SA#9
6-1162-WLJ-369	Additional Considerations		SA#2
6-1162-WLJ-372	Conditions Relating to Purchase Agreement		

TABLE OF CONTENTS (Continued)

6-1162-WLJ-380	Performance Guarantees, Demonstrated Compliance	SA#2
6-1162-WLJ-384	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATE WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#2
6-1162-WLJ-391R1	Special Purchase Agreement Provisions	SA#4
6-1162-WLJ-393	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATE WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#2
6-1162-WLJ-405	Certain Additional Contractual Matters	SA#2
6-1162-WLJ-409	Satisfaction of Conditions Relating to the Purchase Agreement	SA#2
6-1162-WLJ-497	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATE WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#3
6-1162-RGP-946R1	Special Provisions Relating to the Rescheduled Aircraft	SA#5
6-1162-MMF-289R1	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATE WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#10
6-1162-MMF-319	Special Provisions Relating to the Rescheduled Aircraft	SA#7
6-1162-GOC-132	Special Matters	SA#10

TABLE OF CONTENTS (Continued)

SUPPLEMENTAL AGREEMENTS	Dated as of:
Supplemental Agreement No. 1	April 29, 1993
Supplemental Agreement No. 2	November 4, 1993
Supplemental Agreement No. 3	November 19, 1993
Supplemental Agreement No. 4	March 31, 1995
Supplemental Agreement No. 5	November 30, 1995
Supplemental Agreement No. 6	June 13, 1996
Supplemental Agreement No. 7	July 23, 1996
Supplemental Agreement No. 8	October 27, 1996
Supplemental Agreement No. 9	August 13, 1997
Supplemental Agreement No.10	October 10, 1997
Supplemental Agreement No. 11	July 30, 1998
Supplemental Agreement No. 12	September 29,1998
Supplemental Agreement No. 13	November 16, 1998

Supplemental Agreement No. 14

to

Purchase Agreement No. 1783

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 757-224 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of December 17, 1998 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. 1783 dated as of March 18, 1993, as amended and supplemented, relating to Boeing Model 757-224 aircraft (the Agreement); and

WHEREAS, Buyer has requested and Boeing has agreed to revise the terms of the business offer applicable to the Aircraft with respect to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and

Whereas, Buyer and Boeing have mutually agreed to amend the Agreement to incorporate the effects 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:

Remove and replace, in its entirety, the Table of Contents with a new Table of Contents (attached hereto) to reflect amendment of the Agreement as of the date of this Supplemental Agreement No. 14.

2. Letter Agreements:

Remove and replace, in its entirety, Letter Agreement No. 6-1162-GOC-132, "Special Matters" with new Letter Agreement No. 6-1162-GOC-132R1, "Special Matters" (attached hereto) to incorporate the effect of a revised business offer.

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY

CONTINENTAL AIRLINES, INC.

By: /s/ J. A. McGarvey_____

By: /s/ Brian Davis

Its: Attorney-In-Fact

Its: Vice President

TABLE OF CONTENTS

ARTICLES	Page	Revised By
ARTICLE 1. Subject Matter of Sale.....	1-1	SA#12
ARTICLE 2. Delivery, Title and Risk of Loss....	2-1	SA#12
ARTICLE 3. Price of Aircraft.....	3-1	SA#12
ARTICLE 4. Taxes.....	4-1	
ARTICLE 5. Payment.....	5-1	
ARTICLE 6. Excusable Delay.....	6-1	
ARTICLE 7. Changes to the Detail Specification.	7-1	SA#4
ARTICLE 8. Federal Aviation Requirements and Certificates	8-1	
ARTICLE 9. Representatives, Inspection, Flights and Test Data.....	9-1	
ARTICLE 10. Assignment, Resale or Lease.....	10-1	
ARTICLE 11. Termination for Certain Events.....	11-1	
ARTICLE 12. Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance.....	12-1	
ARTICLE 13. Buyer Furnished Equipment and Spare Parts.....	13-1	SA#2
ARTICLE 14. Contractual Notices and Requests....	14-1	
ARTICLE 15. Miscellaneous.....	15-1	
Schedule for Delivery of Model 757-224 Aircraft		SA#12

TABLE OF CONTENTS (Continued)

EXHIBITS

EXHIBIT A	Aircraft Configuration	A-1	SA#8
EXHIBIT B	Product Assurance Document	B-1	SA#2
EXHIBIT C	Customer Support Document	C-1	SA#2
EXHIBIT D	Price Adjustments Due to Economic Fluctuations - Airframe and Engines	D-1	SA#11
EXHIBIT E	Buyer Furnished Equipment Provisions Document	E-1	SA#4
EXHIBIT F	Defined Terms Document	F-1	SA#2

LETTER AGREEMENTS

1783-1	Spare Parts Support		SA#2
1783-2	Seller Purchased Equipment		SA#2
1783-4	Waiver of Aircraft Demonstration Flights		SA#2
1783-5	Promotional Support		SA#2
1783-6	Configuration Matters		SA#2
1783-7	Price Adjustment on Rolls-Royce Engines		SA#2
1783-8	Spare Parts Provisioning		SA#2
1783-9R1	Escalation Sharing		SA#10
6-1162-WLJ-359	Aircraft Performance Guarantees		SA#2
6-1162-WLJ-367R5	Disclosure of Confidential Info		SA#9
6-1162-WLJ-369	Additional Considerations		SA#2
6-1162-WLJ-372	Conditions Relating to Purchase Agreement		SA#2

TABLE OF CONTENTS (Continued)

6-1162-WLJ-380	Performance Guarantees, Demonstrated Compliance	SA#2
6-1162-WLJ-384	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#2
6-1162-WLJ-391R1	Special Purchase Agreement Provisions	SA#4
6-1162-WLJ-393	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#2
6-1162-WLJ-405	Certain Additional Contractual Matters	SA#2
6-1162-WLJ-409	Satisfaction of Conditions Relating to the Purchase Agreement	SA#2
6-1162-WLJ-497	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#3
6-1162-RGP-946R1	Special Provisions Relating to the Rescheduled Aircraft	SA#5
6-1162-MMF-289R1	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA#10
6-1162-MMF-319	Special Provisions Relating to the Rescheduled Aircraft	SA#7
6-1162-GOC-132R1	Special Matters	SA#14

TABLE OF CONTENTS (Continued)

SUPPLEMENTAL AGREEMENTS	Dated as of:
Supplemental Agreement No. 1	April 29, 1993
Supplemental Agreement No. 2	November 4, 1993
Supplemental Agreement No. 3	November 19, 1993
Supplemental Agreement No. 4	March 31, 1995
Supplemental Agreement No. 5	November 30, 1995
Supplemental Agreement No. 6	June 13, 1996
Supplemental Agreement No. 7	July 23, 1996
Supplemental Agreement No. 8	October 27, 1996
Supplemental Agreement No. 9	August 13, 1997
Supplemental Agreement No.10	October 10, 1997
Supplemental Agreement No. 11	July 30, 1998
Supplemental Agreement No. 12	September 29,1998
Supplemental Agreement No. 13	November 16, 1998
Supplemental Agreement No. 14	December 17,1998

December 17, 1998
6-1162-GOC-132R1

CONTINENTAL AIRLINES, INC.
1600 Smith
Houston, Texas 77002

Subject: Letter Agreement No. 6-1162-GOC-132R1 to
Purchase Agreement No. 1783 - Special Matters

Ladies and Gentlemen:

This Letter Agreement amends and supplements Purchase Agreement No. 1783 dated as of March 18, 1993 (the Purchase Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 757-224 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-GOC-132, dated October 10, 1997.

All terms used herein and in the Purchase Agreement, and not defined herein, will have the same meaning as in the Purchase Agreement.

1. Credit Memoranda.

In consideration of Buyer's purchase of Model 757-224 Aircraft, Boeing shall issue at the time of delivery of each Aircraft and Option Aircraft, a credit memorandum in an amount equal to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] The 757-224 Credit Memorandum Amount is subject to the same airframe escalation as is used to calculate the Aircraft price at the time of delivery.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4. Option Aircraft.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5. Increased Gross Weight.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6. Assignment of Credits.

Buyer may not assign the credit memoranda described in this Letter Agreement without Boeing's prior written consent [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8. Confidential Treatment.

Boeing and Buyer understand that certain information contained in this Letter Agreement, including any attachments hereto, are considered by both parties to be confidential. Notwithstanding the provisions of Letter Agreement 6-1162-WLJ-367R4, Boeing and Buyer agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 17, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

Supplemental Agreement No. 7

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 November 12, 1998, 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, 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 to amend the Purchase 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 Purchase 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. 7.

1.2 Remove and replace, in its entirety, Table T-2 entitled "Aircraft Deliveries and Descriptions, Model 737-700 Aircraft" with new Table T-2 attached hereto for the Model 737-700 Aircraft reflecting the addition of [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, Table T-3 entitled "Aircraft Deliveries and Descriptions, Model 737-800 Aircraft" with new Table T-3 attached hereto for the Model 737-800 Aircraft reflecting the addition of [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 1951-3R3, "Option Aircraft - Model 737-824 Aircraft" with Letter Agreement 1951-3R4, "Option Aircraft - Model 737-824 Aircraft", attached hereto, to reflect the deletion of the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and a clarification of the wording of Paragraph 3, "Option Aircraft Deposit".

2.2 Remove and replace, in its entirety, Letter Agreement 1951-9R2, "Option Aircraft - Model 737-724 Aircraft" with Letter Agreement 1951-9R3, "Option Aircraft - Model 737-724 Aircraft", attached hereto, to reflect the deletion of the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], and a clarification of the wording of Paragraph 3, "Option Aircraft Deposit".

The Purchase 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

TABLE OF CONTENTS

	Page Number	SA Number
ARTICLES		
1. Subject Matter of Sale.	1-1	SA 5
2. Delivery, Title and Risk of Loss	2-1	
3. Price of Aircraft	3-1	SA 5
4. Taxes	4-1	
5. Payment	5-1	
6. Excusable Delay	6-1	
7. Changes to the Detail Specification	7-1	SA 5
8. Federal Aviation Requirements and Certificates and Export License	8-1	SA 5
9. Representatives, Inspection, Flights and Test Data	9-1	
10. Assignment, Resale or Lease	10-1	
11. Termination for Certain Events. . . .	11-1	
12. Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance	12-1	
13. Buyer Furnished Equipment and Spare Parts	13-1	
14. Contractual Notices and Requests. . .	14-1	
15. Miscellaneous	15-1	

TABLE OF CONTENTS

	Page Number	SA Number
TABLES		
1.	Aircraft Deliveries and Descriptions - 737-500. T-1	SA 3
	Aircraft Deliveries and Descriptions - 737-700. T-2	SA 7
	Aircraft Deliveries and Descriptions - 737-800. T-3	SA 7
	Aircraft Deliveries and Descriptions - 737-600. T-4	SA 4
	Aircraft Deliveries and Descriptions - 737-900. T-5	SA 5
EXHIBITS		
A-1	Aircraft Configuration - Model 737-724	SA 2
A-2	Aircraft Configuration - Model 737-824	SA 2
A-3	Aircraft Configuration - Model 737-624	SA 1
A-4	Aircraft Configuration - Model 737-524	SA 3
A-5	Aircraft Configuration - Model 737-924	SA 5
B	Product Assurance Document	SA 1
C	Customer Support Document - Code Two - Major Model Differences.	SA 1
C1	Customer Support Document - Code Three - Minor Model Differences.	SA 1
D	Aircraft Price Adjustments - New Generation Aircraft (1995 Base Price).	SA 1
D1	Airframe and Engine Price Adjustments - Current Generation Aircraft.	SA 1
D2	Aircraft Price Adjustments - New Generation Aircraft (1997 Base Price).	SA 5
E	Buyer Furnished Equipment Provisions Document.	SA 5
F	Defined Terms Document	SA 5

TABLE OF CONTENTS

		SA Number
LETTER AGREEMENTS		
1951-1	Not Used	
1951-2R3	Seller Purchased Equipment	SA 5
1951-3R4	Option Aircraft-Model 737-824 Aircraft	SA 7
1951-4R1	Waiver of Aircraft Demonstration . . .	SA 1
1951-5R2	Promotional Support - New Generation . Aircraft	SA 5
1951-6	Configuration Matters.	
1951-7R1	Spares Initial Provisioning.	SA 1
1951-8R2	Escalation Sharing - New Generation Aircraft	SA 4
1951-9R3	Option Aircraft-Model 737-724 Aircraft	SA 7
1951-11R1	Escalation Sharing-Current Generation Aircraft	SA 4
1951-12	Option Aircraft - Model 737-924 Aircraft	SA 5
1951-13	Configuration Matters - Model 737-924.	SA 5

TABLE OF CONTENTS

SA
Number

RESTRICTED LETTER AGREEMENTS

6-1162-MMF-295	Performance Guarantees - Model 737-724 Aircraft	
6-1162-MMF-296	Performance Guarantees - Model 737-824 Aircraft	
6-1162-MMF-308R3	Disclosure of Confidential . . . Information	SA 5
6-1162-MMF-309R1	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 1
6-1162-MMF-311R3	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 5
6-1162-MMF-312R1	Special Purchase Agreement Provisions	SA 1
6-1162-MMF-319	Special Provisions Relating to the Rescheduled Aircraft	
6-1162-MMF-378R1	Performance Guarantees - Model 737-524 Aircraft	SA 3
6-1162-GOC-015	[CONFIDENTIAL MATERIAL OMITTED. . AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 2
6-1162-GOC-131R2	Special Matters	SA 5
6-1162-DMH-365	Performance Guarantees - Model 737-924 Aircraft.	SA 5

TABLE OF CONTENTS

SUPPLEMENTAL AGREEMENTS	DATED AS OF:
Supplemental Agreement No. 1	October 10, 1996
Supplemental Agreement No. 2	March 5, 1997
Supplemental Agreement No. 3	July 17, 1997
Supplemental Agreement No. 4	October 10, 1997
Supplemental Agreement No. 5	May 21, 1998
Supplemental Agreement No. 6	July 30, 1998
Supplemental Agreement No. 7	November 12, 1998

1951-3R4
November 12, 1998

Continental Airlines, Inc.
2929 Allen Parkway
Houston, Texas 77019

Subject: Letter Agreement No. 1951-3R4 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 1951-3R3 dated July 30, 1998.

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 \$200,000 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: November 12, 1998

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

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.

1951-9R3
November 12, 1998

Continental Airlines, Inc.
2929 Allen Parkway
Houston, Texas 77019

Subject: Letter Agreement No. 1951-9R3 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 1951-9R2 dated July 30, 1998.

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 \$200,000 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: November 12, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

Attachment

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. 8

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 Dec. 7, 1998, 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 that Boeing [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; and

WHEREAS, Buyer has requested that Boeing [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

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. 8.

1.2 Remove and replace, in its entirety, Table T-2 entitled "Aircraft Deliveries and Descriptions, Model 737-700 Aircraft" with new Table T-2 attached hereto for the Model 737-700 Aircraft reflecting [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 1951-3R4, "Option Aircraft - Model 737-824 Aircraft" with Letter Agreement 1951-3R5, "Option Aircraft - Model 737-824 Aircraft", attached hereto, to reflect 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-624, [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

TABLE OF CONTENTS

	Page Number	SA Number
ARTICLES		
1. Subject Matter of Sale.	1-1	SA 5
2. Delivery, Title and Risk of Loss. . . .	2-1	
3. Price of Aircraft	3-1	SA 5
4. Taxes	4-1	
5. Payment	5-1	
6. Excusable Delay	6-1	
7. Changes to the Detail Specification . .	7-1	SA 5
8. Federal Aviation Requirements and Certificates and Export License	8-1	SA 5
9. Representatives, Inspection, Flights and Test Data	9-1	
10. Assignment, Resale or Lease	10-1	
11. Termination for Certain Events.	11-1	
12. Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance	12-1	
13. Buyer Furnished Equipment and Spare Parts	13-1	
14. Contractual Notices and Requests. . . .	14-1	
15. Miscellaneous	15-1	

TABLE OF CONTENTS

	Page Number	SA Number
TABLES		
1. Aircraft Deliveries and Descriptions - 737-500.	T-1	SA 3
Aircraft Deliveries and Descriptions - 737-700.	T-2	SA 8
Aircraft Deliveries and Descriptions - 737-800.	T-3	SA 7
Aircraft Deliveries and Descriptions - 737-600.	T-4	SA 4
Aircraft Deliveries and Descriptions - 737-900.	T-5	SA 5
EXHIBITS		
A-1 Aircraft Configuration - Model 737-724.		SA 2
A-2 Aircraft Configuration - Model 737-824.		SA 2
A-3 Aircraft Configuration - Model 737-624.		SA 1
A-4 Aircraft Configuration - Model 737-524.		SA 3
A-5 Aircraft Configuration - Model 737-924.		SA 5
B Product Assurance Document.		SA 1
C Customer Support Document - Code Two - Major Model Differences		SA 1
C1 Customer Support Document - Code Three - Minor Model Differences		SA 1
D Aircraft Price Adjustments - New Generation Aircraft (1995 Base Price) .		SA 1
D1 Airframe and Engine Price Adjustments - Current Generation Aircraft		SA 1
D2 Aircraft Price Adjustments - New Generation Aircraft (1997 Base Price) .		SA 5
E Buyer Furnished Equipment Provisions Document		SA 5
F Defined Terms Document.		SA 5

TABLE OF CONTENTS

	SA Number
LETTER AGREEMENTS	
1951-1	Not Used.
1951-2R3	Seller Purchased Equipment. SA 5
1951-3R5	Option Aircraft-Model 737-824 Aircraft. . . SA 8
1951-4R1	Waiver of Aircraft Demonstration. SA 1
1951-5R2	Promotional Support - New Generation. . . . SA 5 Aircraft
1951-6	Configuration Matters
1951-7R1	Spares Initial Provisioning SA 1
1951-8R2	Escalation Sharing - New Generation Aircraft. SA 4
1951-9R3	Option Aircraft-Model 737-724 Aircraft. . . SA 7
1951-11R1	Escalation Sharing-Current Generation Aircraft. SA 4
1951-12	Option Aircraft - Model 737-924 Aircraft. . SA 5
1951-13	Configuration Matters - Model 737-924 . . . SA 5

TABLE OF CONTENTS

SA
Number

RESTRICTED LETTER AGREEMENTS

6-1162-MMF-295	Performance Guarantees - Model 737-724 Aircraft.	
6-1162-MMF-296	Performance Guarantees - Model 737-824 Aircraft.	
6-1162-MMF-308R3	Disclosure of Confidential Information	SA 5
6-1162-MMF-309R1	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 1
6-1162-MMF-311R3	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 5
6-1162-MMF-312R1	Special Purchase Agreement Provisions.	SA 1
6-1162-MMF-319	Special Provisions Relating to the Rescheduled Aircraft.	
6-1162-MMF-378R1	Performance Guarantees - Model 737-524 Aircraft.	SA 3
6-1162-GOC-015	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 2
6-1162-GOC-131R2	Special Matters	SA 5
6-1162-DMH-365	Performance Guarantees - Model 737-924 Aircraft.	SA 5
6-1162-DMH-624	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]	SA 8

TABLE OF CONTENTS

SUPPLEMENTAL AGREEMENTS	DATED AS OF:
Supplemental Agreement No. 1	October 10, 1996
Supplemental Agreement No. 2	March 5, 1997
Supplemental Agreement No. 3	July 17, 1997
Supplemental Agreement No. 4	October 10, 1997
Supplemental Agreement No. 5	May 21, 1998
Supplemental Agreement No. 6	July 30, 1998
Supplemental Agreement No. 7	November 12, 1998
Supplemental Agreement No. 8	December 7, 1998

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 TREATMENT]

1951-3R5
December 7, 1998

Continental Airlines, Inc.
1600 Smith Street
Houston, Texas 77002

Subject: Letter Agreement No. 1951-3R5 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 1951-3R4 dated November 12, 1998.

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:

[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 \$200,000 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 7, 1998

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

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.

6-1162-DMH-624
December 7, 1998

Continental Airlines, Inc.
1600 Smith Street
Houston, Texas 77002

Subject: Letter Agreement No. 6-1162-DMH-624 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 July
23, 1996 (the Agreement) between The Boeing Company (Boeing) and
Continental Airlines, Inc. (Buyer) relating to Model 737 aircraft
(the Aircraft).

All terms used and not defined herein shall have the same meaning
as in the Agreement.

Buyer has requested that Boeing [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 this

Date: December 7, 1998

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Supplemental Agreement No. 2

to

Purchase Agreement No. 2061

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 777 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of July 30, 1998, 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 (Customer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 2061 dated October 10, 1997, (the Purchase Agreement) relating to Boeing Model 777-200IGW aircraft, (the Aircraft); and

WHEREAS, Boeing and Customer have mutually agreed to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and

WHEREAS, Customer has accepted a proposal for [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and

WHEREAS, Boeing and Customer have mutually agreed to amend the Purchase 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 Purchase Agreement as follows:

1. Table of Contents:

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. 2.

2. Table 1

Remove and replace, in its entirety, "Table 1", with the "Table 1" attached hereto, to reflect the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. Letter Agreements:

Remove and replace, in its entirety, Letter Agreement 2061-1, "777-200IGW Option Aircraft" with Letter Agreement 2061-1R1, "777-200IGW Option Aircraft" attached hereto, to reflect [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

The Purchase 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 above written.

THE BOEING COMPANY CONTINENTAL AIRLINES, INC.

By: /s/ John A. McGarvey By: /s/ Brian Davis

Its: Attorney-In-Fact Its: Vice President

TABLE OF CONTENTS

1. Quantity, Model and Description
2. Delivery Schedule
3. Price
4. Payment
5. Miscellaneous

TABLE

1. Aircraft Information Table SA No. 2

EXHIBIT

- A. Aircraft Configuration
- B. Aircraft Delivery Requirements and Responsibilities

SUPPLEMENTAL EXHIBITS

- BFE1. BFE Variables
- CS1. Customer Support Variables
- EE1. Engine Escalation/Engine Warranty and Patent Indemnity
- SLP1. Service Life Policy Components

LETTER AGREEMENTS

- 2061-1 Option Aircraft SA No. 2
- 2061-2 Demonstration Flights
- 2061-3 Installation of Cabin Systems Equipment
- 2061-4 Spares Initial Provisioning
- 2061-5 Flight Crew Training Spares

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

TABLE OF CONTENTS

CONFIDENTIAL LETTER AGREEMENTS: Revised By:

6-1161-GOC-087	Aircraft Performance Guarantees	
6-1162-GOC-088	Promotion Support	
6-1162-GOC-089	Special Matters	
6-1162-GOC-172	Additional Matters	SA No. 1

SUPPLEMENTAL AGREEMENTS

Supplemental Agreement No. 1	December 18, 1997
Supplemental Agreement No. 2	July 30, 1998

Table 1
to Purchase Agreement 2061
Aircraft Delivery, Description, Price and Advance Payments

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR
CONFIDENTIAL TREATMENT]

July , 1998
2061-1R1

Continental Airlines, Inc.
2929 Allen Parkway
Houston, Texas 77019

Subject: Option Aircraft

Reference: Purchase Agreement No. 2061 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 777-200IGW
aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 2061-1 dated October 10, 1997.

Boeing agrees to manufacture and sell to Customer additional Model 777-200IGW aircraft as Option Aircraft. The delivery months, number of aircraft, Advance Payment Base Price per aircraft and advance payment schedule are listed in the Attachment to this Letter Agreement (the Attachment).

1. Aircraft Description and Changes

1.1 Aircraft Description: The Option Aircraft are described by the Detail Specification listed in the Attachment.

1.2 Changes: The Detail Specification will be revised to include:

- (i) Changes applicable to the basic Model 777 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the definitive agreement to purchase the Option Aircraft;
- (ii) Changes required to obtain required regulatory certificates; and
- (iii) Changes mutually agreed upon.

2. Price

2.1 The pricing elements of the Option Aircraft are listed in the Attachment.

2.2 Price Adjustments.

2.2.1 Optional Features. The Optional Feature Prices for the Option Aircraft will be adjusted to Boeing's current prices as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. The Airframe Price and the Optional Features Prices for Option Aircraft delivering before January 2003, will be escalated on the same basis as the Aircraft.

The engine manufacturer's current escalation provisions, listed in Exhibit Supplement EE1 to the Purchase Agreement, have been estimated to the months of scheduled delivery using commercial forecasts to calculate the Advance Payment Base Price listed in the Attachment to this Letter Agreement. The engine escalation provisions will be revised if they are changed by the engine manufacturer prior to the signing of a definitive agreement for the Option Aircraft.

2.2.3 Base Price Adjustments. The Airframe Price and the Engine Price of the Option Aircraft delivering before January, 2003, will be adjusted to Boeing's and the engine manufacturer's then current prices as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.4 Prices for Long Lead Time Aircraft. Boeing and the engine manufacturer have not established prices and escalation provisions for Model 777-200IGW aircraft and engines for delivery in the year 2003 and after. When prices and the pricing bases are established for the Model 777-200IGW aircraft delivering in the year 2003 and after, the information listed in the Attachment will be appropriately amended.

3. Payment.

3.1 Customer will pay a deposit to Boeing in the amount shown in the Attachment for each Option Aircraft (Deposit), on the date of this Letter Agreement. If Customer exercises an option, the Deposit will be credited against the first advance payment due. If Customer does not exercise an option, Boeing will retain the Deposit for that Option Aircraft.

3.2 Following option exercise, advance payments in the amounts and at the times listed in the Attachment will be payable for the Option Aircraft.

The remainder of the Aircraft Price for the Option Aircraft will be paid at the time of delivery.

4. Option Exercise.

Customer may exercise an option by giving written notice to Boeing on or before the date [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to the first business day of the applicable delivery month listed in the Attachment (Option Exercise Date).

5. Contract Terms.

Boeing and Customer will use their best efforts to reach a definitive agreement for the purchase of an Option Aircraft, including the terms and conditions contained in this Letter Agreement, in the Purchase Agreement, and other terms and conditions as may be agreed upon to add the Option Aircraft to the Purchase Agreement as an Aircraft. In the event the parties have not entered into a definitive agreement within 30 days following option exercise, either party may terminate the purchase of such Option Aircraft by giving written notice to the other within 5 days. If Customer and Boeing fail to enter into such definitive agreement, Boeing will retain the Deposit for that Option Aircraft unless failure is attributable to Boeing's fault, in which case the Deposit shall be promptly returned to Customer without interest.

Very truly yours,

THE BOEING COMPANY

THE BOEING COMPANY

By /s/ D. M. Hurt

Its Attorney-in-Fact

ACCEPTED AND AGREED TO this

Date: July 30, 1998

CONTINENTAL AIRLINES, INC.,

By /s/ Brian Davis

Its Vice President

Attachment

Attachment to
Letter Agreement 2061-1R1
Option Aircraft Delivery, Description, Price and Advance Payments

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR
CONFIDENTIAL TREATMENT]

Supplemental Agreement No. 3

to

Purchase Agreement No. 2061

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 777 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of September 25th, 1998, 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 (Customer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 2061 dated October 10, 1997, (the Purchase Agreement) relating to Boeing Model 777-200IGW aircraft, (Aircraft); and

WHEREAS, Boeing and Customer have mutually agreed to revise the terms of Letter Agreement 6-1162-GOC-089; and

WHEREAS, Boeing and Customer have mutually agreed to amend the Purchase 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 Purchase Agreement as follows:

1. Table of Contents:

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. 3.

2. Letter Agreements:

Remove and replace, in its entirety, Letter Agreement 6-1162-GOC-089 "Special Matter" with the revised Letter Agreement 6-1162-GOC-089R1, attached hereto, to reflect the revised terms of sale of the Aircraft.

The Purchase 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

TABLE OF CONTENTS

ARTICLES

Revised By:

- 1. Quantity, Model and Description
- 2. Delivery Schedule
- 3. Price
- 4. Payment
- 5. Miscellaneous

TABLE

- | | | |
|----|----------------------------|----------|
| 1. | Aircraft Information Table | SA No. 2 |
|----|----------------------------|----------|

EXHIBIT

- | | |
|----|--|
| A. | Aircraft Configuration |
| B. | Aircraft Delivery Requirements
and Responsibilities |

SUPPLEMENTAL EXHIBITS

- | | |
|-------|---|
| BFE1. | BFE Variables |
| CS1. | Customer Support Variables |
| EE1. | Engine Escalation/Engine Warranty
and Patent Indemnity |
| SLP1. | Service Life Policy Components |

TABLE OF CONTENTS

LETTER AGREEMENTS	Revised By:
2061-1	Option Aircraft SA No. 2
2061-2	Demonstration Flights
2061-3	Installation of Cabin Systems Equipment
2061-4	Spares Initial Provisioning
2061-5	Flight Crew Training Spares
2061-6	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

TABLE OF CONTENTS

CONFIDENTIAL LETTER AGREEMENTS Revised By:

6-1161-GOC-087	Aircraft Performance Guarantees	
6-1162-GOC-088	Promotion Support	
6-1162-GOC-089R1	Special Matters	SA No. 3
6-1162-GOC-172	Additional Matters	SA No. 1

SUPPLEMENTAL AGREEMENTS Dated as of:

Supplemental Agreement No. 1	December 18, 1997
Supplemental Agreement No. 2	July 30, 1998
Supplemental Agreement No. 3	September 25, 1998

Continental Airlines, Inc.
2929 Allen Parkway
Houston, Texas 77019

Subject: Special Matters

Reference: Purchase Agreement No. 2061 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 777-
200IGW aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used and not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Credit Memoranda.

In consideration of Customer's purchase of Model 777-224 Aircraft, Boeing shall issue at the time of delivery of each Aircraft and Option Aircraft, two credit memoranda in an aggregate amount equal to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] (the 777-224 Credit Memoranda Amount), expressed in July 1995 dollars. The 777-224 Credit Memoranda Amount is subject to the same escalation as is used to calculate the Aircraft Price at time of delivery. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2. Option Aircraft Pricing.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3.2 Option Aircraft. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7. Aircraft Invoices.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8. Assignment of Credits.

Customer may not assign the credit memoranda described in this Letter Agreement without Boeing's prior written consent [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

9. Confidential Treatment.

Boeing and Customer understand that certain information contained in this Letter Agreement, including any attachments hereto, are considered by both parties to be confidential. Boeing and Customer agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ D. M. Hurt

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: September 25, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its: Vice President

PURCHASE AGREEMENT NUMBER 2211

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Relating to Boeing Model 767-224ER Aircraft

TABLE OF CONTENTS

ARTICLES

Revised By:

1. Quantity, Model and Description
2. Delivery Schedule
3. Price
4. Payment
5. Miscellaneous

TABLE

1. Aircraft Information Table

EXHIBIT

- A. Aircraft Configuration
- B. Aircraft Delivery Requirements and Responsibilities

SUPPLEMENTAL EXHIBITS

- BFE1. BFE Variables
- CS1. Customer Support Variables
- EE1. Engine Escalation/Engine Warranty
and Patent Indemnity
- SLP1. Service Life Policy Components

TABLE OF CONTENTS

LETTER AGREEMENTS

Revised By:

2211-01	Option Aircraft
2211-02	Demonstration Flights
2211-03	Spares Initial Provisioning
2211-04	Flight Crew Training Spares Parts Support
2211-05	Escalation Sharing

TABLE OF CONTENTS

CONFIDENTIAL LETTER AGREEMENTS

Revised By:

- 6-1162-JMG-0089 Performance Guarantees
- 6-1162-JMG-0090 Promotion Support
- 6-1162-JMG-0092 Special Matters

between

The Boeing Company

and

Continental Airlines, Inc.

This Purchase Agreement No. 2211 dated as of November 16, 1998 between The Boeing Company (Boeing) and Continental Airlines, Inc. (Customer) relating to the purchase and sale of Model 767-224ER aircraft. The terms and conditions of the Aircraft General Terms Agreement dated as of October 10, 1997 between the parties, identified as AGTA-CAL (AGTA), are hereby incorporated by reference into this Purchase Agreement.

Article 1. Quantity, Model and Description.

The aircraft to be delivered to Customer will be designated as Model 767-224ER aircraft (the Aircraft). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A, which is part of this Purchase Agreement, in the quantities listed in Table 1 to the Purchase Agreement.

Article 2. Delivery Schedule.

The Aircraft will be delivered to Customer in accordance with the scheduled months of delivery listed in the attached Table 1, which is part of this Purchase Agreement. Exhibit B, which is part of this Purchase Agreement, describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

Article 3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 and is subject to mutually agreed upon price adjustments and the Escalation Adjustment.

3.2 Advance Payment Base Prices. The Advance Payment Base Prices for the Aircraft are listed in Table 1 and were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery.

3.3 Boeing has not yet established the Aircraft Basic Price for Aircraft scheduled to be delivered after December 31, 2004. The prices listed in Table 1 for such Aircraft are only to provide Customer with an estimate of the applicable Advance Payment Base Prices. Accordingly, the Aircraft Basic Price for such Aircraft will be the sum of the Airframe Price, Optional Features Prices and the Engine Price first published by Boeing for the same model of aircraft and engines to be delivered after December 31, 2004.

Article 4. Payment.

4.1 Boeing acknowledges receipt of a deposit in the amount shown in Table 1 for each Aircraft (Deposit).

4.2 The amounts and payment dates for advance payments to be made by Customer are set forth in the attached Table 1. Advance payments for each aircraft are due on the first business day of the months listed in the attached Table 1.

4.3 For any Aircraft whose scheduled month of delivery is less than 24 months from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in Table 1.

4.4 The Aircraft Price is the total amount Customer will pay to Boeing at the time of delivery of each Aircraft. Such Aircraft Price will be calculated at time of delivery using then available escalation factors to calculate the Escalation Adjustment. The invoice amount for an Aircraft will show the Aircraft Price appropriately adjusted to account for previously received applicable advance payments.

Article 5. Miscellaneous.

5.1 Buyer Furnished Equipment Variables. Supplemental Exhibit BFE1, which is part of this Purchase

Agreement, contains vendor selection dates, on dock dates and other variables applicable to the Aircraft.

5.2 Customer Support Variables. Supplemental Exhibit CS1, which is part of this Purchase Agreement, contains the variable information applicable to information, training services and other things furnished by Boeing in support of the Aircraft.

5.3 Engine Escalation Variables. Supplemental Exhibit EE1 contains the applicable engine escalation formula, the engine warranty and the engine patent indemnity for the Aircraft.

5.4 Service Life Policy Component Variables. Supplemental Exhibit SLP1, which is part of this Purchase Agreement, lists the airframe and landing gear components covered by the Service Life Policy for the Aircraft.

5.5 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, with respect to the subject matter hereof, and may be changed only in writing signed by authorized representatives of the parties.

CONTINENTAL AIRLINES, INC.

THE BOEING COMPANY

By /s/ Brian Davis

By /s/ J.A. McGarvey

Its Vice President

Its Attorney-in-Fact

Table 1 to
Purchase Agreement No. 2211
Aircraft Delivery, Description, Price and Advance Payments

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR
CONFIDENTIAL TREATMENT]

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Exhibit A to Purchase Agreement Number 2211

AIRCRAFT CONFIGURATION

Dated 11/16/98

relating to

BOEING MODEL 767-224ER AIRCRAFT

The Detail Specification is Boeing Detail Specification D019T001CAL62E1 dated as of even date herewith. Such Detail Specification will be comprised of Boeing Configuration Specification D019T001, revision A, dated June 6, 1997 as amended to incorporate the Options listed below, including the effects on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). Such Options are set forth in Boeing Document D019TCR1CAL62E-1. As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect such Options. The Aircraft Basic Price reflects and includes all effects of such Options, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment or Seller Purchased Equipment.

The configuration for Customer's 767-224ER will be developed by July 1, 1999. For purposes of calculating the Advance Payment Base Prices listed in Table 1, an estimated amount of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] has been assumed for Optional Features. The [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] includes [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] as the price to install the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] as the price to increase the Maximum Takeoff Gross Weight from 345,000 to 395,000 pounds.

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Exhibit B to Purchase Agreement Number 2211

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

relating to

BOEING MODEL 767-224ER AIRCRAFT

Both Boeing and Customer have certain documentation and approval responsibilities at various times during the construction cycle of Customer's Aircraft that are critical to making the delivery of each Aircraft a positive experience for both parties. This Exhibit B documents those responsibilities and indicates recommended completion deadlines for the actions to be accomplished. Failure to obtain such completion deadlines shall not be deemed a breach of this Purchase Agreement or reduce or amend the parties' obligations hereunder.

1. GOVERNMENT DOCUMENTATION REQUIREMENTS.

Certain actions are required to be taken by Customer in advance of the scheduled delivery month of each Aircraft with respect to obtaining certain government issued documentation.

1.1 Airworthiness and Registration Documents.

Not later than 6 months prior to delivery of each Aircraft, Customer will notify Boeing of the registration number to be painted on the side of the Aircraft. In addition, and not later than 3 months prior to delivery of each Aircraft, Customer will, by letter to the regulatory authority having jurisdiction, authorize the temporary use of such registration numbers by Boeing during the pre-delivery testing of the Aircraft.

Customer is responsible for furnishing any temporary or permanent registration certificates required by any governmental authority having jurisdiction to be displayed aboard the Aircraft after delivery.

1.2 Certificate of Sanitary Construction.

1.2.1 U.S. Registered Aircraft.

Boeing will obtain from the United States Public Health Service, a United States Certificate of Sanitary Construction to be displayed aboard each Aircraft after delivery to Customer.

1.2.2 Non-U.S. Registered Aircraft.

If Customer requires a United States Certificate of Sanitary Construction at the time of delivery of the Aircraft, Customer will give written notice thereof to Boeing at least 3 months prior to delivery. Boeing will then use its reasonable best efforts to obtain the Certificate from the United States Public Health Service and present it to Customer at the time of Aircraft delivery.

1.3 Customs Documentation.

1.3.1 Import Documentation. If the Aircraft is intended to be exported from the United States, Customer must notify Boeing not later than 3 months prior to delivery of each Aircraft of any documentation required by the customs authorities or by any other agency of the country of import.

1.3.2 General Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Customs Form 7507, General Declaration, for execution by U.S. Customs immediately prior to the ferry flight of the Aircraft. For this purpose, Customer will furnish to Boeing not later than 20 days prior to delivery a complete crew and passenger list and a complete ferry flight itinerary, including point of exit from the United States for the Aircraft.

If Customer intends, during the ferry flight of an Aircraft, to land at a U.S. airport after clearing Customs at delivery, Customer must notify Boeing not later than 20 days prior to delivery of such intention. If Boeing receives such notification, Boeing will provide to Customer the documents constituting a Customs permit to proceed, allowing such Aircraft to depart after any such landing. Sufficient copies of completed Form 7507, along with passenger manifest, will be furnished Customer to cover U.S. stops scheduled for the ferry flight.

1.3.3 Export Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Form 7525V and, immediately prior to the ferry flight, will submit such Form to U.S. Customs in Seattle in order to obtain clearance for the departure of the Aircraft, including any cargo, from the United States. U.S. Customs will deliver the Export Declaration to the U.S. Department of Commerce after export.

2. INSURANCE CERTIFICATES.

Unless provided earlier, Customer will provide to Boeing not later than 30 days prior to delivery of the first Aircraft, a copy of the requisite annual insurance certificate in accordance with the requirements of Article 8 of the AGTA.

3. NOTICE OF FLYAWAY CONFIGURATION.

Not later than 20 days prior to delivery of the Aircraft, Customer will provide to Boeing a configuration letter stating the requested "flyaway configuration" of the Aircraft for its ferry flight. This configuration letter should include:

- (i) the name of the company which is to furnish fuel for the ferry flight and any scheduled post-delivery flight training, the method of payment

for such fuel, and fuel load for the ferry flight;

(ii) the cargo to be loaded and where it is to be stowed on board the Aircraft and address where cargo is to be shipped after flyaway;

(iii) any BFE equipment to be removed prior to flyaway and returned to Boeing BFE stores for installation on Customer's subsequent Aircraft;

(iv) a complete list of names and citizenship of each crew member and non-revenue passenger who will be aboard the ferry flight; and

(v) a complete ferry flight itinerary.

4. DELIVERY ACTIONS BY BOEING.

4.1 Schedule of Inspections. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. Customer will be informed of such schedules.

4.2 Schedule of Demonstration Flights. All FAA and Customer demonstration flights will be scheduled by Boeing for completion prior to delivery of the Aircraft.

4.3 Schedule for Customer's Flight Crew. Boeing will inform Customer of the date that a flight crew is required for acceptance routines associated with delivery of the Aircraft.

4.4 Fuel Provided by Boeing. Boeing will provide to Customer, without charge, the amount of fuel shown in U.S. gallons in the table below for the model of Aircraft being delivered and full capacity of engine oil at the time of delivery or prior to the ferry flight of the Aircraft.

Aircraft Model	Fuel Provided
767	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4.5 Flight Crew and Passenger Consumables. Boeing will provide food, coat hangers, towels, toilet tissue, drinking cups and soap for the first segment of the ferry flight for the Aircraft.

4.6 Delivery Papers, Documents and Data. Boeing will have available at the time of delivery of the Aircraft certain delivery papers, documents and data for execution and delivery. Boeing will pre-position in Oklahoma City, Oklahoma, for filing with the FAA at the time of delivery of the Aircraft an executed original Form 8050-2, Aircraft Bill of Sale, indicating transfer of title to the Aircraft from Boeing or Boeing's sales subsidiary, to Customer.

4.7 Delegation of Authority. If specifically requested in advance by Customer, Boeing will present a certified copy of a Resolution of Boeing's Board of Directors, designating and authorizing certain persons to act on its behalf in connection with delivery of the Aircraft.

5. DELIVERY ACTIONS BY CUSTOMER.

5.1 Aircraft Radio Station License. At delivery Customer will provide its Aircraft Radio Station License to be placed on board the Aircraft following delivery.

5.2. Aircraft Flight Log. At delivery Customer will provide the Aircraft Flight Log for the Aircraft.

5.3 Delegation of Authority. If necessary, Customer will present to Boeing at delivery of the Aircraft an original or certified copy of Customer's Delegation of Authority designating and authorizing certain persons to act on its behalf in connection with delivery of the specified Aircraft.

BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Supplemental Exhibit BFE1 to Purchase Agreement Number 2211

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL 767-224ER AIRCRAFT

This Supplemental Exhibit BFE1 contains vendor selection dates, on-dock dates and other variables applicable to the Aircraft.

1. Supplier Selection.

Customer will select and notify Boeing of the suppliers of the galley system and inserts, the passenger seats, and the overhead and audio systems by a date to be mutually agreed to by the parties during the 767-224 configuration discussions to be held in the first half of 1999.

2. On-dock Dates

On or before a date to be mutually agreed to by the parties Boeing will provide to Customer a BFE Requirements On-Dock/Inventory Document (BFE Document) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions relating to the in-sequence installation of BFE.

CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Supplemental Exhibit CS1 to Purchase Agreement Number 2211

CUSTOMER SUPPORT VARIABLES

relating to

BOEING MODEL 767-224ER AIRCRAFT

By the time the first Aircraft delivers, Customer will operate a 767-400ER aircraft. Upon Customer's request, Boeing will develop and schedule a customized Customer Support Program to be furnished in support of the Aircraft. The customized program will be based upon and equivalent to the entitlements summarized below.

1. Maintenance Training.

- 1.1 Maintenance Training Minor Model Differences Course, if requested, covering operational, structural or systems differences between Customer's newly-purchased Aircraft and an aircraft of the same model then operated by Customer; 1 class of 15 students;
- 1.2 Training materials, if applicable, will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, text and graphics will be provided for use in Customer's own training program.

2. Flight Training.

Boeing will provide, if requested, one classroom course to acquaint up to 15 students with operational, systems and performance differences between Customer's newly-purchased Aircraft and an aircraft of the same model then operated by Customer.

Any training materials used in Flight Training, if required, will be provided for use in Customer's own training program.

3. Planning Assistance.

3.1 Maintenance and Ground Operations.

Upon request, Boeing will provide planning assistance regarding Minor Model Differences requirements for facilities, tools and equipment.

3.2 Spares.

Boeing will revise, as applicable, the customized Recommended Spares Parts List (RSPL) and Illustrated Parts Catalog (IPC).

4. Technical Data and Documents.

Boeing will revise, as applicable, technical data and documents provided with previously delivered aircraft.

ENGINE ESCALATION,
ENGINE WARRANTY AND PATENT INDEMNITY

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Supplemental Exhibit EE1 to Purchase Agreement Number 2211

ENGINE ESCALATION,
ENGINE WARRANTY AND PATENT INDEMNITY

relating to

BOEING MODEL 767-224ER AIRCRAFT

1. ENGINE ESCALATION.

(a) The Aircraft Basic Price of each Aircraft set forth in Table 1 of the Purchase Agreement includes an aggregate price for CF6-80C2 engines and all accessories, equipment and parts provided by the engine manufacturer. The adjustment in Engine price applicable to each Aircraft (Engine Price Adjustment) will be determined at the time of Aircraft delivery in accordance with the following formula:

$$Pe = \left(\frac{Pb \times CPI}{CPIb} \right) - Pb$$

where CPIb is the Base Year Index
as set forth in Table 1 of the
Purchase Agreement

(b) The following definitions will apply herein:

Pe = Engine Price Adjustment

Pb = Engine Base Price (per Aircraft), as set forth in
Table 1 of the Purchase Agreement.

CPI is the Composite Price Index, a value determined using the Bureau of Labor Statistics, U.S. Department of Labor actual data in accordance with the formula below. The Index values utilized in the formula will be the numbers shown in the actual data for the ninth month prior to the month of scheduled Aircraft delivery or the ninth month prior to the Base Year Dollars month set forth in Table 1.

$$CPI = L + C + M + E$$

L = The Labor Index will be equal to the quotient of the value associated with the Aircraft Delivery Month divided by the value associated with the Base Year Dollar month in "Hourly Earnings of Aircraft Engines and Engine Parts Production Workers" SIC 3724, multiplied by 100 and then by 55%.

C = The Industrial Commodities Index will be equal to 10% of the Producer Price Index for "all commodities other than Farm and Foods," Code 3-15 associated with the scheduled Aircraft delivery month.

- M = The Metals and Metal Products Index will be equal to 25% of the Producer Price Index for "Metals and Metal Products," Code 10 associated with the scheduled Aircraft delivery month.
- E = The Fuel Index will be equal to 10% of the Producer Price Index for "Fuel and Related Products and Power," Code 5 associated with the scheduled Aircraft delivery month.

The Engine Price Adjustment will not be made if it would result in a decrease in the Engine Base Price.

(c) The values of the Average Hourly Earnings and Producer Price Indices used will be those published as of a date 30 days prior to the scheduled Aircraft delivery to Customer. Such values will be considered final and no Engine Price Adjustment will be made after Aircraft delivery for any subsequent changes in published Index values.

(d) In the event the Engine price escalation provisions are made non-enforceable or otherwise rendered null and void by any agency of the United States Government, or if the U.S. Department of Labor, Bureau of Labor Statistics (i) substantially revises the methodology (in contrast to benchmark adjustments or other corrections of previously published data) or (ii) discontinues publication of any of the data referred to above, General Electric Company (GE) agrees to meet jointly with Boeing and Customer, (to the extent such parties may lawfully do so,) to jointly select a substitute for the revised or discontinued data; such substitute data to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original data as it may have fluctuated had it not been revised or discontinued. If such Engine price escalation provisions, methodology or data publication are subsequently reinstated, Boeing will make adjustments consistent with the agreements defined in this Supplemental Exhibit EE1.

NOTE: The factor (CPI divided by the base year index) by which the Engine Base Price is to be multiplied will be expressed as a decimal and rounded to the nearest thousandth. Any rounding of a number, as required under this Supplemental Exhibit EE1 with respect to escalation of the Engine price, will be accomplished as follows: if the first digit of the portion to be dropped from the number to be rounded is five or greater, the preceding digit will be raised to the next higher number.

2. ENGINE WARRANTY AND PRODUCT SUPPORT PLAN.

Boeing has obtained from GE the right to extend to Customer the provisions of GE's Warranty and Product Support Plan; subject, however, to Customer's acceptance of the conditions set forth herein. Accordingly, Boeing hereby extends to Customer and Customer hereby accepts the provisions of GE's Warranty and Product Support Plan hereinafter set forth, and such Warranty and Product Support Plan shall apply to all CF6 turbofan engines including all Modules and Parts thereof (Engines) installed in the Aircraft at the time of delivery or purchased from Boeing by Customer for support of the Aircraft except that, if Customer and GE have executed a General Terms Agreement covering the Engines, then the terms of that Agreement shall be substituted for and supersede the below-stated provisions and such provisions shall be of no force or effect and neither Boeing nor GE shall have any obligation arising therefrom. In consideration for Boeing's extension of the GE Warranty and Product Support Plan to Customer, Customer hereby releases and discharges Boeing from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of such CF6 turbofan engines and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities except for the provisions in paragraphs 2.1 (i) and 2.1 (iv) of Part 2 to Exhibit C to the AGTA.

2.1. Title. GE warrants that at the date of delivery, GE has legal title to and good and lawful right to sell its CF6 engine products and furthermore warrants that such title is free and clear of all claims, liens and encumbrances of any nature whatsoever.

2.2. Patents.

2.2.1. GE will handle all claims and defend any suit or proceeding brought against Customer insofar as based on a claim that any product or part furnished under this Purchase Agreement constitutes an infringement of any patent of the United States, and will pay all damages and costs awarded therein against Customer. This paragraph will not apply to any product or any part manufactured to Customer's design or to the aircraft manufacturer's design. As to such product or part, GE assumes no liability for patent infringement.

2.2.2. GE's liability hereunder is conditioned upon Customer promptly notifying GE in writing and giving GE authority, information and assistance (at GE's expense) for the defense of any suit. In case said equipment or part is held in such suit to constitute infringement and the use of said equipment or part is enjoined, GE shall expeditiously, at its own expense and at its option, either (1) procure for Customer the rights to continue using said product or part; (2) replace the same with satisfactory and noninfringing product or part; or (3) modify the same so it becomes satisfactory and noninfringing. The foregoing shall constitute the sole remedy of Customer and the sole liability of GE for patent infringement.

2.2.3. The above provisions also apply to products which are the same as those covered by this Purchase Agreement and are delivered to Customer as part of the installed equipment on CF6 powered Aircraft.

2.3. Initial Warranty. GE warrants that CF6 engine products will conform to GE's applicable specifications and will be free from defects in material and workmanship prior to Customer's initial use of such products. The provisions of the GE CF6 Product Support Plan shall apply.

2.4. Product Support Plan. GE warrants and extends to Customer the provisions of GE's CF6 Product Support Plan in effect on the date of the execution of this Purchase Agreement.

2.5. Warranty Pass On. GE will, upon the written request of Customer, extend Warranty coverage to Engines, Modules and Parts sold by Customer to another operator to the extent only, however, that such coverage exists at the time of such sale and subject to the provisions of the Warranty.

2.6. Limitations. THE PROVISIONS SET FORTH HEREIN ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER WARRANTIES WHETHER WRITTEN, ORAL OR IMPLIED. THERE ARE NO IMPLIED WARRANTIES OF FITNESS OR MERCHANTABILITY. SAID PROVISIONS SET FORTH THE MAXIMUM LIABILITY OF GE WITH RESPECT TO CLAIMS OF ANY KIND, INCLUDING NEGLIGENCE, ARISING OUT OF MANUFACTURE, SALE, POSSESSION, USE OR HANDLING OF THE PRODUCTS OR PARTS THEREOF

OR THEREFOR, AND IN NO EVENT SHALL GE'S LIABILITY TO CUSTOMER
EXCEED THE PURCHASE PRICE OF THE PRODUCT GIVING RISE TO
CUSTOMER'S CLAIM OR INCLUDE INCIDENTAL OR CONSEQUENTIAL
DAMAGES.

SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Supplemental Exhibit SLP1 to Purchase Agreement Number 2211

COVERED SERVICE LIFE COMPONENTS

relating to

BOEING MODEL 767 AIRCRAFT

This is the listing of Covered Components for the Aircraft which relate to Part 3, Boeing Service Life Policy of Exhibit C, Product Assurance Document to the AGTA and is a part of Purchase Agreement No. 2211.

1. Wing.
 - (a) Upper and lower wing skins and stiffeners between the forward and rear wing spars.
 - (b) Wing spar webs, chords and stiffeners.
 - (c) Inspar wing ribs.
 - (d) Inspar splice plates and fittings.
 - (e) Main landing gear support structure.
 - (f) Wing center section lower beams, spanwise beams and floor beams, but not the seat tracks attached to the beams.
 - (g) Wing-to-body structural attachments.
 - (h) Engine strut support fittings attached directly to wing primary structure.
 - (i) Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; and for leading edge devices and trailing edge flaps.
 - (j) Leading edge device and trailing edge flap support system.
 - (k) Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure.
2. Body.
 - (a) External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead, and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
 - (b) Window and windshield structure but excluding the windows and windshields.
 - (c) Fixed attachment structure of the passenger doors, cargo doors and emergency exits excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.
 - (d) Nose wheel well structure, including the wheel well walls, pressure deck, forward and aft bulkheads, and the gear support structure.
 - (e) Main gear wheel well structure including pressure deck, bulkheads and landing gear beam support structure.
 - (f) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.
 - (g) Forward and aft pressure bulkheads.
 - (h) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead, including splices.
 - (i) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation,

lining, and decorative panels and related installation and connecting devices.

- (j) Support structure in the body for the stabilizer pivot and stabilizer screw.

3. Vertical Stabilizer.

- (a) External skins between front and rear spars including splices.
- (b) Front, rear and auxiliary spar chords, webs and stiffeners, and attachment fittings between vertical stabilizer and body.
- (c) Inspar ribs.
- (d) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.
- (e) Rudder internal, fixed attachment and actuator support structure.
- (f) Rudder hinges and supporting ribs, excluding bearings.

4. Horizontal Stabilizer.

- (a) External skins between front and rear spars.
- (b) Front, rear and auxiliary spar chords, webs and stiffeners.
- (c) Inspar ribs.
- (d) Stabilizer center section and fittings splicing to outboard stabilizer including pivot and screw support structure.
- (e) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.
- (f) Elevator internal, fixed attachment and actuator support structure.

5. Engine Strut.

- (a) Strut external surface skin and doublers and stiffeners.
- (b) Internal strut chords, frames and bulkheads.
- (c) Strut to wing fittings and diagonal brace.
- (d) Engine mount support fittings attached directly to strut structure.
- (e) For Aircraft equipped with General Electric or Pratt & Whitney engines only, the engine mounted support fittings.

6. Main Landing Gear.

- (a) Outer cylinder.
- (b) Inner cylinder.
- (c) Upper and lower side strut, including spindles and universals.
- (d) Upper and lower drag strut, including spindles and universals.
- (e) Orifice support tube.
- (f) Downlock links, including spindles and universals
- (g) Torsion links.
- (h) Bogie beam.
- (i) Axles.
- (j) Retraction Links.

7. Nose Landing Gear.

- (a) Outer cylinder.
- (b) Inner cylinder, including axles.
- (c) Orifice support tube.

- (d) Upper and lower drag strut, including lock links.
- (e) Steering plates and steering collar.
- (f) Torsion links.
- (g) Actuator support beam and hanger.
- (h) Retraction Links.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the SLP Components.

November 16, 1998
2211-01

Continental Airlines, Inc.
1600 Smith
Houston, TX 77002

Subject: Option Aircraft

Reference: Purchase Agreement 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-224ER
aircraft (the Aircraft)

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to manufacture and sell to Customer additional Model 767-224ER aircraft as Option Aircraft. The delivery months, number of aircraft, Advance Payment Base Price per aircraft and advance payment schedule are listed in the Attachment to this Letter Agreement (the Attachment).

1. Aircraft Description and Changes

1.1 Aircraft Description: The Option Aircraft are described by the Detail Specification listed in the Attachment.

1.2 Changes: The Detail Specification will be revised to include:

- (i) Changes applicable to the basic Model 767 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the definitive agreement to purchase the Option Aircraft;
- (ii) Changes required to obtain required regulatory certificates; and
- (iii) Changes mutually agreed upon.

2. Price

2.1 The pricing elements of the Option Aircraft are listed in the Attachment.

2.2 Price Adjustments.

2.2.1 Optional Features. The Optional Features Prices selected for the Option Aircraft will be adjusted to Boeing's current prices as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. The Airframe Price and the Optional Features Prices for Option Aircraft delivering before January, 2005, will be escalated on the same basis as the Aircraft, and will be adjusted to Boeing's then-current escalation provisions as of the date of execution of the definitive agreement for the Option Aircraft.

The engine manufacturer's current escalation provisions, listed in Exhibit Supplement EE1 to the Purchase Agreement have been estimated to the months of scheduled delivery using commercial forecasts to calculate the Advance Payment Base Price listed in the Attachment to this Letter Agreement. The engine escalation provisions will be revised if they are changed by the engine manufacturer prior to the signing of a definitive agreement for the Option Aircraft.

2.2.3 Base Price Adjustments. The Airframe Price and the Engine Price of the Option Aircraft delivering before January, 2005, will be adjusted to Boeing's and the engine manufacturer's then current prices as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.4 Prices for Long Lead Time Aircraft. Boeing and the engine manufacturer have not established prices and escalation provisions for Model 767-224ER aircraft and engines for delivery in the year 2005 and after. When prices and the pricing bases are established for the Model 767-224ER aircraft delivering in the year 2005 and after, the information listed in the Attachment will be appropriately amended.

3. Payment.

3.1 Customer will pay a deposit to Boeing in the amount shown in the Attachment for each Option Aircraft (Deposit), on the date of this Letter Agreement. If Customer exercises an option, the Deposit will be credited against the first advance payment due. If Customer does not exercise an option, Boeing will retain the Deposit for that Option Aircraft.

3.2 Following option exercise, advance payments in the amounts and at the times listed in the Attachment will be payable for the Option Aircraft. The remainder of the Aircraft Price for the Option Aircraft will be paid at the time of delivery.

4. Option Exercise.

Customer may exercise an option by giving written notice to Boeing on or before the date [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months prior to the first business day of the applicable delivery month listed in the Attachment (Option Exercise Date).

5. Contract Terms.

Boeing and Customer will use their best efforts to reach a definitive agreement for the purchase of an Option Aircraft, including the terms and conditions contained in this Letter Agreement, in the Purchase Agreement, and other terms and conditions as may be agreed upon to add the Option Aircraft to the Purchase Agreement as an Aircraft. In the event the parties have not entered into a definitive agreement within 30 days following option exercise, either party may terminate the purchase of such Option Aircraft by giving written notice to the other within 5 days. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

Attachment

Attachment to
Letter Agreement No. 2211-01
Option Aircraft Delivery, Description, Price and Advance Payments

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR
CONFIDENTIAL TREATMENT]

November 16, 1998
2211-02

Continental Airlines, Inc.
1600 Smith
Houston, TX 77002

Subject: Demonstration Flights

Reference: Purchase Agreement No. 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-224ER
aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Definition of Terms:

Correction Costs: Customer's or a third party's direct labor costs and the cost of any material required to correct a Flight Discrepancy where direct labor costs are equal to the warranty labor rate in effect between the parties at the time such labor is expended.

Flight Discrepancy: A failure or malfunction of an Aircraft, or the accessories, equipment or parts installed on the Aircraft which results from a defect in the Aircraft, Boeing Product, engine or Supplier Product or a nonconformance to the Detail Specification for the Aircraft.

The AGTA provides that each aircraft will be test flown prior to delivery for the purpose of demonstrating the functioning of such Aircraft and its equipment to Customer; however, Customer may elect to waive this test flight. For each test flight waived, Boeing agrees to provide Customer an amount of jet fuel at delivery that, together with the standard fuel entitlement, totals [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] U.S. gallons.

Further, Boeing agrees to reimburse Customer for any Correction Costs incurred as a result of the discovery of a Flight Discrepancy during the first flight of the aircraft by Customer following delivery to the extent such Correction Costs are not covered under a warranty provided by Boeing, the engine manufacturer or any of Boeing's suppliers.

Should a Flight Discrepancy be detected by Customer which requires the return of the Aircraft to Boeing's facilities at Seattle, Washington, so that Boeing may correct such Flight Discrepancy, Boeing and Customer agree that title to and risk of loss of such Aircraft will remain with Customer. Any such correction by Boeing shall be at no cost to Customer. In addition, it is agreed that Boeing will have responsibility for the Aircraft while it is on the ground at Boeing's facilities in Seattle, Washington, as is chargeable by law to a bailee for mutual benefit, but Boeing shall not be chargeable for loss of use.

To be reimbursed for Correction Costs, Customer shall submit a written itemized statement describing any flight discrepancies and indicating the Correction Cost incurred by Customer for each discrepancy. This request must be submitted to Boeing's Contracts Regional Director at Renton, Washington, within ninety (90) days after the first flight by Customer.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

November 16, 1998
2211-03

Continental Airlines, Inc.
1600 Smith
Houston, TX 77002

Subject: Spares Initial Provisioning

Reference: Purchase Agreement No. 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-224ER
aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Applicability.

This Letter Agreement will apply to initial provisioning for the Model 767-224ER Aircraft purchased by Customer under the Purchase Agreement.

2. Initial Provisioning Meeting.

Boeing will conduct an initial provisioning meeting (Initial Provisioning Meeting) with Customer to establish mutually agreeable procedures to accomplish Customer's initial provisioning of spare parts for the Aircraft. The parties will agree, during the Initial Provisioning Meeting on the operational data to be provided by Customer for Boeing's use in preparing its quantity recommendations for initial provisioning of spare parts for the Aircraft, exclusive of special tools, ground support equipment, engines and engine parts (Provisioning Items). Such operational data to be provided by Customer will be the data described in Chapter 6 of Boeing Manual D6-81834, entitled "Spares Provisioning Products Guide" (Boeing Spares Provisioning Products Guide) which will be furnished to Customer prior to the Initial Provisioning Meeting. The parties will also agree on the provisioning documentation to be provided by Boeing as described in Boeing Spares Provisioning Products Guide (such data will be hereinafter referred to collectively as the "Provisioning Data"). Boeing will provide instruction in the use of the initial provisioning documentation. This instruction will be provided in conjunction with the Initial Provisioning Meeting. In addition, the parties will discuss spares ordering procedures and other matters related to the provisioning for the Aircraft. The time and location for such Initial Provisioning Meeting will be mutually agreed upon between the parties.

3. Initial Provisioning Documentation.

3.1 Provisioning Data. Boeing will furnish Provisioning Data to Customer on or about [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The Provisioning Data will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning for the Aircraft. The Provisioning Data will set forth the prices for Provisioning Items which are Boeing Spare Parts and such prices will be firm and remain in effect until the date or dates set forth below in Paragraph 4.1, Boeing Spare Parts, by which orders must be placed with Boeing. Boeing will, from time to time, until a date approximately 90 days following delivery of the last Aircraft or until the delivery configuration of each of the Aircraft is reflected in the Provisioning Data, whichever is later, furnish to Customer revisions to the Provisioning Data.

3.2 Provisioning IPC. Boeing will, on or about [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] furnish to Customer a Boeing Illustrated Parts Catalog (IPC), hereinafter referred to as the "Provisioning IPC." The Provisioning IPC will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning for the Aircraft. Boeing will, from time to time, until a date approximately 90 days following delivery of the last Aircraft, or until the delivery configuration of each of the Aircraft is reflected in the Provisioning IPC, whichever is later, furnish to Customer revisions to the Provisioning IPC.

3.3 Buyer Furnished Equipment (BFE) Provisioning Data.

3.3.1 Boeing's Responsibility. Boeing will include BFE end items in the Provisioning Data and Provisioning IPC for BFE installed on Customer's Aircraft provided such equipment has been installed on other Aircraft by Boeing and Boeing has data on the BFE.

3.3.2 Customer's Responsibility. Customer will be responsible for ensuring BFE data is provided to Boeing by the BFE supplier in a format reasonably acceptable to Boeing for BFE not covered by 3.3.1 above. If the data is not provided to Boeing in a timely manner and in a format reasonably acceptable to Boeing, such BFE equipment will not be included in Boeing's Provisioning Data or IPC.

3.4 Other Data. Boeing will submit to Customer listings of raw materials, standard parts and bulk materials to be used by Customer in the maintenance and repair of the Aircraft.

4. Purchase from Boeing of Spare Parts as Initial Provisioning for the Aircraft.

4.1 Boeing Spare Parts. Customer will place orders for Provisioning Items by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]; provided, however, that in those instances where Boeing submits any revision to the Provisioning Data, Customer will place orders for Boeing Spare Parts covered by such revision within 90 days following the date of such submittal. At Customer's request, Boeing will process "controlled shipments" by shipping full or partial quantities of an order on a schedule specified by Customer, provided the final shipment is made no later than 24 months after receipt of the order.

4.2 Vendor Provisioning Items. Customer may place orders with Boeing for Provisioning Items which are manufactured by vendors or to their detailed design and are covered by the Provisioning Data as initial provisioning for the Aircraft. The price to Customer for any such vendor Provisioning Item will be 112% of the vendor's quoted price to Boeing therefor. If Customer elects to purchase such vendor Provisioning Items from Boeing, Customer will place its orders therefor in accordance with the provisions of Paragraph 4.1, Boeing Spare Parts.

4.3 Ground Support Equipment and Special Tools. Customer may place orders with Boeing for ground support equipment (GSE) and special tools manufactured by vendors which Customer determines it will initially require for maintenance, overhaul and servicing of the Aircraft and/or engines. The price to Customer for such GSE or special tools will be 112% of the vendor's quoted price to Boeing therefor. If Customer elects to purchase such GSE and special tools from Boeing, Customer will place its orders therefor by the date set forth in Paragraph 4.1, Boeing Spare Parts or such later date as the parties may mutually agree.

4.4 Spare Engines and Engine Spare Parts. Customer may place orders with Boeing for spare engines and/or engine spare parts which Customer determines it will initially require for support of the Aircraft or for maintenance and overhaul of the engines. The price to Customer for such spare engines or such engine spare parts, will be 105% of the engine manufacturer's quoted price to Boeing for the engine, and 112% of the engine manufacturer's quoted price to Boeing for the engine spare parts. If Customer elects to purchase such spare engines or engine spare parts through Boeing, Customer will place its orders on a date to be mutually agreed upon during the Initial Provisioning Meeting.

4.5 QEC Kits. Boeing will, on or about [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] furnish to Customer a listing of all components which could be included in the Quick Engine Change (QEC) kits which may be purchased by Customer from Boeing. Customer agrees to review such listing and indicate by marking on one copy of such listing those components that Customer desires included in its QEC kits. Customer will return such marked copy to Boeing within 30 days after Customer's receipt of such listing. Within 30 days after Boeing's receipt of such marked copy, Boeing will republish such listing to reflect only those components selected by Customer and will provide copies of such republished listing to Customer. Boeing will from time to time furnish revisions to such republished listing until a date approximately 90 days after delivery of the last QEC kit ordered by Customer for the Aircraft. Boeing will furnish to Customer as soon as practicable a statement setting forth a firm price for the QEC kit configuration selected by Customer. Customer agrees to place orders with Boeing for the QEC kits for the Aircraft by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO

4.6 Payment for Provisioning Items. The payment provisions of the Customer Services General Terms Agreement (CSGTA) between Boeing and Customer will be applicable to Provisioning Items ordered by Customer from Boeing for the Aircraft.

5. Delivery.

Boeing will, insofar as reasonably possible, deliver to Customer the Spare Parts ordered by Customer in accordance with the provisions of this letter on dates reasonably calculated to conform to Customer's anticipated needs in view of the scheduled deliveries of the Aircraft. Customer and Boeing will agree upon the date to begin delivery of the Provisioning Spare Parts ordered in accordance with this letter. Where appropriate, Boeing will arrange for shipment of such Spare Parts, which are manufactured by vendors, directly to Customer from the applicable vendor's facility. The routing and method of shipment for initial deliveries and all subsequent deliveries of such Spare Parts will be as mutually agreed between Boeing and Customer.

6. Substitution for Obsolete Spare Parts.

6.1 Obligation to Substitute. In the event that, prior to delivery of the first Aircraft pursuant to the Purchase Agreement, any Spare Part purchased by Customer from Boeing in accordance with this letter is rendered obsolete or unusable due to the redesign of the Aircraft or of any accessory, equipment or part thereof (other than a redesign at Customer's request), Boeing will deliver to Customer new and usable Spare Parts in substitution for such obsolete or unusable Spare Parts and Customer will return the obsolete or unusable Spare Parts to Boeing. Boeing will credit Customer's account with Boeing with the price paid by Customer for any such obsolete or unusable Spare Part and will invoice Customer for the purchase price of any such substitute Spare Part delivered to Customer.

6.2 Delivery of Obsolete Spare Parts and Substitutes Therefor. Obsolete or unusable Spare Parts returned by Customer pursuant to this Item will be delivered to Boeing at its Seattle Distribution Center, or such other destination as Boeing may reasonably designate. Spare Parts substituted for such returned obsolete or unusable Spare Parts will be delivered to Customer at Boeing's Seattle Distribution Center, or such other Boeing shipping point as Boeing may reasonably designate. Boeing will pay the freight charges for the shipment from Customer to Boeing of any such obsolete or unusable Spare Part and for the shipment from Boeing to Customer of any such substitute Spare Part.

7. Repurchase of Provisioning Items.

7.1 Obligation to Repurchase Peculiar Provisioning Items. During a period commencing 1 year after delivery of the first Aircraft under the Purchase Agreement, and ending 5 years after such delivery, Boeing will, upon receipt of Customer's written request and subject to the exceptions in Paragraph 7.2, Exceptions, repurchase unused and undamaged Provisioning Items which (i) were recommended by Boeing in the Provisioning Data as initial provisioning for the Aircraft, (ii) were purchased by Customer from Boeing, and (iii) are surplus to Customer's needs.

7.2 Exceptions. Boeing will not be obligated under Paragraph 7.1, Obligation to Repurchase, to repurchase any of the following: (i) quantities of Provisioning Items in excess of those quantities recommended by Boeing in the Provisioning Data for the Aircraft, (ii) QEC Kits, bulk material bits, raw material kits, service bulletin kits, standards kits and components thereof (except those components listed separately in the Provisioning Data), (iii) Provisioning Items for which an Order was received by Boeing more than 8 months after delivery of the last Aircraft, (iv) Provisioning Items which have become obsolete or have been replaced by other Provisioning Items as a result of (a) Customer's modification of the Aircraft or (b) design improvements by Boeing or the vendor (other than Provisioning Items which have become obsolete because of a defect in design if such defect has not been remedied by an offer by Boeing or the vendor to provide no charge retrofit kits or replacement parts which correct such defect), and (v) Provisioning Items which become excess as a result of a change in Customer's operating parameters, provided to Boeing pursuant to the Initial Provisioning meeting in Paragraph 2, which were the basis of Boeing's initial provisioning recommendations for the Aircraft.

7.3 Notification and Format. Customer will notify Boeing, in writing, when Customer desires to return Provisioning Items which Customer's review indicates are eligible for repurchase by Boeing under the provisions of this Repurchase of Provisioning Items paragraph. Customer's notification will include a detailed summary, in part number sequence, of the Provisioning Items

Customer desires to return. Such summary will be in the form of listings, tapes, diskettes or other media as may be mutually agreed between Boeing and Customer, and will include part number, nomenclature, purchase order number, purchase order date and quantity to be returned. Within 5 business days after receipt of Customer's notification, Boeing will advise Customer, in writing, when Boeing's review of such summary will be completed, but in no case will the Boeing review be completed more than 30 days after receipt of Customer's notification.

7.4 Review and Acceptance by Boeing. Upon completion of Boeing's review of any detailed summary submitted by Customer pursuant to Paragraph 7.3, Boeing will issue to Customer a Material Return Authorization (MRA) for those Provisioning Items Boeing agrees are eligible for repurchase in accordance with this Repurchase of Provisioning Items paragraph. Boeing will advise Customer of the reason that any spare part included in Customer's detailed summary is not eligible for return. Boeing's MRA will state the date by which Provisioning Items listed in the MRA must be redelivered to Boeing and Customer will arrange for shipment of such Provisioning Items accordingly.

7.5 Price and Payment. The price of each Provisioning Item repurchased by Boeing pursuant to this Repurchase of Provisioning Items paragraph will be an amount equal to 100% of the original invoice price thereof. In the case of Provisioning Items manufactured by a vendor which were purchased pursuant to Paragraph 4, Purchase from Boeing of Spare Parts as Initial Provisioning for the Aircraft, hereof the repurchase price will not include Boeing's 12% handling charge. Boeing will pay the repurchase price by issuing a credit memorandum in favor of Customer which may be applied against amounts due Boeing for the purchase of aircraft, Spare Parts, services or data.

7.6 Delivery of Provisioning Items. Provisioning Items repurchased by Boeing pursuant to this Repurchase of Provisioning Items paragraph will be delivered to Boeing F.O.B. at its Seattle Distribution Center, or such other destination as Boeing may reasonably designate. Boeing will pay the freight charges for the shipment from Customer to Boeing of any such Provisioning Items.

8. Obsolete Spare Parts and Surplus Provisioning Items - Title and Risk of Loss.

Title to and risk of loss of any obsolete or unusable Spare Parts returned to Boeing pursuant to Paragraph 6, Substitution for Obsolete Spare Parts, will pass to Boeing upon delivery thereof to Boeing. Title to and risk of loss of any Spare Part substituted for an obsolete or unusable Spare Part pursuant to Paragraph 6, Substitution for Obsolete Spare Parts, will pass to Customer upon delivery thereof to Customer. Title to and risk of loss of any Provisioning Item repurchased by Boeing pursuant to Paragraph 7, Repurchase of Provisioning Items, will pass to Boeing upon delivery thereof to Boeing. With respect to the obsolete or unusable Spare Parts which may be returned to Boeing and the Spare Parts substituted therefor, pursuant to Paragraph 6, and the Provisioning Items which may be repurchased by Boeing, pursuant to Paragraph 7, the party which has risk of loss of any such Spare Part or Provisioning Item will have the responsibility of providing any insurance coverage for it desired by such party.

9. Supplier Support.

Boeing has entered, or anticipates entering, into product support agreements with suppliers (Boeing Suppliers) of major system components manufactured by such Suppliers to be installed on the Aircraft (Supplier Components). Such product support agreements commit, or are expected to commit, the Boeing Suppliers to provide to Boeing's customers and/or such customer's designees support services with respect to the Supplier Components which can be reasonably expected to be required during the course of normal operation. This support includes but is not limited to shelf-stock of certain spare parts, emergency spare parts, timely delivery of spare parts, and technical data related to the Supplier Components. Copies of such product support agreements will be provided to Customer on or about January 1, 1999, in Boeing Document D6-56115, Volumes 1 and 2. In the event Customer has used due diligence in attempting to resolve any difficulty arising in normal business transactions between Customer and a Boeing Supplier with respect to product support for a Supplier Component manufactured by such Supplier and if such difficulty remains unresolved, Boeing will, if requested by Customer, assist Customer in resolving such difficulty. Assistance will be provided by the Customer Supplier Services organization.

10. Termination for Excusable Delay.

In the event of termination of the Purchase Agreement with respect to any Aircraft pursuant to Article 7 of the AGTA, such termination will, if Customer so requests by written notice received by Boeing within 15 days after such termination, also

discharge and terminate all obligations and liabilities of the parties as to any Spare Parts which Customer had ordered pursuant to the provisions of this letter as initial provisioning for such Aircraft and which are undelivered on the date Boeing receives such written notice.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

November 16, 1998
2211-04

Continental Airlines, Inc.
1600 Smith
Houston, TX 77002

Subject: Flight Crew Training Spare Parts Support

Reference: Purchase Agreement No. 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-224ER
aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Definition of Terms:

Flight Crew Training: Flight training occurring immediately following delivery using Boeing facilities.

Removed Parts: Parts removed from an Aircraft during Flight Crew Training.

Replacement Parts: Parts taken from Boeing inventory and installed in an Aircraft because no Standby Parts are available.

Standby Parts: Parts which are owned by Customer and located at Customer's designated storage area at Boeing to support Flight Crew Training. The Standby Parts list, including part numbers, exact quantities and on-dock dates, will be established during the spares provisioning meeting.

Training Aircraft: The Aircraft delivered to Customer used for Flight Crew Training.

1. Provisioning of Spare Parts

To support Flight Crew Training, Boeing agrees to provide normal line maintenance and expendable spare parts at no charge on the Training Aircraft; and, Customer agrees to provide Standby Parts for the Training Aircraft.

If parts other than those discussed above fail, Boeing will attempt to provide Replacement Parts for those failed parts in order to prevent extended down time on the Training Aircraft. If Boeing is unable to provide Replacement Parts, Customer will be responsible for providing those parts.

2. Disposition of Removed Parts

Boeing may with Customer consent either:

(i) repair such Removed Parts, at no charge to Customer, and either retain such parts as Standby Parts or return the Removed Parts to Customer, at Customer expense; or

(ii) return the Removed Parts to Customer at Customer's expense; or

(iii) return the Removed Parts to the manufacturer for repair or replacement under such manufacturer's warranty. Upon Boeing's receipt of the repaired Removed Parts or their replacements, Boeing may retain such Removed Parts or their replacements as Standby Parts or return such Removed Parts or their replacements to Customer, at Customer's expense. Any Removed Parts returned to Customer, or replacements, will be accomplished in accordance with any written instructions from Customer received by Boeing prior to such return.

3. Payment for of Replacement Parts

Boeing will invoice Customer for Replacement Parts at Boeing's standard price for such part.

4. Redelivery of Standby Parts

Standby Parts not installed in the Training Aircraft will be redelivered to Customer on board the last aircraft used for Flight Crew Training.

5. Non-performance by Customer

If Customer's non-performance of obligations in this Letter Agreement causes a delay in the Flight Crew Training, Customer will be deemed to have agreed to any such delay in Flight Crew Training. In addition, Boeing will have the right to:

(i) purchase Standby Parts and invoice Customer for the price of such Parts and for any necessary adjustment and calibration of such Parts;

(ii) cancel or reschedule the Flight Crew Training, or

(iii) invoice Customer for any out-of-pocket expenses, including but not limited to ground handling expenses, maintenance costs and storage costs, that are directly attributable to the delay in the Flight Crew Training.

6. Customer Warranty

Customer warrants that the Standby Parts will meet the requirements of the Detail Specification and be in a condition to pass Boeing's receiving inspection and functional test, and if not in a new condition, will have an attached FAA Serviceable Parts Tag.

7. Title and Risk of Loss

Title to and risk of loss of any Standby Parts or Removed Parts will remain with Customer. Boeing will have only such liability for Standby Parts and Removed Parts as a bailee for mutual benefit would have, but will not be liable for loss of use. For Replacement Parts, title will transfer to Customer at the time such part is installed on the Training Aircraft.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

November 16, 1998
2211-05

Continental Airlines, Inc.
1600 Smith
Houston, TX 77002

Subject: Escalation Sharing

Reference: Purchase Agreement No. 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-224ER
aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Commitment.

Boeing agrees to share one-half of the escalation, up to a maximum of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] percent, in the last half of the year 1998 according to the terms in paragraph 2 below. This applies to any of Customer's aircraft which are scheduled to deliver after July 1, 1998. For the purpose of this Letter Agreement such aircraft are referred to as "Eligible Aircraft."

All escalation calculations under this Letter Agreement will be made in accordance with Exhibit D to the AGTA between Boeing and Customer, using actual escalation indices published for the applicable period.

2. Escalation Credit Memo.

2.1 Calculation - Eligible Aircraft Delivering in July 1998 or later.

At the time of delivery of each Eligible Aircraft delivering in July 1998 or later, Boeing will issue to Customer a credit memorandum (the 1998 Credit Memorandum) which will be applied to the Aircraft Price of such Eligible Aircraft. The 1998 Credit Memorandum is calculated as follows:

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.2 Eligible Aircraft Delivering 1999 or later.

For Eligible Aircraft delivering during or after the calendar year 1998, the amount of the Credit Memorandum will be the amount calculated pursuant to paragraph 2.1 above. This credit memorandum amount will be escalated from December 1998 to the month of delivery for Eligible Aircraft delivering after 1998.

3. Advance Payment Base Price.

It is agreed that the Advance Payment Base Prices for the Eligible Aircraft set forth in the Purchase Agreement include an estimate for the escalation sharing Credit Memorandum pursuant to this Letter Agreement.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

November 16, 1998
6-1162-JMG-0089

Continental Airlines, Inc.
1600 Smith
Houston, TX 77002

Subject: Aircraft Performance Guarantees

Reference: Purchase Agreement No. 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-
224ER aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to provide Customer with the performance guarantees in the Attachment hereto. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

Boeing and Customer understand that certain information contained in this Letter Agreement, including any attachments hereto, are considered by both parties to be confidential. Boeing and Customer agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR
CONFIDENTIAL TREATMENT]

November 16, 1998
6-1162-JMG-0090

Continental Airlines, Inc.
1600 Smith
Houston, TX 77002

Subject: Promotion Support

Reference: Purchase Agreement No. 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-
224ER aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to make available to Customer [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] U.S. Dollars) for Customer's marketing and promotion programs associated with the introduction of the first Aircraft into service, and [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] U.S. Dollars) for each subsequent Aircraft delivered within two years after the delivery of the first Aircraft. These programs may include marketing research; tourism development; corporate identity; direct marketing; video tape, or still photography; planning, design and production of collateral materials; management of promotion program and advertising campaigns.

Boeing's obligation to provide the support will commence at the time the purchase of the Aircraft becomes firm (not subject to cancellation by either party) and will [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. There will be no cash payments or other support in lieu thereof.

Following the execution of this Letter Agreement, a Boeing Airline Promotion representative will meet with Customer's designated representative to discuss the extent, selection, scheduling, and funds disbursement process for the program.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

November 16, 1998
6-1162-JMG-0092

Continental Airlines, Inc.
1600 Smith
Houston, Texas 77002

Subject: Special Matters

Reference: Purchase Agreement No. 2211 (the Purchase Agreement)
between The Boeing Company (Boeing) and Continental
Airlines, Inc. (Customer) relating to Model 767-
224ER aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used and not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Credit Memoranda.

In consideration of Customer's purchase of Model 767-224ER Aircraft, Boeing shall issue at the time of delivery of each Aircraft and Option Aircraft, a credit memorandum in an amount equal to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. The credit memorandum is subject to the same airframe escalation as is used to calculate the Aircraft Price at the time of delivery. The credit memorandum may be used by Customer for the purchase of Boeing goods and services or applied to the balance due at the time of Aircraft delivery.

2. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

2.2 Option Aircraft. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

3. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

5. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

6. Option Aircraft.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

7. Aircraft Invoices.

[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

8. Assignment of Credits.

Customer may not assign the credit memoranda described in this Letter Agreement without Boeing's prior written consent [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

9. Confidential Treatment.

Boeing and Customer understand that certain information contained in this Letter Agreement, including any attachments hereto, are considered by both parties to be confidential. Boeing and Customer agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 16, 1998

CONTINENTAL AIRLINES, INC.

By /s/ Brian Davis

Its Vice President

AIRPORT USE AND LEASE AGREEMENT

by and between

CITY OF HOUSTON

and

CONTINENTAL AIRLINES, INC.

Effective January 1, 1998

TABLE OF CONTENTS

	Page
Article I	
DEFINITIONS	
Article II	
RIGHTS AND PRIVILEGES	
Section 2.01.	Use of Airport 7
Section 2.02.	Rights Reserved by City. 8
Section 2.03.	Limitations of Use of Airport. 9
Section 2.04.	Parking. 10
Section 2.05.	Ingress and Egress 10
Section 2.06.	Sales or Distribution of Food / Beverages. 11
Section 2.07.	Use of IAB Facilities for International Arriving Passengers. 12
Article III	
TERM	
Section 3.01.	Term 13
Section 3.02.	Option to Extend Term of Terminal B Lease. 13
Section 3.03.	Airline's Rights Upon Expiration or Early Termination of Agreement 13
Article IV	
LEASED PREMISES	
Section 4.01.	Terminal B Leased Premises 14
Section 4.02.	Terminal C Leased Premises 18
Section 4.03.	Airline's Use of Terminal Improvements and Ground Lease Premises Conveyed By B Special Facilities Lease 19
Section 4.04.	Surrender of Leased Premises 19
Section 4.05.	Covenant Against Liens 20
Section 4.06.	Quiet Enjoyment. 20
Article V	
RENTALS AND FEES	
Section 5.01.	General. 21
Section 5.02.	Statistical Report 21
Section 5.03.	Terminal Building Rentals. 22
Section 5.04.	Security Fees. 22
Section 5.05.	Apron Fees / Ground Area Rental. 22
Section 5.06.	Landing Fees 22
Section 5.07.	Other Fees and Charges 22
Section 5.08.	Security Deposit 23
Section 5.09.	Payment Provisions 23
Section 5.10.	No Other Fees and Charges. 24
Article VI	
RECALCULATION OF RENTALS AND FEES	
Section 6.01.	General. 25
Section 6.02.	Terminal Rental Rates. 25
Section 6.03.	Apron Fee Rates. 26
Section 6.04.	Landing Fee Rate 28
Section 6.05.	Automated People Mover System Costs. . . . 28
Section 6.06.	Mid-Year Rate Adjustments. 29
Section 6.07.	Year-End Adjustment to Actual

and Settlement 30

Article VII

CONSTRUCTION OF IMPROVEMENTS

Section 7.01. Construction By City 31
Section 7.02. Construction By Airline. 32
Section 7.03. Future Capital Improvements. 33

Article VIII

OPERATION AND MAINTENANCE

Section 8.01. Obligations of City. 34
Section 8.02. Obligations of Airline 35

Article IX

INDEMNIFICATION

Section 9.01. Release and Indemnification of City. . . . 37

Article X

INSURANCE

Section 10.01. General. 39
Section 10.02. Risks and Minimum Limits of Coverage . . . 39
Section 10.03. Other Provisions 40

Article XI

DAMAGE OR DESTRUCTION OF LEASED PREMISES

Section 11.01. Leased Premises Inhabitable. 43
Section 11.02. Leased Premises Uninhabitable. 43
Section 11.03. Automatic Termination. 43
Section 11.04. Airline Improvements 43
Section 11.05. Insurance. 44

Article XII

TERMINATION

Section 12.01. Termination by City. 45
 Section 12.02. Termination by Airline 46

Article XIII

ASSIGNMENT AND SUBLETTING

Section 13.01. Assignment and Subletting. 48

Article XIV

MISCELLANEOUS PROVISIONS

Section 14.01. Rules and Regulations. 49
 Section 14.02. Compliance with Law. 49
 Section 14.03. Nondiscrimination. 53
 Section 14.04. Payment of Taxes 54
 Section 14.05. Right to Lease to United States Government 54
 Section 14.06. Notice or Consent. 55
 Section 14.07. Rights Reserved to City. 55
 Section 14.08. Favored Nations. 55
 Section 14.09. Right of Entry 55
 Section 14.10. Notices. 56
 Section 14.11. City's Right to Audit Books and Records. . 57
 Section 14.12. Force Majeure. 57
 Section 14.13. Non-Waiver 57
 Section 14.14. Place of Payments. 57
 Section 14.15. Nonliability of Individuals. 57
 Section 14.16. Remedies to be Nonexclusive. 58
 Section 14.17. Exclusiveness of Airline's Rights. 58
 Section 14.18. Other Land and Buildings Excluded. 58
 Section 14.19. Titles 58
 Section 14.20. Invalid Provisions 58
 Section 14.21. Enforcement. 58
 Section 14.22. Operation of Airport 59
 Section 14.23. Entire Agreement 59
 Section 14.24. Successors and Assigns 59
 Section 14.25. Subordination. 59

EXHIBITS

Airport Layout and Cost Center Plan
 Terminal B
 Terminal C
 Illustrative Calculation of Gate Use Fee
 Statistical Report Format
 Illustrative Calculation of Rates and Charges
 Terminal B Improvements
 Terminal C Improvements.

Article I

DEFINITIONS

The following words and phrases, wherever used in this Agreement, shall, for the purpose of this Agreement, have the following meanings:

1. "Airline" means the entity that has executed this Agreement and that is identified in the first paragraph of this Agreement. However, for purposes of the enjoyment of the rights conferred on Airline hereunder, it is agreed that any subsidiary of Airline that is wholly owned as of the date hereof (a "subsidiary") shall have the rights afforded Airline hereunder without payment of any additional charges or premiums; provided, however, that Airline shall be responsible for the actions of (including the payment of any activity fees incurred by) any such subsidiary while such subsidiary operates at the Airport until Airline notifies the City in a writing delivered to the City, that Airline will no longer be responsible for the actions (or activity fees) of such subsidiary, which notice Airline shall have the right to give only if such subsidiary ceases to be a wholly-owned subsidiary of Airline, and if such notice is given, then from and after (but not until) the date that the City approves (if at all) a partial assignment by Airline to such subsidiary of the space at the Airport occupied by such subsidiary (along with a partial assignment of the rights utilized by such subsidiary in connection with its operations at the Airport) in accordance with the provisions of Section 13.01 hereof, Airline shall no longer be responsible for the actions (or activity fees) of such subsidiary.

2. "Airport" means George Bush Intercontinental Airport/Houston, Texas, as generally depicted in Exhibit A, Airport Layout and Cost Center Plan, attached hereto and made a part hereof, as it now exists or may be modified or expanded from time to time in the future.

3. "Airport System" means all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes "George Bush Intercontinental Airport/Houston," "William P. Hobby Airport", "Ellington Field" and the "CBD Heliport."

4. "Airport Cost Centers" means the direct cost areas to be used in accounting for Airport costs for the purposes of calculating compensatory rates and charges hereunder, as depicted in Exhibit A, Airport Layout and Cost Center Plan, as such areas now exist or may hereafter be modified or expanded and as more particularly described below:

A. "Terminal A Airline Area" means the space in Terminal A leased to or available for lease to airlines.

B. "Terminal A Public Area" means the space in Terminal A available for public circulation and waiting, rest rooms, and concessions.

C. "Terminal A Apron Area" means the apron area at Terminal A.

D. "Terminal B Airline Area" means the space in Terminal B leased to or available for lease to airlines, as depicted in Exhibit B.

E. "Terminal B Public Area" means the space in Terminal B available for public circulation and waiting, rest rooms, and concessions, as depicted in Exhibit B.

F. "Terminal B Apron Area" means the apron area at Terminal B, as depicted in Exhibit B.

G. "Terminal C Airline Area" means the space in Terminal C leased to or available for lease to airlines, as depicted in Exhibit C.

H. "Terminal C Public Area" means the space in Terminal C available for public circulation and waiting, rest rooms, and concessions, as depicted in Exhibit C.

I. "Terminal C Apron Area" means the apron area at Terminal C, as depicted in Exhibit C.

J. "IAB Airline Area" means the space in Terminal IAB leased to or available for lease to airlines.

K. "IAB Public Area" means the space in Terminal IAB available for public circulation and waiting, rest rooms, and concessions.

L. "IAB Apron Area" means the apron area designated at Terminal IAB.

M. "Airfield" means the runways, taxiways, and apron areas (other than the Terminal A Apron Area, the Terminal B Apron Area, and the Terminal C Apron Area, IAB Apron Area, and common use cargo aprons), navigational aids, hazard designation and warning devices, airfield security roads and fencing, blast fencing, lighting, clear zones and safety areas for landing, taking off and taxiing of aircraft, aviation easements, land utilized in connection therewith or acquired for such purpose, and facilities, the acquisition, construction or installation cost of which is wholly or partially paid by the City, as depicted in Exhibit A.

N. "International Airlines Building" or "IAB" means the Mickey C. Leland International Airlines Building as may be modified or expanded and all appurtenances thereto, as depicted in Exhibit A.

5. "Amortization" means the level annual charge required to recover the net cost of a Capital Improvement over the Useful Life of such Capital Improvement at the City's Cost of Capital.

6. "Automated People Mover" or "APM" means the automated people mover system the first phase of which, connecting Terminals B and C, is to be designed and constructed by Airline as part of the Continental Special Facilities and financed with the Series 1997A SFRBs, as further described in Section 7.02 hereof and which may be expanded from time to time.

7. "Base Capital Charge" means the fixed annual charge per square foot to be charged for certain Leased Premises as herein provided, the original cost of which has been fully amortized.

8. "Capital Improvement" means any improvement or asset, or series of related improvements or assets, acquired or constructed by City at the Airport, including without limitation any security facilities or equipment under Section 5.04, which has a net cost of \$150,000 or more (adjusted annually for changes in the Consumer Price Index from July 1, 1998 to a maximum of \$300,000) and a Useful Life of more than one year (but excluding facilities acquired or constructed with the proceeds of special facility revenue bonds which are secured solely by the net rent payable under the special facility lease for such facility and which debt service is in fact retired in such manner, unless such facilities are subsequently acquired by City). For the purposes of this Agreement, the net cost of each Capital Improvement shall be the total cost (including actual construction costs; architectural and engineering fees, program management fees, testing and inspection fees, construction management fees, permit fees, and other direct or allocable fees; interest during construction; and allocable out-of-pocket financing costs) less any grants-in-aid or similar amounts used in financing the Capital Improvement.

9. "City" means the City of Houston, Texas, or such other agency, board, authority, or private entity which may succeed to the jurisdiction of City over the Airport.

10. "Cost of Capital" means (a) for Capital Improvements financed with Airport System Revenue Bonds, the effective interest rate on the Bonds used to finance the particular Capital Improvement and (b) for Capital Improvements financed with other Airport funds, the current Revenue Bond Index (of 22-year+, "A" rated bonds) published daily in the Wall Street Journal (or successor publication thereto), on June 30 of the year the Capital Improvement is placed in service.

11. "Director" means the Director of City's Department of Aviation or his or her designee, or such other officer to whom the duties and authority of the Director may be assigned by the City Council of City or by any agency, board or authority which may subsequently succeed to the jurisdiction of City over the Airport.

12. "Fiscal Year" refers to City's fiscal year and means the twelve-month period commencing July 1 and extending through June 30 of the following calendar year, or such other fiscal year as City Council may establish by ordinance.

13. "Ground Handling Agreement" means an agreement between Airline and a third party (including another airline) governing the provision of Ground Handling Services by Airline to another airline or to Airline by a third party.

14. "Ground Handling Services" means any of the following: on and off loading of passengers, baggage, mail or cargo; into-plane fueling; servicing aircraft lavatories; providing ground

power, potable water and preconditioned air; cleaning the interior or exterior of aircraft; and emergency maintenance of aircraft engines and systems, and any other similar ground services.

15. "Hazardous Materials shall be interpreted in the broadest sense to include any and all substances, materials, wastes, pollutants, oils, or governmental regulated substances or contaminants as defined or designated as hazardous, toxic, radioactive, dangerous, or any other similar term in or under any of the Environmental Laws, including but not limited to, asbestos and asbestos containing materials, petroleum products including crude oil or any fraction thereof, gasoline, aviation fuel, jet fuel, diesel fuel, lubricating oils and solvents, urea formaldehyde, flammable explosives, PCBs, radioactive materials or waste, or any other substance that, because of its quantity, concentration, physical, chemical, or infectious characteristics may cause or threaten a present or potential hazard to human health or the environment or which may impair the beneficial use of property for Airport purposes. Hazardous Materials shall also mean any and all hazardous materials, hazardous wastes, toxic or hazardous substances, or substances regulated under any Environmental Laws set forth in Section 14.02.C.1. hereof.

16. "Leased Premises" means the Exclusive Use Space and the Preferential Use Apron Area leased to Airline pursuant to Sections 4.01 and 4.02 hereof.

17. "Mayor" means the Mayor of the City of Houston or such other officer to whom the duties and authority of the Mayor may be assigned by the Charter of the City of Houston or by an act of the Legislature of the State of Texas or by any agency, board, or authority which may succeed to the jurisdiction of City over the Airport.

18. "Operation and Maintenance Expenses" means all reasonable and necessary current expenses of City, paid or accrued, of operating, maintaining, repairing, and administering the Airport; including, without necessarily limiting thereto, salaries and wages, fringe benefits, contractual services, utilities, professional services, police protection services, fire protection services, administrative expenses, the cost of materials and supplies used for current operations, equipment, insurance premiums, the reasonable charges of any paying agents and any other depository bank pertaining to the Airport, as well as overhead expenses of (a) the Department of Aviation (which shall be fairly allocated among City's airport facilities in accordance with generally accepted accounting practices) and (b) other City departments whose services are directly related or reasonably allocable to the administration of the Airport (which shall be determined in accordance with a City-wide administrative cost allocation plan then in effect); provided, however, Operation and Maintenance Expenses shall not include any allowance for depreciation, payments in lieu of taxes, Capital Improvements, any charges for the accumulation of reserves for capital replacements or charges resulting from the negligence or breach of existing agreements by the City, its employees or contractors.

19. "Renewal and Replacement Fund" means the Airport System Renewal and Replacement Fund established by the City's Airport System Revenue Bond ordinances.

20. "Special Facilities" means the Special Facilities defined and described in the Special Facilities Leases which have been financed with the Special Facilities Revenue Bonds, including the Automated People Mover Project, the Terminal Improvements Project, and the Airport Improvements Project, and any additional special facilities which may be undertaken from time to time hereafter pursuant to the Special Facilities Leases and financed with additional Special Facilities Revenue Bonds.

21. "Special Facilities Leases" means the Special Facilities Lease Agreements for the Automated People Mover Project (the "A Special Facilities Lease"), the Terminal Improvements Project (the "B Special Facilities Lease"), and the Airport Improvements Project (the "C Special Facilities Lease") between City and Airline with respect to the Special Facilities, all of which are dated March 1, 1997.

22. "Special Facilities Revenue Bonds" or "SFRBs" means the City of Houston, Texas, Airport System Special Facilities Revenue Bonds, Series 1997A (Automated People Mover Project), Series 1997B (Continental Airlines, Inc. Terminal Improvement Projects), and Series 1997C (Continental Airlines, Inc. Airport Improvement Projects) issued by the City on behalf of Airline to finance the Special Facilities, and any additional bonds or refunding bonds which may be issued from time to time hereafter under the trust indentures for the SFRBs and any supplements thereto.

23. "Systems" means the systems, facilities and improvements located on and serving the Airport, including but not limited to:
(a) the access roads and other roadways serving the terminal

complex; (b) the interterminal passenger transportation system; (c) the heating, ventilation, and air conditioning (HVAC) plant and related distribution systems; (d) terminal building mechanical areas and systems; and (e) the incinerators / compactors.

24. "Systems Costs" means the total of annual Operation and Maintenance Expenses and annual Amortization charges associated with each of the Systems.

25. "Useful Life" means the estimated period of time that a Capital Investment is to be recovered through the Amortization process. In general, Useful Lives will be assigned to Capital Improvements by the Director based on generally accepted airport accounting practices. For purposes of calculating rates and fees under this Agreement, improvements to Terminals B and C financed by City will be assigned Useful Lives of 20 years.

Article II

RIGHTS AND PRIVILEGES

Section 2.01. Use of Airport

As long as it does so in accordance with the terms and provisions hereof, Airline, in common with all other scheduled airlines using the Airport, may utilize the Airport (other than the exclusive space of other tenants) and its facilities for the purpose of conducting Airline's business of a scheduled air carrier certificated or otherwise authorized by the United States Government to engage in the business of commercial air transportation of persons, property, cargo, and mail (hereinafter sometimes referred to as "air transportation business"). The privileges granted hereby include the following:

A. The use of landing field areas, aprons, roadways, runways, taxiways, runway and taxiway lights, beacons, facilities, equipment, improvements, services and other conveniences for flying, landing, taxiing and takeoffs of aircraft.

B. The landing, taking-off, flying, taxiing, towing, loading and unloading of aircraft and other equipment used by Airline in its operation of its air transportation business.

C. The repairing, maintaining, conditioning, servicing, testing, including engine "runups" subject to Section 2.03.E. hereof, loading, unloading, parking and storing of aircraft or other equipment of Airline in areas on the Airport designated by the City for such purposes.

D. The training of personnel in the employ of or to be employed by Airline including employees of Airline's contract service providers.

E. The installation, maintenance and operation, at Airline's expense, by Airline alone, or in conjunction with any other airline or airlines who are lessees at the Airport or through a nominee, of radio, telephone, and data communications equipment and meteorological and aerial navigation equipment and facilities in or on the Leased Premises leased exclusively to Airline for use by Airline in the conduct of its air transportation business; provided, however, that any exterior installations shall be subject to the prior written approval of the Director.

F. The selling, exchanging or disposing of gasoline, oil, grease, lubricants, fuels, or propellants for use by Airline in connection with the conduct of its air transportation business (in compliance with existing laws and any applicable agreement therefor).

G. The purchasing or otherwise obtaining of services or personal property of any nature including aircraft, engines, accessories, gasoline, oil, greases, lubricants, fuels, propellants, food, beverages, and other equipment or supplies necessary to Airline in the conduct of its air transportation business and in the exercise of its rights and privileges herein granted and in the discharge of the obligations herein imposed upon Airline.

H. The installing, maintaining, and operation, without cost to City, by Airline alone or in conjunction with any other airline lessee or lessees on the Airport, of communication systems between suitable locations in the terminal area, subject to the approval of the Director as to location of the installation of said system.

I. The transporting, directly or through a nominee of Airline's choice, of Airline's employees, passengers, cargo, property (including baggage) and mail to, from and at the Airport.

J. Subject to the prior written approval of the Director, the installation and maintenance at Airline's expense, on Leased Premises leased to it or under its control, of advertising or identifying signs representing its business. Such signs shall be uniform in size, type and location as approved by the Director and shall be consistent with published Department of Aviation signage criteria.

K. The conduct of any other operation or activity that is necessary for or related to Airline's air transportation business, subject to the provisions of Section 2.02. hereof.

L. Ground Handling of Airline by Others. Airline may contract with, or receive from other airlines serving the Airport or other companies, Ground Handling Services for Airline's aircraft, provided that Airline provides advance written notice to the Director (or his designated representative) of such arrangements and uses reasonable efforts to ensure that such other

airline or other company shall have entered into an operating permit or agreement or other similar contract with City prior to commencing Ground Handling Services with Airline.

M. Ground Handling of Others by Airline. Airline may provide Ground Handling Services to aircraft of other airlines using the Airport provided that Airline provides advance written notice to the Director (or his designated representative) of such arrangements and uses its best efforts to ensure that such other airline has entered into an operating permit or agreement or similar contract with City prior to conducting its operations at the Airport. Airline's insurance, as required in this Agreement, shall provide insurance coverage for such Ground Handling Services.

Section 2.02. Rights Reserved by City

A. City reserves the exclusive right to itself, its agents and its franchisees, to operate all concession services (including but not limited to food/beverage and news/gift concessions, specialty retail shops and carts, vending machines, pay telephones, fax machines and other voice and data telecommunications systems, advertising displays, baggage lockers and baggage carts) in the public use areas of Terminals A, B, and C and the IAB (including public use Leased Premises such as holdrooms and baggage claim areas with prior notice to Airline and providing Airline the ability to comment) and to retain the revenue therefrom; provided however, that City agrees that no concession services shall be located or operated by City or its nominees in any non-public use Exclusive Use Space without Airline's prior consent and providing that City shall not exercise such right in a manner that will materially impede passenger ingress or egress or Airline's business operations.

B. City shall operate all concessions and provide such other services (with reasonable due consideration to requests made by Airline) for scheduled airline passenger operations at the Airport as it deems necessary or appropriate. Nothing herein shall limit or preclude City from operating whatever concessions or providing whatever services it may desire at any and all airports and other facilities owned by City.

Section 2.03. Limitations of Use of Airport

A. Use of Facilities. Airline shall not knowingly permit any act or omission at or about the Airport that may interfere with the effectiveness or accessibility of the drainage and sewage system, electrical system, heating and air conditioning system, fire protection system, sprinkler system, alarm system, fire hydrants and hoses, and security systems, if any, installed or located on or within the Leased Premises or the Airport.

B. Insurance Requirements Compliance. Airline shall not knowingly permit any act upon the Airport that will invalidate or conflict with any fire or other casualty insurance policies (copies of which, together with premium schedules, shall be furnished to Airline on request) covering the Airport or any part thereof.

C. Waste Disposal. Airline shall not dispose of or knowingly permit disposal of any waste material taken from or products used (whether liquid or solid) with respect to its aircraft into the sanitary or storm sewers at the Airport unless such waste material or products shall first be properly treated by equipment installed for that purpose or otherwise disposed of pursuant to law. In addition to obtaining approval from the governmental agencies regulating equipment and disposal described in this paragraph, Airline shall also obtain the approval of the Director. All such disposal shall comply with regulations of the United States Department of Agriculture and shall be in compliance with Section 14.02 of this Agreement.

D. Flammable Liquids. Airline shall not keep or store, during any 24-hour period, flammable liquids within the enclosed portion of the Leased Premises in excess of Airline's working requirements during said 24-hour period, except in storage facilities especially constructed for such purposes in accordance with standards established by the National Board of Fire Underwriters and approved by a governmental agency with authority to inspect such facilities for safety compliance. Any such liquids having a flash point of less than 100 degrees fahrenheit shall be kept and stored in safety containers of a type approved by the Underwriters Laboratories.

E. Engine Runups. Airline shall perform aircraft engine runups only at locations and during time periods approved in writing in advance by the Director.

F. Other. Airline's use of the Airport shall be limited to activities directly connected to the transportation of passengers, persons, property, cargo and mail by air, and Airline shall not enter into activities which compete with City in City's

development of any revenue from Airport passengers, tenants, and other users. However, it is the intent of the foregoing that Airline shall be permitted to continue to conduct any activity that Airline was currently conducting as of July 1, 1996.

Section 2.04. Parking

A. In the event City develops or causes to be developed an area or areas at the Airport as common parking facilities for the employees of Airline and other Airport tenants, the Director, in consultation with the Airline, will determine a reasonable charge for the use of such facilities to cover return on capital investment and costs associated with their development, operation, supervision and maintenance. Public vehicular parking facilities will be provided by City at reasonable charges to be determined by City.

B. Only employees of Airline may park on such employee parking facilities.

Section 2.05. Ingress and Egress

Subject to the other provisions hereof and to the rules and regulations adopted by City under the provisions of Article XIV hereof, the following privileges of ingress and egress with respect to the Airport are hereby granted:

A. For Airline, its agents, employees, contractors, subcontractors and permitted sublessees and assigns: To the public areas of the Airport and to those areas and facilities designated herein for exclusive use by Airline or by Airline in common with other airlines. This right shall extend to Airline's aircraft, vehicles, machinery and equipment used in its air transportation business.

B. For Airline's passengers, guests and invitees: To areas leased exclusively to Airline and to areas provided for use of Airline's passengers, guests and invitees in common with those of other airlines and to public areas and public facilities. This privilege shall extend to vehicles of such passengers, guests and invitees.

C. For Airline's suppliers of materials and furnishers of service: To the public areas of the Airport and to areas and facilities leased exclusively to Airline and to areas and facilities provided for the common use by Airline or its suppliers of materials and furnishers of services. This privilege shall extend to vehicles, machinery or equipment of such suppliers and furnishers used in their business of furnishing such supplies and services to Airline.

The ingress and egress provided for above shall not be used, enjoyed or extended to any person, airline or vehicle engaging in any activity or performing any act or furnishing any service for or on behalf of Airline that Airline is not authorized to engage in or perform under the provisions hereof unless expressly authorized by the Director.

Section 2.06. Sales or Distribution of Food / Beverages

A. Distribution of In-Flight Food/Beverages. The distribution, serving or sale of food and/or beverages (including alcoholic beverages) meant to be consumed aboard Airline's aircraft by Airline or its in-flight catering provider shall be limited to Airline's passengers who are in the passenger loading bridge or entrance to the passenger loading bridge and in the process of boarding Airline's aircraft. The provisions of this section notwithstanding, all distribution of alcoholic beverages shall comply with applicable laws.

Distribution of food and/or beverages (at no cost to the public) by Airline shall be permitted in passenger holdrooms with twenty-four hours advance written notice to the Director for up to eight (8) days (inclusive of partial days of distribution) per year in connection with holidays and promotional events. All food and/or beverages so distributed shall be purchased from the City's food and beverage concessionaires operating at the Airport (if such food and beverage products are available from such concessionaires after reasonable inquiry of such concessionaires by Airline), except for soft drinks, bottled water, canned juice, coffee and packaged Airline snacks which shall be supplied by Airline's in-flight catering provider. Airline shall have the right to request in writing to the Director additional days to distribute packaged Airline snacks and/or beverages in passenger holdrooms. The Director, in his sole discretion, shall give Airline written notice of his decision regarding any such request.

B. Club Rooms. Airline shall have the right to utilize space in Terminal B and Terminal C for the purpose of maintaining and operating club rooms for its guests, invitees, and passengers and may serve beverages, including alcoholic beverages,

and appetizers therein with or without charge and subject to all applicable laws, regulations and ordinances; provided, however, that the City reserves the right to charge Airline applicable percentages of its gross revenues from the sale of food and beverages consistent with the percentages charged to its food and beverage concessionaires at the Airport, not to exceed 10% on the sale of food and nonalcoholic beverages and 15% on the sale of alcoholic beverages; provided that no such payment shall be required with respect to items obtained from concessionaires already obligated to make such payments to City with respect to such obtained items.

C. Cafeteria / Vending Machines. Airline or its nominee may install, maintain and operate a cafeteria for use only by Airline's employees and vending machines for Airline employees and contractors in Airline's Exclusive Use Space not accessible to the public.

D. Other Distribution of Food/Beverages Prohibited. Except as allowed in this Section 2.06, all other serving, distribution or sale of food or beverages by Airline at the Airport is prohibited.

Section 2.07. Use of IAB Facilities for International Arriving Passengers

During the first ten (10) years of this Agreement (January 1, 1998 through December 31, 2007), all arriving international passengers who have not been pre-cleared shall be processed through the Federal Inspection Services facilities in the IAB.

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Article III

TERM

Section 3.01. Term

A. The term of this Agreement with respect to Airline's use of the Airport and its Leased Premises in Terminal C, shall begin on January 1, 1998 and end on December 31, 2017.

B. The term of this Agreement with respect to Airline's use of its Leased Premises in Terminal B, shall begin on January 1, 1998 and end on December 31, 2007, with a ten (10) year option as provided in Section 3.02 below.

Section 3.02. Option to Extend Term of Terminal B Lease

Airline is hereby granted the option to extend the term of its use of its Leased Premises in Terminal B for an additional ten (10) years through December 31, 2017, by giving written notice to City on or before June 30, 2007, unless the City (A) elects in writing, prior to June 1, 2007, to (1) exercise certain rights as provided in Section 7.01.F hereof and Section 7.03 (a) and (d) of the A Special Facilities Lease to purchase, acquire, and/or assume Airline's leasehold obligations for the B-C Link of the APM and (2) purchase all of Airline's rights to the Special Facilities located in Terminal B (other than the ground support equipment and, if built, the baggage transfer facility) as provided in Section 7.04 of the B Special Facilities Lease and (B) exercises such rights before December 31, 2007.

Section 3.03. Airline's Rights Upon Expiration or Early Termination of Agreement

Upon expiration or early termination of this Agreement, all of Airline's rights, authority, and privileges to use the Leased Premises, services and facilities of the Airport as herein granted shall cease.

Article IV

LEASED PREMISES

Section 4.01. Terminal B Leased Premises

A. Exclusive Use Space. Airline hereby leases from City and City hereby leases to Airline for its exclusive use the areas in Terminal B shown in Exhibit B, attached hereto and by reference made a part hereof for all purposes, which areas are to be used for the general purposes shown, as summarized below:

Type of Space	Area (sq. ft.) as of July 1, 1998	Estimated Area (sq. ft.)* as of Feb. 1, 1999
Ticket counter	1,641	1,641
Ticket counter queuing	2,038	2,038
Ticket office	3,881	3,645
Baggage claim	3,967	7,934
Baggage make-up	13,314	29,395
Curb check-in	242	484
Operations	27,362	37,078
Baggage service office	409	844
Security	954	1,942
Other offices	1,627	1,721
Holdrooms	32,891	41,573
Club rooms	4,219	4,430
Baggage cart circulation	8,890	17,780
Special Facilities space - Series B Mezzanine Level	5,174	5,174

*Square footage subject to final verification based on as-built drawings.

The space indicated on Exhibit B as Special Facilities space - Series A is included as part of the Ground Lease Properties under the A Special Facilities Lease and is expressly excluded from Airline's Leased Premises under this Agreement.

B. Preferential Use Apron Area.

1. Designation of Preferential Use Apron Area.

Airline hereby leases from City and City hereby leases to Airline for its preferential use, but not for its exclusive use, the apron area at Terminal B including 6,532 sq. ft. of Special Facilities space - Series B located on the apron level as shown in Exhibit B, attached hereto and by reference made a part hereof for all purposes.

2. Nonpreferential Use of Airline's Apron Area by Other Airlines.

Airline is being granted preferential use of said apron area, but not exclusive use. At those times that Airline has no scheduled use for an aircraft parking position on Airline's apron area and there are no other aircraft parking positions at the Airport available for use, Airline shall allow other scheduled or nonscheduled airlines authorized by City to use Airport facilities to use such aircraft parking position as circumstances and the public interest may require for loading and unloading only, but in no event shall said use by others take precedence over Airline's use. Airline shall have the right to limit the duration of such usage to the actual time required for unloading, loading, and flight service operations and may require that such user tow off and back on to accommodate Airline's use. When such use is to be made of Airline's apron area, Airline shall be properly compensated for such use by the user of the facilities based on and in accordance with the attached Illustrative Calculation of Gate Use Fee in Exhibit D hereof.

3. Parking of Airline's Aircraft.

Airline shall have the right to locate any number of aircraft within the Terminal B Apron Area for the purpose of loading and unloading passengers, baggage, cargo and mail; provided, that Airline shall not park aircraft in such a manner as would prohibit access, ingress, and egress to and from all aircraft parking positions by aircraft, ramp equipment, and traffic of other airlines or would prohibit the movement of aircraft and ramp equipment to and from the most convenient taxiway and terminal building.

C. City's Right to Review Space Utilization and Take Back Space.

1. In July, 2003, City will evaluate Airline's

utilization of Terminal B in terms of average number of daily flights per gate for the immediately preceding six-month period (January through June 2003, referred to hereafter as the "Test Period"). If Airline's average gate utilization is less than four flights per day during the Test Period (determined by taking the

total number of scheduled flights during the Test Period by Airline, its code-share airlines, Continental Express, Inc. and other scheduled airlines for which Airline has a ground handling agreement, and dividing by the product of total number of available gates in Terminal B times 181 days) the Director may within 180 days of the conclusion of the Test Period, at his option and in order to accommodate the needs of other airline users of the Airport, require in writing Airline to relinquish (as hereinbelow provided) (1) a proportionate number of its gates at Terminal B such that, on a pro-forma basis, excluding such relinquished gates, the remaining gates would have demonstrated an average utilization of at least 4 flights per day during the Test Period and (2) a substantially identical proportionate amount of holdroom, operations, ticket counter, ticket office, baggage make-up, and baggage claim space.

2. In the event Director requires Airline to relinquish such space and gates, Director and Airline will confer to determine which gates and space will be relinquished. Airline will be required to relinquish contiguous gates, holdrooms and other exclusive leased space. City and Airline shall conduct good faith negotiations in accordance with the foregoing to select the location of the space and gates to be relinquished. If after sixty (60) days of good faith negotiations no agreement has been reached, City shall select the gates and space to be relinquished. Airline will continue to have the nonexclusive right to use the holdrooms and gates it relinquishes as a result of this provision at rates established by City for such nonpreferential use.

3. In evaluating gate utilization in Terminal B during the Test Period, City will adjust the data for Terminal B flights to compensate for any unusual reductions in the number of flights operated in Terminal C during the Test Period insofar as such flights might have been relocated to operate through Terminal B.

4. In order to accomplish the relinquishment of gates and support space in Terminal B as hereinabove provided, Airline agrees that it shall sublease to City such Special Facilities as may be located in or as may be necessary to support such relinquished gates and space (or an appropriate undivided interest or right of use therein) for the remaining term of the B Special Facilities Lease (or such shorter term as may be applicable if Airline is permitted to reinstate its lease of such relinquished gates and space under this Agreement) for a rental equal to the sum of (i) the allocable expenses of operation and maintenance of such Special Facilities or interest therein, including City charges, if any, for allocable indirect Airport System costs, plus (ii) an amount per annum (or any portion thereof) equal to the annual debt service or any portion thereof that would have been payable on the amount of the Series 1997B Bonds and any additional capital expenditures by Airline not funded with Series 1997B Bonds (documented to the reasonable satisfaction of the Director) required to finance such allocable share of Special Facilities determined as if the bonds (i) were issued in an original principal amount increased by the amount of any unreimbursed capital expenditure by Airline, (ii) had a final maturity of December 31, 2017 and (iii) had an amortization schedule such that they had equal debt service from the date of beneficial occupancy of the Special Facilities until the final maturity of the bonds (but not less than 18.0 years). The foregoing sublease provisions shall not relieve Airline from any responsibility with respect to its obligations as lessee under the B Special Facilities Lease, including particularly its obligation to pay the full amount of Net Rent thereunder and all of its other obligations with respect to the Series 1997B Bonds; provided, however, that such sublease to City shall provide that City shall use its best efforts to continually require on Airline's behalf that any occupant receiving such occupancy rights from City be obligated to provide insurance and indemnification with respect to such Special Facilities for the benefit of City and Airline to the same extent that Airline is obligated to do so herein, and provided further that Airline shall not be required to indemnify City for acts of subtenants or their passengers in and about such Special Facilities.

D. City's Right to Reconstruct Terminal B Flight Stations.

1. In the event City, on or after January 1, 2008, determines that the Terminal B flight stations should be demolished and replaced as recommended in the approved Airport master plan, City may, upon giving Airline six-months written notice, take back (as hereinbelow provided) portions of Airline's Terminal B Leased Premises in order to carry out such reconstruction; provided, however, that in no event will more than 25% of such gates and holdroom space to be reconstructed be taken out of service at any one time for such reconstruction; and provided further that City provides Airline with reasonably comparable substitute interim space during such reconstruction. Airline shall have the right of first refusal to lease the reconstructed space at full compensatory rates.

2. In order to accomplish the foregoing reconstruction of certain Terminal B flight stations, City shall (A) if Airline wishes to lease such reconstructed space (which Airline shall have the first right of refusal to lease), (i) at City expense relocate at the new flight stations those salvageable or reusable Special Facilities (e.g. passenger loading bridges and Ground Support Equipment) and (ii) replace any demolished or non-reusable Special Facilities with replacement facilities of equivalent value and utility to Airline determined as of the date of such replacement in the reconstructed flight stations leased to Airline and (B) acquire such demolished or removed Special Facilities for a purchase price equal to the original principal amount of Bonds and any additional capital expenditures by Airline not funded with Bonds (documented to the reasonable satisfaction of the Director) allocable to such Special Facilities multiplied by a fraction, the numerator of which is the number of days from the date of acquisition to December 31, 2017 and the denominator of which is the number of days (but not less than 18.0 years) from the average weighted date of beneficial occupancy of such Special Facilities to December 31, 2017. Any such acquisition, but not relocation, costs shall be treated by City as costs of the replacement flight stations, subject to rents and charges as provided in Article V hereof. Under no circumstances will the foregoing described demolition and replacement of flight stations in Terminal B, nor the relocation, substitution or acquisition of Special Facilities as aforesaid relieve Airline of its obligations under the B Special Facilities Lease, particularly with respect to the payment of Net Rent or any of its other obligations with respect to the Series 1997B Bonds.

Section 4.02. Terminal C Leased Premises

A. Exclusive Use Space. Airline hereby leases from City and City hereby leases to Airline for its exclusive use the areas in Terminal C shown in Exhibit C, attached hereto and by reference made a part hereof for all purposes, which areas are to be used for the general purposes shown, as summarized below:

Type of Space (square feet)	Area
Ticket counter	3,784
Ticket counter queuing	5,063
Ticket office	10,948
Baggage claim including bag service office	42,775
Baggage make-up	177,790
Curbside / remote check-in	264
Operations	127,688
Security	3,862
Other offices	12,778
Holdrooms	131,766
Club rooms	9,786
Baggage cart circulation	62,960

B. Preferential Use Apron Area.

1. Designation of Preferential Use Apron Area. Airline hereby leases from City and City hereby leases to Airline for its preferential use, but not for its exclusive use, the apron area at Terminal C including 9,830 sq. ft. of Special Facilities space - Series B on south concourse apron level as shown in Exhibit C, attached hereto and by reference made a part hereof for all purposes.

2. Nonpreferential Use of Airline's Apron Area by Other Airlines. Airline is being granted preferential use of said apron area, but not exclusive use. At those times that Airline has no planned use for an aircraft parking position on Airline's apron area, and there are no other aircraft parking positions at the Airport available for use, Airline shall allow other scheduled or nonscheduled airlines authorized by the City to use Airport facilities to use such aircraft parking position as circumstances and the public interest may require for loading and unloading only, but in no event shall said use by others take precedence over Airline's use. Airline shall have the right to limit the duration of such usage to the actual time required for unloading, loading, and flight service operations and may require that such user tow off and back on to accommodate Airline's use. When such use is to be made of Airline's apron area, Airline shall be properly compensated for such use by the user of the facilities based on and in accordance with the attached Illustrative Calculation of Gate Use Fee in Exhibit D hereof.

3. Parking of Airline's Aircraft. Airline shall have the right to locate any number of aircraft within the Terminal C Apron Area for the purpose of loading and unloading passengers, baggage, cargo and mail; provided, however, that Airline shall not park aircraft in such a manner as would prohibit access, ingress, and egress to and from all aircraft parking positions by aircraft, ramp equipment, and other traffic or would prohibit the movement of aircraft and ramp equipment to and from the most convenient taxiway and terminal building.

Ground Area. Airline hereby leases from City and City hereby leases to Airline for its exclusive use 5,740 sq. ft. of Special Facilities space - Series B at Terminal C as shown in Exhibit C, attached hereto and by reference made a part hereof for all purposes.

Section 4.03. Airline's Use of Terminal Improvements and Ground Lease Premises Conveyed By B Special Facilities Lease

Airline's rights under the B Special Facilities Lease to design, construct, equip, furnish, repair, maintain, occupy, use and enjoy Terminal B Improvements and Terminal C Improvements (as defined in the B Special Facilities Lease) and any other Special Facilities located in or attached to Terminals B or C shall not exist independent of Airline's right to use Terminals B and C pursuant to this Agreement. Additionally, to the extent that such Special Facilities overlie, adjoin or abut space designated as public space in this Agreement, then such Special Facilities shall not be used or occupied by Airline in any way that would impede or prevent public access to or enjoyment of such overlaid, adjoining or abutting public space as provided in this Agreement.

Section 4.04. Surrender of Leased Premises

A. Upon expiration or early termination of this Agreement,

Airline shall surrender the Leased Premises to City in as good condition as such Leased Premises were in at the time of the original occupancy by Airline, excepting, however, (1) reasonable wear and tear that could not be prevented through routine maintenance required to be done by Airline, (2) damage by fire and other casualty, and (3) acts of God or the public enemy.

B. Except as otherwise provided in this Section, all equipment, trade fixtures, and other personal property installed or placed by Airline in the Leased Premises or on or about the Airport and which can be removed without structural damage to the Leased Premises or any other City-owned property, shall remain the property of Airline unless otherwise provided in subsequent agreements between Airline and City, and Airline shall have the right at any time during the term of this Agreement and prior to its expiration or early termination to remove any and all of said property from the Airport provided Airline is not in default in its payments hereunder (beyond all applicable notice and opportunity to cure periods). Airline agrees to repair or pay for all damages, if any, resulting from such removal. All City property damaged by or as a result of the removal of Airline's property shall be restored at Airline's expense to the same or better condition that it was prior to such damage. Any and all property not removed by Airline prior to the expiration of this Agreement, or, if this Agreement ends by early termination, within sixty (60) days after receipt by Airline of a written notice by the Director to remove such property, shall thereupon become a part of the land upon which it is located and title thereto shall thereupon vest in City; and City reserves the right to remove such property not so removed by Airline, and if such removal is accomplished within the 30-day period after the expiration of this Agreement or the 60-day period referred to above (after the early termination of the Agreement), such removal by the City shall be at Airline's expense.

Section 4.05. Covenant Against Liens

Airline shall not cause nor permit any lien against the Leased Premises or any improvements thereto to arise out of or accrue from any action or use thereof by Airline; provided, however, that Airline may in good faith contest the validity of any alleged lien.

Section 4.06. Quiet Enjoyment

Upon payment by Airline of the rentals, fees and charges as herein required and subject to performance and compliance by Airline of the covenants, conditions, and agreements on the part of Airline to be performed and complied with hereunder, Airline shall peaceably have and enjoy the rights, uses and privileges of the Airport, its appurtenances and facilities as granted herein.

Article V

RENTALS AND FEES

Section 5.01. General

In consideration for the use of the Leased Premises, facilities, rights, and privileges granted hereunder and for the undertakings of City, Airline agrees to pay City, without set-off, as follows:

A. During the initial six-month period of this Agreement (January 1 - June 30, 1998), the rentals, fees, and other charges calculated for Fiscal Year 1997-98 will remain under the provisions of the existing use and lease agreements which expired December 31, 1997.

B. During the remaining term of this Agreement, the rentals and fees as set forth in this Article V and as recalculated according to the procedures of Article VI. hereof.

Section 5.02. Statistical Report

Airline shall submit in writing to the Director on or before the 15th day of each month the following statistical information relative to its scheduled, nonscheduled and charter operations at the Airport for the immediately preceding calendar month, in a format consistent with that provided in Exhibit E, attached hereto and by reference made a part hereof for all purposes:

Total number of domestic enplaned and deplaned passengers, by terminal

Total number of originating and connecting passengers, by terminal

Total number of international enplaned and deplaned passengers

Total number of landings by type of aircraft and maximum gross certificated landed weight by type of aircraft

Total pounds of air cargo enplaned and deplaned

Total pounds of air mail enplaned and deplaned

The above statistical information shall be in addition to any other information elsewhere herein required to be submitted by the Airline each month for City's use in calculating landing fees and other charges pertinent to Airline's operations on the Airport.

Section 5.03. Terminal Building Rentals

Airline shall pay City for its Exclusive Use Space in Terminal B and Terminal C monthly rent based on the annual compensatory rental rates for Terminal B and Terminal C calculated each Fiscal Year in accordance with Section 6.02 hereof.

Section 5.04. Security Fees

Airline shall pay City monthly amounts sufficient to reimburse City for Airline's appropriate share of City's actual costs of providing (1) armed law enforcement support for the security screening operation as required by FAR Parts 107 and 108 and (2) if required by Federal law, security screening, explosives detection, and other security measures at the Airport. Any fines or penalties assessed against City because of Airline's noncompliance with 14 CFR Part 107 shall promptly be reimbursed to City by Airline within thirty (30) days of receipt of written notice from the Director setting forth the amount of such fine or penalty; provided, however, that such payment shall not be construed as waiving Airline's right to contest such fine or penalty.

Section 5.05. Apron Fees / Ground Area Rental

A. Apron Fees. Airline shall pay City for its apron area at Terminals B and C monthly rent based on the annual compensatory apron fee rates for Terminals B and C calculated each Fiscal Year in accordance with Section 6.03 hereof.

B. Ground Area Rental. Airline shall pay City for its Ground Area at Terminal C monthly rent based on \$0.28 per sq. ft. per annum and escalating 15% on January 1, 2003, and 15% on each succeeding fifth year during the term of this Agreement.

Section 5.06. Landing Fees

Airline shall pay City for its use of the Airfield monthly landing fees based on the annual landing fee rate calculated each Fiscal Year in accordance with Section 6.04 hereof. City will use

its best efforts to charge and collect landing fees from all commercial air transportation users of the Airfield as Director may reasonably determine. As determined by City, the fees payable by noncommercial air transportation users for the use of the Airfield may be based on some method other than aircraft landed weight.

Section 5.07. Other Fees and Charges

A. Utilities. With respect to its Leased Premises and Airline-installed equipment, machinery and facilities, Airline agrees to pay all water, sewage, electricity, gas and other utility charges which may be charged to Airline for the use thereof, if such charges are separately assessed or metered as appropriate to Airline. Utility bills for metered utilities furnished by the City will be paid monthly or less frequently depending on billing schedule established by the City. For those areas not separately metered, both exclusive and common, charges for utility services (other than illumination which is to be provided by City and included in the base rental rate) will be assessed by City on a proportionate basis related to area leased or number of fixtures served. Meters will be installed where it is economically and mechanically feasible.

B. Other. City reserves the right to assess, and Airline agrees to pay reasonable charges for the use of City-provided facilities including but not limited to: employee parking facilities; flight information display systems; public address systems; and issuance of security identification badges.

Section 5.08. Security Deposit

In the event Airline, at any time during the term of this Agreement, fails to make any of the payments required under this Article V when due (beyond all applicable notice and opportunity to cure periods), City reserves the continuing right to require a security deposit in an amount equal to six times Airline's average monthly amount of rentals and fees payable under this Agreement, during the immediately succeeding six-month period. Such security deposit shall be provided to City by Airline, as a letter of credit or in such other form specified by the Director, within thirty (30) days of written demand therefor by City and shall be held by City until Airline has made timely payment of all rentals and fees payable under this Agreement for a period of twelve (12) consecutive months at which time such security deposit shall be returned to Airline.

Section 5.09. Payment Provisions

A. Terminal Building Rentals and Apron Fees. Terminal building rentals and apron fees shall be due and payable on the first day of each month in advance without invoice from the City.

B. Landing Fees. Landing fees for each month shall be due and payable without invoice from the City on or before the fifteenth (15th) day following the last day of the preceding month and shall be transmitted to City together with Airline's monthly statistical report for the month as required in Section 5.02 hereof.

C. Other Fees. All other rentals, fees, and charges required hereunder shall be due and payable within thirty (30) days of the date of the invoice therefor.

D. Right of City to Verify Airline's Payment. The acceptance of any payment made by Airline shall not preclude City from verifying the accuracy of Airline's report and computations or from recovering any additional payment actually due from Airline or preclude Airline from later demonstrating that Airline's report was inaccurate and that a lesser amount was properly owed (and to recover any such overpayment).

E. Interest on Overdue Amounts. Any payment not received within five business days of the due date may accrue interest at the rate of 1.5% per month from the due date until the date when full payment is made.

F. Form of Payment. Payments shall be made to the order of "City of Houston Department of Aviation" and shall be sent to the Director's office or such other place as may be designated by the Director from time to time. City and Airline shall cooperate in the development of a procedure for the electronic transfer of funds as the preferred method of payment.

Section 5.10 No Other Fees and Charges

City agrees that it will not impose any rental, fee or charge, direct or indirect, on Airline for the exercise and enjoyment of the rights and privileges granted herein except those rentals, fees and charges provided for in this Agreement, and such other rentals, fees and charges as are mutually agreed upon by City and Airline; provided, however, there is excepted from this provision any and

all fees and charges imposed or required by any rule, regulation or law of any governmental authority other than City. This provision is not intended to prevent City from making agreements concerning rentals, fees and charges with individuals or firms providing goods or services on the Airport who are tenants of City.

Article VI

RECALCULATION OF RENTALS AND FEES

Section 6.01. General

Effective July 1, 1998 (for the Fiscal Year ending June 30, 1999), and for each Fiscal Year thereafter, rentals and fees will be reviewed and recalculated based on the principles and procedures set forth in this Article. The methodology for the calculation of airline rentals and fees described in this Article VI is illustrated in Exhibit F. For rate setting purposes, the calculations will be made on the basis of Department of Aviation estimates of costs and expenses and airline estimates of total landed weight and shall be provided to Airline at least thirty (30) days prior to the beginning of the Fiscal Year. For final settlement purposes all calculations will be made on the basis of actual costs and expenses incurred and will be provided to Airline as soon as possible following the completion of the annual audit of the Department of Aviation's financial statements.

Section 6.02. Terminal Rental Rates

A. Terminal B. The Total Costs of the Terminal B Airline Area will be calculated by adding together the following amounts:

1. Direct and indirect Operation and Maintenance Expenses allocable to the Terminal B Airline Area

2. A Base Capital Charge of \$6.50 per square foot times the Terminal B Airline Area which area shall be reduced for any space demolished or replaced as contemplated in Section 4.01.D. The Exclusive Use Space identified in Section 4.01.A. as ticket counter queuing and security areas shall receive a credit of \$1.50 per square foot. The Exclusive Use Space identified in Section 4.01.A. as Special Facilities space - Series B Mezzanine Level shall receive a credit of \$6.50 per square foot.

3. Amortization of the net cost of each Capital Improvement placed in service in the Terminal B Airline Area on or after July 1, 1998, together with amortization of the net costs of any of the planned Capital Improvements in Terminal B set forth in Exhibit H which may be placed in service prior to July 1, 1998

4. Interest on the cost of land allocable to the Terminal B Airline Area computed at City's historical average Cost of Capital

5. Annual Systems Costs allocable to the Terminal B Airline Area

6. Annual replenishment of the Renewal and Replacement Fund allocable to the Terminal B Airline Area, if necessary as required by City's master airport revenue bond ordinance

The annual Terminal B Rental Rate will then be calculated by dividing the Total Costs allocable to the Terminal B Airline Area by the total square footage of airline space in the Terminal B Airline Area and multiplying by Airline's Exclusive Use Space.

B. Terminal C. The Total Costs of the Terminal C Airline Area will be calculated by adding together the following amounts:

1. Direct and indirect Operation and Maintenance Expenses allocable to the Terminal C Airline Area

2. Amortization of the unamortized net cost of each Capital Improvement in the Terminal C Airline Area as of June 30, 1998 over the remaining useful life of the Capital Improvement at the City's weighted Cost of Capital for all Airport Capital Improvements as of that date

3. Amortization of the net cost of each Capital Improvement placed in service in the Terminal C Airline Area on or after July 1, 1998

4. Interest on the cost of land allocable to the Terminal C Airline Area computed at City's historical average Cost of Capital

5. Annual Systems Costs allocable to the Terminal C Airline Area

6. Annual replenishment of the Renewal and Replacement Fund allocable to the Terminal C Airline Area, if necessary as required by City's master airport revenue bond ordinance

The annual Terminal C Rental Rate will then be calculated by dividing the Total Costs allocable to the Terminal C Airline Area

by the total square footage of airline space in the Terminal C Airline Area.

Section 6.02.B.2 shall be subject to negotiation by City and Airline with respect to the value of the fully amortized Airline area in Terminal C, effective January 1, 2010.

Section 6.03. Apron Fee Rates

A. Terminal B. The Total Costs of the Terminal B Apron Area will be calculated by adding together the following amounts:

1. Direct and indirect Operation and Maintenance Expenses allocable to the Terminal B Apron Area.
2. A Base Capital Charge of \$0.50 per square foot times the Terminal B Apron Area which area shall be reduced for any space demolished or replaced as contemplated in Section 4.01.D.
3. Amortization of the unamortized net cost of each Capital Improvement in the Terminal B Apron Area (including improvements associated with the fuel system) as of June 30, 1998 over the remaining useful life of the Capital Improvement at the City's weighted Cost of Capital for all Airport Capital Improvements as of that date
4. Amortization of the net cost of each Capital Improvement placed in service in the Terminal B Apron Area on or after July 1, 1998
5. Interest on the cost of land allocable to the Terminal B Apron Area computed at City's historical average Cost of Capital
6. Annual Systems Costs allocable to the Terminal B Apron Area
7. Annual replenishment of the Renewal and Replacement Fund allocable to the Terminal B Apron Area, if necessary as required by City's master airport revenue bond ordinance

The annual Terminal B Apron Fee Rate will then be calculated by dividing the Total Costs allocable to the Terminal B Apron Area by the total square footage of pavement designated as apron area at Terminal B and multiplied by the Airline's Preferential Use Apron Area.

B. Terminal C. The Total Costs of the Terminal C Apron Area will be calculated by adding together the following amounts:

1. Direct and indirect Operation and Maintenance Expenses allocable to the Terminal C Apron Area
2. Amortization of the unamortized cost of each Capital Improvement in the Terminal C Apron Area (including improvements associated with the fuel system) as of June 30, 1998 over the remaining useful life of the Capital Improvement at the City's weighted Cost of Capital for all Airport Capital Improvements as of that date
3. Amortization of the cost of each Capital Improvement placed in service in the Terminal C Apron Area on or after July 1, 1998
4. Interest on the cost of land allocable to the Terminal C Apron Area computed at City's historical average Cost of Capital
5. Annual Systems Costs allocable to the Terminal C Apron Area
6. Annual replenishment of the Renewal and Replacement Fund allocable to the Terminal C Apron Area, if necessary as required by City's master airport revenue bond ordinance.

The annual Terminal C Apron Fee Rate will then be calculated by dividing the Total Costs allocable to the Terminal C Apron Area by the total square footage of pavement designated as apron area at Terminal C.

Section 6.03.B.2 shall be subject to negotiation by City and Airline with respect to the value of the fully amortized Terminal C Apron Area, effective January 1, 2010.

Section 6.04. Landing Fee Rate

The Total Costs of the Airfield Area will be calculated by adding together the following amounts:

1. Direct and indirect Operation and Maintenance Expenses allocable to the Airfield Area

2. Amortization of the unamortized net cost of each Capital Improvement in the Airfield Area as of June 30, 1998, over the remaining useful life of the Capital Improvement at the City's weighted Cost of Capital for all Airport Capital Improvements as of that date

3. Amortization of the net cost of each Capital Improvement placed in service in the Airfield Area on or after July 1, 1998

4. Interest on the cost of land allocable to the Airfield Area computed at City's historical average Cost of Capital

5. Annual Systems Costs allocable to the Airfield Area

6. Annual replenishment of the Renewal and Replacement Fund allocable to the Airfield Area, if necessary as required by City's master airport revenue bond ordinance.

The Net Costs of the Airfield Area will then be calculated by subtracting revenues from general aviation fuel flowage fees. The Landing Fee Rate will then be calculated by dividing the Net Costs of the Airfield Area by the total aircraft landed weight of all airlines using the Airport.

Section 6.05. Automated People Mover System Costs

In the event the City purchases, acquires and/or assumes Airline's leasehold obligations for the B-C Link of the APM and extends the APM, as contemplated by Section 7.01.F.3 below and the City assumes the responsibility for the costs of the expanded APM, those costs shall be allocated as follows:

A. Capital Costs. If the City assumes the Series 1997A Bonds, the annual capital cost of the expanded APM shall be the sum of (1) the actual debt service on the Series 1997A Bonds, (2) the amortization of any consideration paid Airline by City related to Airline's investment in the APM from sources other than the proceeds of the Series 1997A Bonds, as contemplated by Section 7.03(g) of the A Special Facilities Lease, and (3) the amortization of the City's investment in the expansion of the APM. If the City retires the Series 1997A Bonds from other sources, the annual capital cost of the expanded APM shall be the annual amortization of the City's total investment in the acquisition and expansion of the APM. The annual capital cost shall be allocated to each "link" of the system (B-C, C-IAB, and, if applicable, A-B) based on the actual costs of each link. The annual capital cost of each link shall then be further allocated to each of the terminals served by that link on an equal (50% / 50%) basis. The total annual capital cost allocable to each terminal shall then be charged to the airline user groups in the respective terminals (i.e., the Terminal A airlines for the Terminal A share, Airline for the Terminal B and Terminal C shares, and Airline and the IAB airlines for the IAB share).

B. Operating Costs. The costs of operating and maintaining the expanded APM system shall be allocated among the airlines based on an equitable allocation methodology to be determined through consultation with Airline and the other airlines affected by the allocation.

C. Other City Funds. If the City provides any funds in respect to the costs of the APM system that are not reimbursable through airline rates and charges, then Airline shall share proportionately in the recovery of such funds.

Section 6.06. Mid-Year Rate Adjustments

In the event that, at any time during a Fiscal Year, the Total Costs of the Terminal B Airline Area, Terminal C Airline Area, Terminal B Apron Area, Terminal C Apron Area, or Airfield Area, or the aggregate Total Landed Weight of all airlines, is projected by City to vary ten percent (10%) or more from the estimates used in setting terminal rental rates, apron fee rates, or the landing fee rate, such rates may be adjusted either up or down for the balance of such Fiscal Year, provided that such adjustment is deemed necessary by City. An upward adjustment shall only be used to ensure that adequate revenues will be available from such fees to recover the estimated Total Costs of the airline-supported cost centers. For each such adjustment, City shall provide Airline with a written explanation of the basis for the rate adjustment(s) and will provide thirty (30) days advance written notice before putting such adjustment(s) into effect. Unless extraordinary circumstances warrant additional adjustments, City will seek to limit such rate adjustments to no more than once each Fiscal Year.

Section 6.07. Year-End Adjustment to Actual and Settlement

On or about September 1 of each year, City shall furnish Airline with a preliminary estimate of the year-end adjustment (as

described below) to assist Airline in budgeting for any deficiency to be paid by Airline in the settlement process.

City shall furnish Airline by December 1 with an accounting of the costs and expenses actually incurred, revenues and other credits actually realized (reconciled to the audited financial statements of the Airport System), and actual enplaned passengers and landed weights during such Fiscal Year with respect to each of the components of the calculation of terminal building rental rates, apron fee rates, and the landing fee rate in this Article VI and shall recalculate the rates, fees, and charges required for the Fiscal Year based on those actual costs and revenues. If requested by an airline, City shall convene a meeting of the airlines to discuss the calculation of the year-end settlement.

In the event that Airline's rentals, fees, and charges billed during the Fiscal Year were more than the amount of Airline's rentals, fees, and charges required (as recalculated based on actual costs and revenues), such excess amount shall be paid in lump sum or issued as a credit to Airline within sixty (60) days of the calculation of such final settlement.

In the event that Airline's rentals, fees, and charges billed during the Fiscal Year were less than the amount of Airline's rentals, fees, and charges required (as recalculated based on actual costs and revenues), such deficiency shall be billed to Airline and payable by Airline within sixty (60) days of the date of invoice. However, in the event that the amount of the Airline deficiency exceeds \$350,000, Airline may pay the deficiency to City in equal monthly installments without interest over the remaining months of the current Fiscal Year.

Article VII

CONSTRUCTION OF IMPROVEMENTS

Section 7.01. Construction By City

A. Terminal A Improvements. In conjunction with the planned relocation of certain airlines from Terminal B to Terminal A, City will design and construct improvements and renovations to Terminal A as it deems necessary to meet the anticipated future needs of the airlines and public using that Terminal, including rebuilding, expansion and/or renovation of holdroom areas, baggage claim and make-up areas, and other areas of the land-side building. No costs of the Terminal A improvements will be included in the rate base for any of Airline's terminal facilities. City and Airline will coordinate regarding the overall phasing plan for the improvements to Terminal A and the relocation of American Airlines from Terminal B to Terminal A to facilitate Airline's occupancy of Terminal B.

B. Terminal B Improvements. City will renovate Flight Station 6 and portions of the Terminal B land-side building (public and concession area improvements, utility systems, exterior refurbishment, etc.) to accommodate Airline's expanded domestic operations in Terminal B, as summarized in Exhibit G. Every reasonable effort will be made by City to ensure that construction of public area improvements in Terminal B will not adversely affect Airline's use and occupancy of Terminal B. However, Airline acknowledges that construction of the public area improvements may cause some disruption of Airline's operations in Terminal B after the effective date of this Agreement. Further, it is recognized that (1) American Airlines was not relocated to Terminal A prior to the expiration of its use and lease agreement on December 31, 1997, (2) the renovation of such airline's space for Airline's use will commence promptly after that airline has relocated, and, therefore, (3) Airline will not have the beneficial use of such improvements until after such renovation is completed (currently estimated for January 19, 1999, and which renovation shall be prosecuted with all due diligence by City as circumstances warrant).

C. Terminal C Improvements. City will renovate and expand Terminal C as summarized in Exhibit H.

D. Future Investments in Terminals B and C. Subject to an appropriation being made therefor, City agrees to spend from the Airport Improvement Fund on improvements to Terminals B and/or C at least \$2.4 million during the initial ten (10) year term of Airline's use of its Terminal B Leased Premises and at least \$6.8 million during the subsequent ten (10) year term of Airline's use of its Terminal B Leased Premises (provided the term of Airline's use of its Terminal B Leased Premises is extended as provided in Section 3.02).

E. Concession Area Improvements. City will use its best efforts to provide comparable quality of finishes and comparable availability and quality of concessions in the public areas of Terminal A, Terminal B, and Terminal C.

F. Automated People Mover System.

1. Future Extension of the APM. City intends, at its expense, to extend the APM to the IAB (the C-IAB Link) soon after the initial link between Terminals B and C (the B-C Link) is constructed and may further extend the APM to Terminal A at a later date. Airline will coordinate in any reasonable manner with City to facilitate the extension of the APM, and City will use its best efforts to ensure that construction of such extension(s) does not interfere with Airline's operations.

2. City Option to Purchase, Acquire and/or Assume Airline's Leasehold Obligations for the B-C Link of the APM. City shall have the option to purchase, acquire, and/or assume Airline's leasehold obligations for the B-C Link of the APM, as provided in Section 7.03(d) of the A Special Facilities Lease, and take over responsibility for, and operating control of, the APM at any time after the B-C Link of the APM is operational; provided, however, that City shall take no action that jeopardizes the tax exempt status of the SFRBs.

3. Assumption of Airline's Obligations Upon Extension of APM. In the A Special Facilities Lease, City covenants that it will not operate any extensions of the APM separately from B-C Link, but will take appropriate steps so that the entire APM, as extended to the IAB and/or Terminal A, is operated as a single system. Therefore, in the event City extends the APM to the IAB and/or Terminal A, as contemplated in Section 7.01.F.1 above, then City shall exercise its option to purchase, acquire, and/or assume Airline's leasehold obligations for the B-C Link of the APM, as provided in Section 7.01.F.2 above, and shall,

unless otherwise mutually agreed, undertake to maintain and operate the entire APM, as provided in Section 8.01.E below. In such event, City shall, at its option, either (i) assume Airline's obligations for the Series 1997A Bonds or (ii) defease or retire the Series 1997A Bonds from the proceeds of Airport System Revenue Bonds or other Airport System funds, as provided in Section 7.03(d) of the A Special Facilities Lease.

Section 7.02. Construction By Airline

A. Continental Special Facilities--General. Airline has undertaken to design, construct, install, and operate the Continental Special Facilities set forth in Article V of each such Special Facilities Lease.

City has authorized and issued the SFRBs, in the total principal amount of \$190 million to pay the costs of the Special Facilities, together with associated costs of issuance, debt service reserve fund requirement and capitalization. The SFRBs are payable solely from the net rent required by Section 6.01 of the Special Facilities Leases. As provided in Section 6.02 of the Special Facility Leases, the payment of net rent by Airline is unconditional.

B. Automated People Mover. The A Special Facilities Lease provides for Airline to design, construct, acquire, install, test, and operate, at its sole cost and expense, the initial link of the Automated People Mover between Terminals B and C. The capital costs of the initial B-C Link shall be paid from the proceeds of the Series 1997A Special Facilities Revenue Bonds to the extent available. The initial B-C Link is to be designed as the first phase of an Airport-wide APM system that may eventually connect the IAB and Terminal A with the Terminal B-C Link. The APM will be operated without direct charge to the passengers using the system.

C. General / Approval of Plans. Airline may construct or install at its own expense any improvements, facilities or equipment, and any additions thereto, in the Leased Premises; provided, however plans and specifications of any such proposed construction or installation, including any alteration or addition thereto, shall be submitted to and receive the written approval of the Director prior to the commencement of construction, alteration or installation. All such construction, alteration, or installation may be made only after obtaining requisite building or construction licenses and permits and, in addition to usual City inspection, shall be subject to inspection and approval by said Director to see that said approved plans and specifications are being followed. All such construction, alteration, and installation shall be designed and carried out in accordance with the Department of Aviation's Tenant Improvement Manual as may be amended in any reasonable manner from time to time which is incorporated herewith by reference. Upon completion of construction, Airline shall provide City with as-built drawings of the improvements on CADD diskette.

D. Airline Right to Select Architects and Contractors. No restrictions shall be placed on Airline as to architects, builders or contractors which it may employ in connection with any construction, installation, alteration, repair or maintenance by Airline in the Leased Premises.

E. Title to Airline-Constructed Improvements. Title to all Airline-constructed improvements in the Leased Premises, other than the equipment, trade fixtures and personal property that Airline is permitted to remove under the provisions of Section 4.04.B hereof, shall vest in City immediately upon completion thereof.

F. Contractor Indemnity and Warranty. Airline will use its best efforts to provide an indemnity from its construction contractors to City to the same extent as Airline obtains an indemnity from such contractor. Additionally, Airline will use its best efforts to cause all construction contractor warranties to inure to the benefit of City.

Section 7.03. Future Capital Improvements

City may expand and improve the Airport as the City, in its sole judgment, may deem necessary to provide required facilities in the interest of the public and City. City will confer and coordinate with Airline and the other airlines serving the Airport regarding planned Capital Improvements at the Airport and at other airports in the Airport System, and, at least annually, provide the airlines with a detailed schedule of such planned Capital Improvements. However, City will retain the discretion to make capital investment decisions and issue bonds, as needed, to ensure that adequate facilities are provided on a timely basis to meet public and airline needs.

Article VIII

OPERATION AND MAINTENANCE

Section 8.01. Obligations of City

A. Exclusive Use Space. In the Exclusive Use Space, City will furnish only structural maintenance of City-constructed facilities. City shall provide maintenance and operation of City-installed systems, which will include outside window and building cleaning. City shall use reasonable efforts to furnish sufficient heat and air conditioning through its installed systems in those areas so equipped for such services and will install area lighting; however, City will furnish electrical power for interior area lighting only.

B. Apron Area. City shall provide structural maintenance for the apron area.

C. Common Use Airport Facilities. City agrees to operate, maintain and keep in good repair the areas and facilities provided by City for the common use of the airlines and the public in accordance with the practices of a reasonably prudent airport operator. City agrees to use its best efforts to keep the Airport free from obstructions and to do all things reasonably necessary for the safe, convenient and proper use of the Airport by those who are authorized to use the same.

D. Public Areas of Terminal Buildings. City will operate, maintain and keep in good, sanitary and neat condition and repair the public areas of the terminal buildings (except for those areas therein leased to others for their exclusive use) and all additions, improvements and facilities now or hereafter provided by City at or in connection with the terminal buildings and for common use by all airlines and the public, excepting any improvements or facilities constructed or installed by Airline, either individually or jointly with others, and those that Airline has agreed under the provisions hereof to operate or maintain as aforesaid. City will keep the roof, structure and utility systems of the terminal buildings in good repair. City will keep the public areas in and around the terminal buildings adequately supplied, equipped and furnished to accommodate the public using same and will operate and maintain directional signs in said public areas, including by way of example, but not by way of limitation, signs indicating the location in the terminal buildings of public facilities provided by City on the Airport (but excluding permanent new Terminal B signage to be installed as part of the Continental Special Facilities). City will use reasonable efforts to provide (1) sufficient heat and air conditioning to those areas on the Airport equipped for such service; (2) illumination and drinking water in the public areas in the terminal buildings; (3) adequate lighting for the public vehicular parking facilities and aircraft apron; and (4) such janitorial and cleaning services as necessary to keep the public areas of the terminal buildings and areas adjacent thereto in a reasonably presentable and usable condition at all times.

E. Automated People Mover System.

1. Option to Contract with City for APM Maintenance. Airline may elect to contract with City for City to operate the APM as provided in the A Special Facilities Lease. In such event, City will enter into a contract with Airline with respect thereto, and pursuant to such contract, the operating and maintenance costs of the B-C Link shall be billed to and paid by Airline; provided, however, that in the event other tenant airlines use the B-C Link, such airlines shall pay a pro rata share of such costs in accordance with Section 6.05 hereof.

2. City Obligation to Maintain and Operate the APM Upon Purchase, Acquisition, and/or Assumption of Airline's APM Leasehold Obligations or Extension of the APM. In the event that City (1) exercises its option to purchase, acquire, and/or assume Airline's leasehold obligations for the B-C Link of the APM as provided in Section 7.01.F.2 above or (2) extends the APM to the IAB and/or Terminal A and, thereby becomes obligated to purchase, acquire, and/or assume Airline's leasehold obligations for the B-C Link of the APM as provided in Section 7.01.F.3 above, then City shall take over operating control of the APM and, unless otherwise mutually agreed, assume such responsibility for operating and maintaining the APM and use its best efforts to cause the APM to be operated so as to provide the same or substantially similar levels of service (based on frequency and capacity) to Terminals B and C as were provided prior to such date.

Section 8.02. Obligations of Airline

A. Exclusive Use Space. Airline shall provide all maintenance in the Exclusive Use Space not otherwise provided by

City under Section 8.01 hereof. In addition, Airline shall furnish all janitorial services within the Exclusive Use Space. Airline shall also provide electrical relamping, all decorating and redecorating when required, and all maintenance and operation of tenant-installed improvements and systems in its Exclusive Use Space. Airline shall maintain the Exclusive Use Space in a neat, clean, sanitary, sightly and operable condition.

B. Apron Area. Airline shall perform or cause to be performed such cleaning of the apron area leased to Airline as shall be necessary to keep said area in a clean, neat and orderly condition free of foreign objects and shall periodically on an as-needed basis remove grease, oil, and fuel spills caused by Airline with ramp scrubbing equipment and repair any foreign object damage.

C. Automated People Mover System. Subject to Section 8.01.E.1, Airline shall be solely responsible for all operating and maintaining costs and all taxes, charges, utilities, and liens associated with the B-C Link of the APM (as provided in Sections 6.04, 8.01, and 8.02 of the A Special Facilities Lease) unless City exercises its option to purchase, acquire, and/or assume Airline's leasehold obligations for the B-C Link of the APM (as provided in Section 7.01.F.2 or 7.01.F.3 hereof and Section 7.02(d) of the A Special Facilities Lease), in which event, unless otherwise mutually agreed, the City will assume such responsibilities.

D. Other Continental Special Facilities. Airline shall be responsible for paying all operation and maintenance costs and all taxes, charges, utilities, and liens associated with all Special Facilities other than the APM, as provided in Sections 6.04, 8.01, and 8.02 of the Special Facility Leases.

E. Airline-Constructed Improvements. Airline shall cause all improvements and facilities, and additions thereto, constructed or installed by Airline, either alone or in conjunction with other airline tenants, and all vehicles and equipment operated by Airline on the Airport to be kept and maintained in a safe condition and in good repair (except those repairs and maintenance undertaken by City in Section 8.01 hereof) in accordance with uniform standards applicable to all Airport tenants as established from time to time by the Director. Airline shall keep the Exclusive Use Space and improvements thereon in a sanitary and neat condition and, during construction, shall cause compliance with all health, safety and other laws and requirements applicable thereto; provided, however, that notwithstanding anything herein to the contrary, Airline shall not be obligated to make any capital repairs or structural alterations to so comply, unless necessitated as a result of Airline's construction activities or required under the Special Facility Leases.

F. Performance by City Upon Failure of Airline to Maintain. In the event Airline fails within thirty (30) days after receipt of written notice from City to perform any obligation required under this Section to be performed by Airline, City may enter the Leased Premises involved, without such entering causing or constituting a termination of this Agreement or an interference with the possession of said Leased Premises by Airline, and do all things reasonably necessary to perform such obligation. City may charge Airline the reasonable cost and expense of performing such obligation and Airline agrees to pay to City upon demand such charge in addition to any other amounts payable by Airline hereunder; provided, however, if Airline's failure to perform any such obligation endangers the safety of the public, the employees or property of City, or other tenants of the Airport and City so states in its written notice to Airline, City may perform such obligation of Airline at any time after the giving of such notice and charge to Airline the reasonable cost and expense of such performance which Airline shall pay as aforesaid.

Article IX

INDEMNIFICATION

Section 9.01. Release and Indemnification of City.

A. Airline, for itself, its successors and assigns hereby releases and discharges city, its predecessors, successors, assigns, legal representatives and its agents, employees and officers (collectively in this section "city") from any liability of city for (i) any damage to property of airline or (ii) for consequential damages suffered by airline, where any such damage is sustained in connection with or arising out of the performance of this agreement.

B. With no intent to affect airline's environmental indemnification set forth in section 14.02(d), airline expressly agrees to protect, defend, indemnify and hold city completely harmless from and against (but subject to sections d and e hereof): (i) any and all liabilities, lawsuits, causes of action, losses, claims, judgments, damages, fines or demands arising by reason of or in connection with the actual or alleged errors, omissions, or negligent acts of airline or of city in connection with or arising out of the performance of this agreement, including, but not limited to, bodily injury, illness, physical or mental impairment, death of any person, or the damage to or destruction of any real or personal property; and (ii) all reasonable, out-of-pocket costs incurred to establish city's right to indemnification hereunder; and (iii) all costs for the investigation and defense of any and all liabilities, lawsuits, causes of action, losses, claims, judgments, damages, fines or demands including, but not limited to, reasonable attorney fees, court costs, discovery costs and expert fees. Subject to subsections d and e hereof, airline's agreement to protect, defend, indemnify and hold harmless city expressly extends to the actual or alleged joint or concurrent negligence of city and airline.

C. Upon the filing by anyone of any type of claim, cause of action or lawsuit against city for any type of damages arising out of incidents for which city is to be indemnified by airline pursuant to this section 9.01, city shall, as soon as practical, and, in any event, within 10 days of city becoming aware thereof, notify airline of such claim, cause of action or lawsuit. In the event that airline does not settle or compromise such claim, cause of action, or lawsuit at its own cost, to the extent airline is required to indemnify city pursuant to this section 9.01, then airline shall undertake the legal defense of such claim, cause of action, or lawsuit at its own cost (subject to section 9.01e) through counsel of recognized capacity or otherwise not reasonably disapproved by city both on behalf of itself and on behalf of city (assuming no substantial conflicts of interest exist) until final disposition, including all appeals. city may, at its sole risk, cost and expense, participate in the legal defense of any such claim, cause of action or lawsuit by airline to defend against such claim, cause of action or lawsuit without such participation affecting airline's obligation herein. Any final judgment rendered against city for any cause for which city is to be indemnified against pursuant to this section 9.01 shall be conclusive against airline as to liability and amount upon the expiration of the time for all appeals.

D. The provisions of section 9.01b and c hereof shall not apply to any claim or demand (i) to the extent arising from the negligence of city when city is more than 50% liable, under this agreement, or from the breach of city's express obligations hereunder; or (ii) if such claim or demand relates to any act or omission occurring outside the premises leased exclusively or preferentially to airline under this agreement, unless airline is more liable for (i.e., is more at fault for) such claim or demand than each other party to such claim or demand; (iii) to the extent the claim or demand is covered under the insurance available to city as an additional insured under article x herein; (iv) to the extent the claim or demand is covered under a third party insurance policy owned or carried by city and/or any of its agencies or instrumentalities; or (v) unless the claim or demand is covered by, or city has asserted a defense based on governmental or sovereign immunity. City shall be responsible for asserting any defense of governmental immunity as it may exist from time to time, and it shall do so upon the timely written request of airline or its insurance carrier(s); provided, that, if (a) a claim or demand is made against airline by a third party for which airline has insurance coverage pursuant to sections 10.02 and 10.03 hereof, and (b) there is a deductible carried by airline applicable to such claim or demand (or airline, through self-insurance or other self-funded insurance program, bears the financial risk of any portion of such claim or demand as to the deductible only), then the provisions of section 9.01B and C shall apply to such portion of the claim or demand that is subject to such deductible or self-insurance of the deductible or other self-funded insurance program

as to the deductible (and to any other portion of the claim or demand as to city that is not satisfied with insurance proceeds). For purposes of this section, airline covenants and agrees that as to each claim or demand that may be subject to the provisions hereof, the deductible amount shall never be deemed to be greater than \$1,000,000.

E. Notwithstanding anything in this section to the contrary, the liability of the airline for city's negligence, inclusive of all defense costs expended solely for city's defense, under section 9.01B and C shall not exceed \$1,000,000 per occurrence.

Article X

INSURANCE

Section 10.01. General

With no intent to limit or increase Airline's liability or the indemnification provisions herein, Airline shall provide and maintain certain insurance (except as to Environmental/Impairment Pollution coverage as set forth below) in full force and effect at all times during the term of this Agreement and all extensions thereto, as set forth Section 10.02 below. If any of the insurance is written as "claims made" coverage, then Airline agrees to keep such "claims made" insurance in full force and effect by purchasing policy period extensions for at least five years after the expiration or termination of this Agreement.

Section 10.02. Risks and Minimum Limits of Coverage

Workers Compensation: Statutory

Employer's Liability:

Bodily injury by accident \$1,000,000 (each accident)
Bodily injury by Disease \$1,000,000 (policy limit)
Bodily injury by Disease \$1,000,000 (each employee)

Commercial General Liability:
(Including broad form coverage, contractual liability, bodily and personal injury, and products and completed operations)

Combined single limit of:
\$10,000,000 per occurrence / aggregate
Products and Completed operations:
\$10,000,000 aggregate

Aircraft Liability:
(covering owned, hired, and nonowned aircraft including passenger liability)

\$200,000,000 combined single limit

Environmental Impairment / Pollution:
(including coverage for receiving, dispensing, transporting, removal and handling of aviation fuels or any other pollutants, as well as any other operations involving pollutants)

\$1,000,000 combined single limit per occurrence
Coverage required contingent upon Airline's election, in its sole discretion, to purchase this coverage

All Risk:
(Covering Airline improvements, trade fixtures and equipment, including fire, lighting, vandalism, and extended coverage perils)

Replacement value

Automobile Liability Insurance:
(For automobiles used by Airline in the course of its performance under this Agreement, including Airline's non-owned and hired autos)

\$5,000,000 combined single limit per occurrence

(Aggregate limits are per 12-month period unless otherwise indicated.)

Section 10.03. Other Provisions

A. Form of Policies. The insurance may be in one or more policies of insurance. Nothing the Director does or fails to do shall relieve Airline from its duties to provide the required coverage hereunder, and the Director's actions or inactions shall not be construed as waiving City's rights hereunder.

B. Issuers of Policies. The issuer of any policy shall have a Certificate of Authority to transact insurance business in the State of Texas or have a Best's rating of at least B+ and a Best's Financial Size Category of Class VI or better, according to the most current edition of Best's Key Rating Guide, Property-Casualty United States.

C. Insured Parties. Each policy, except those for Workers Compensation, Professional Liability and Employer's Liability, shall name City (and its officers, agents, and employees) as Additional Insured as its interest may appear on the issued certificate of insurance and all renewal certificates (such certificates to accurately reflect City's Additional Insured status

on Airline's original policies and any renewals or replacements thereof during the term of this Agreement). City shall be named Loss Payee on All Risk and Builders Risk coverages (except to the extent coverage relates to Airline's equipment and personal property).

D. Deductibles. Without increasing, decreasing or expanding its duties under Section 10.01. hereof, Airline shall assume and bear any claims or losses to the extent of any deductible amounts and waives any claim it may ever have for the same against City, its officers, agents, or employees; provided, however, that nothing herein stated shall diminish Airline's rights or increase Airline's obligations in respect to its undertakings or hold harmless, defense and indemnification set forth in Article IX hereof.

E. Cancellation. Each policy shall expressly state that it may not be cancelled, materially modified or nonrenewed unless thirty (30) days advance written notice is given in writing to the Director by the insurance company.

F. Aggregates. Airline shall give written notice to the Director within twenty (20) days of the date upon which total claims by any party against Airline reduce the aggregate amount of coverage below the amounts required by this Agreement. In the alternative, the policy may contain an endorsement establishing a policy aggregate for the particular project or location subject to this Agreement.

G. Subrogation. Each policy shall contain an endorsement to the effect that the issuer waives any claim or right in the nature of subrogation to recover against City, its officers, agents, or employees.

H. Endorsement of Primary Insurance. Each policy hereunder except Workers Compensation and Professional Liability shall be primary insurance to any other insurance available to the Additional Insured and Loss Payee with respect to claims arising hereunder.

I. Liability for Premium. Airline shall be solely responsible for payment of all insurance premiums required hereunder, and City shall not be obligated to pay any premiums.

J. Contractors and Subcontractors.

1. With the exception set forth in Section 10.03.J.2 below, Airline shall contractually require all contractors and subcontractors involved in the provision of any labor, materials or services on, at or within the Leased Premises, to carry insurance naming City as an additional insured and meeting all of the requirements in Sections 10.01, 10.02, and 10.03 hereof, except coverage amount. The coverage amount shall be commensurate with the amount of the particular contract and shall be subject to the approval of the Director. Airline shall provide in its contracts with its contractors and subcontractors that they submit to the Director copies of insurance certificates for the coverages required herein.

2. Airline shall be under no obligation to require its contractors or subcontractors to provide aircraft liability coverage.

3. In connection with the design and construction of any Airline improvements to the Leased Premises, Airline shall require:

a. The architect/engineer to secure Professional Liability coverage with a minimum of \$1,000,000 per occurrence/aggregate if the project construction cost is estimated to exceed \$10,000,000;

b. The construction contractor and/or its subcontractors to secure Builder's Risk coverage equal to the replacement value of the improvements; and

c. The construction contractor and/or its subcontractors to secure Asbestos Abatement liability coverage if the project includes work with asbestos.

Such Asbestos Abatement liability insurance shall include coverage for liability arising from the encapsulation, removal, handling, storage, transportation, and disposal of asbestos-containing materials and shall be in a minimum amount of \$1,000,000 combined single limit per occurrence.

K. Proof of Insurance. Within ten (10) days of the Effective Date of this Agreement and at any time during the term of this Agreement, Airline shall furnish the Director with certificates of insurance, along with an affidavit from Airline confirming that the certificates accurately reflect the insurance

coverage that will be available during the term. If requested in writing by the Director, Airline shall furnish City with copies of Airline's insurance policies.

Notwithstanding the proof of insurance requirements set forth above, it is the intention of the parties hereto that Airline, continuously and without interruption, maintain in force the required insurance coverages to be carried by Airline set forth above. Airline agrees that City shall never be argued to have waived or be estopped to assert its right to terminate this Agreement hereunder because of any acts or omissions by City regarding its review of insurance documents provided by Airline, its agents, employees, or assigns.

L. City Right to Review and Adjust Coverage Limits.

City reserves the right at reasonable intervals during the Term of this Agreement to cause the insurance requirements of this Article X to be reviewed by an independent insurance consultant experienced in insurance for public airports in Texas, taking into consideration changes in statutory law, court decisions, or the claims history of the airline industry as well as that of Airline, and, based on the written recommendations of such consultant, and in consultation with Airline, to reasonably adjust the insurance coverages and limits required herein but not more often than every twelve (12) months.

Article XI

DAMAGE OR DESTRUCTION OF LEASED PREMISES

Section 11.01. Leased Premises Inhabitable

If any of the Leased Premises shall be partially damaged by fire or other casualty, but such Leased Premises remain inhabitable, same will be repaired with due diligence by the City to the condition existing just prior to such casualty, but City's responsibility in this regard shall be limited to the extent of the proceeds of insurance received with respect to such premises and to the extent funds are appropriated for such repair by the City's governing body.

Section 11.02. Leased Premises Uninhabitable

If any of the Leased Premises shall be completely destroyed or partially damaged by fire or other casualty rendering all or a substantial portion of the Leased Premises uninhabitable and it is reasonably estimated by the Director that it will take more than 180 days to repair, Director shall notify Airline in writing within ninety (90) days of such casualty whether the damaged or destroyed Leased Premises will be repaired. If any or all of the Leased Premises is to be repaired, it shall be repaired with due diligence by the City, and the rental allocable to the damaged or destroyed Leased Premises shall be abated for the period from the occurrence of the damage to the substantial completion of the repairs. If the repair period is estimated to exceed 180 days, City shall make good faith efforts to provide Airline with temporary substitute space, if available, during such period of repair, at a rental rate for comparable space based on the rates and charges principles set forth in this Agreement.

Section 11.03. Automatic Termination

If the City shall fail to notify Airline of its decision as set forth in Section 11.02 above (or gives written notice of its intent not to repair), City shall be deemed to have elected to terminate this Agreement only as to the Leased Premises damaged or destroyed, and the Agreement shall automatically terminate as to such Leased Premises as of the date of the damage or destruction, with no further liability therefor by either City or Airline except those liabilities that accrued, including rent, prior to such damage or destruction.

Section 11.04. Airline Improvements

Airline shall reconstruct all its improvements in the damaged or destroyed Leased Premises necessary for the conduct of Airline's business operations in the manner existing just prior to the casualty, consistent with the City's obligations set forth in Sections 11.01, 11.02 and 11.03.

Section 11.05. Insurance

The terminal buildings in which Airline's Exclusive Use Space is located, exclusive of Airline's property, will be insured by City under a policy of fire and extended coverage insurance to the extent of not less than eighty percent (80%) of the insurable value of such property if such percentage of coverage is available. Insurance moneys and funds received on account of the damage to or destruction of such property will be applied by the City to the repair, construction, or replacement of such damaged or destroyed property. Premiums paid by the City for insurance provided in compliance herewith shall be included by the City as a part of Airport operation and maintenance expenses.

Article XII

TERMINATION

Section 12.01. Termination by City

City, in addition to any other right of cancellation herein given to it or any other rights to which it may be entitled by law or equity or otherwise, may cancel this Agreement by giving Airline sixty (60) days advance written notice, to be served as hereinafter provided, upon or after the happening of any one or more of the following events, except default in timely payment of any money due City including Passenger Facility Charges (PFCs), if applicable, for which fifteen (15) days written notice shall be given and except default in providing copies of insurance policies or maintaining required insurance coverages described in Section 10.03K, for which ten (10) days written notice shall be given:

A. The filing by Airline of a voluntary petition in bankruptcy or any assignment for benefit of creditors of all or any part of Airline's assets; or

B. Any institution of proceedings in bankruptcy against Airline and the adjudication of Airline as a bankrupt pursuant to such proceedings; or

C. The taking of jurisdiction by a court of competent jurisdiction of Airline or its assets pursuant to proceedings brought under the provisions of any Federal reorganization act; or

D. The appointment of a receiver or trustee of Airline's assets by a court of competent jurisdiction or by a voluntary agreement with Airline's creditors; or

E. The abandonment by Airline of its conduct of its air transportation business at the Airport and in this connection, suspension of operations for a period of ninety (90) days will be considered abandonment in the absence of an explanation satisfactory to and accepted in writing by the Director; or

F. If Airline shall be prevented for a period of ninety (90) days, after exhausting or abandoning all appeals, by any action of any governmental authority, board, agency or officer having jurisdiction thereof from conducting its air transportation business at the Airport, or it is so prevented from conducting its air transportation business, either by (a) reason of the United States or any agency thereof, acting directly or indirectly, taking possession of, in whole or substantial part, the Leased Premises or premises required for the actual operation of Airline's aircraft to and from the Airport; or (b) if all or a substantial part of the Leased Premises shall be acquired through the process of eminent domain; or

G. The default by Airline in the performance of any covenant, obligation or condition herein required to be performed by Airline and the failure of Airline to remedy such default for a period of thirty (30) days after receipt from City of written notice to remedy the same, except default in timely payment of any money due City under this Agreement, for which a total of fifteen (15) days written notice will be given and except default in providing copies of insurance policies or maintaining required insurance coverages described in Section 10.03K, for which ten (10) days written notice shall be given; provided, however, that no notice of cancellation as above provided shall be of any force or effect if Airline shall have remedied the default prior to receipt of City's notice of cancellation or within the said 30-day period Airline commences the process of remedying the default and diligently prosecutes the same to completion. Failure by City to take any authorized action upon default by Airline of any of the terms, covenants or conditions required to be performed, kept and observed by Airline shall not be construed to be or act as a waiver of said default or of any subsequent default of any of the terms, covenants and conditions herein contained to be performed, kept and observed by Airline. The acceptance of rentals by City from Airline for any period or periods after a default by Airline of any of the terms, covenants and conditions herein required to be performed, kept and observed by Airline shall not be deemed a waiver or estoppel of any right on the part of City to cancel this Agreement for failure by Airline to so perform, keep or observe any of said terms, covenants or conditions.

Section 12.02. Termination by Airline

In addition to any other right of cancellation herein given to Airline or any other rights to which it may be entitled by law, equity, or otherwise, as long as Airline is not in default in payment to City of any amounts due City under this Agreement or otherwise, Airline may cancel this Agreement and thereby terminate all of its rights and unaccrued obligations hereunder by giving

City sixty (60) days advance written notice, to be served as hereinafter provided, upon or after the happening of any of the following events:

A. Termination, suspension, revocation or cancellation, by any federal agency with competent jurisdiction of Airline's right or authority to operate as a scheduled air carrier serving the Airport;

B. Issuance by a court of competent jurisdiction of an injunction which in any way substantially prevents or restrains the use of the Airport or any part thereof necessary for Airline's scheduled flight operations and which injunction remains in force for a period of at least thirty (30) days after City has exhausted or abandoned all appeals, if such injunction is not necessitated by or issued as the result of an act or omission of Airline;

C. If, at any time during the term of this Agreement, because of City's failure to provide within a reasonable time safe aircraft operating facilities, the Federal Aviation Administration or its successor fails or refuses to certify the Airport as adequate to accommodate aircraft which Airline is licensed to operate and is operating into and from all other airports of like size and character and with similar facilities and which aircraft are in general use on Airline's scheduled transportation route system; and which Airline may reasonably desire to operate into or from the Airport; provided such refusal or failure is not due to any fault of Airline;

D. The inability of Airline for a continuing period in excess of ninety (90) days to use the Airport or to exercise any rights or privileges granted to Airline hereunder and necessary to its scheduled flight operations because of any law or ordinance by any governmental authority having jurisdiction over the operations of the Airport or Airline, or because of any order, rule, regulation or other action or any nonaction of the Federal Aviation Administration, its successor or any other authorized governmental agency; prohibiting such use, or because of earthquake or other casualty (excepting fire), acts of God or the public enemy, and beyond the control of Airline.

E. The default by City in the performance of any covenant or condition within the control of City and herein required to be performed by City and failure of City to use its best efforts to remedy such default for a period of thirty (30) days after receipt from Airline of written notice to remedy the same; provided, however, that no notice of cancellation as above provided shall be of any force or effect if City shall have remedied the default prior to receipt of Airline's notice of cancellation or within the aforesaid thirty (30) day period or during said period commences the process of remedying the same and diligently prosecutes the same to completion.

F. The assumption by the United States Government or any authorized agency thereof of the operation, control or use of the Airport and facilities, or any substantial part thereof, in such a manner as substantially to restrict Airline, for a continuous period of at least ninety (90) days, from operating its air transportation business.

G. Termination, suspension or discontinuation of Airline's services to the Airport by a governmental agency authorized to do so because of a war or national emergency declared by the government. Airline's performance of all or any part of this Agreement for or during any period or periods after a default of the terms, covenants and conditions herein contained to be performed, kept and observed by City shall not be deemed a waiver of any right on the part of Airline to cancel this Agreement for failure by City so to perform, keep or otherwise observe any if the terms, covenants or conditions hereof to be performed, kept and observed by City, or be construed to be or act as a waiver by Airline of said default or of any subsequent default of any of said terms, covenants and conditions herein contained and to be performed, kept and observed by City.

H. In any event where the usage of the Airport by Airline is materially affected as provided in this Section 12.02, and whether or not Airline is entitled to cancel this Agreement as herein provided, while such event is continuing, an equitable adjustment to the rentals herein required to be paid by Airline shall be made by City, as are determined to be reasonable by City in its sole judgment.

Article XIII

ASSIGNMENT AND SUBLETTING

Section 13.01. Assignment and Subletting

A. Airline shall not at any time assign this Agreement in whole or in part without the prior written consent of the Director; provided, however, that the foregoing shall not prevent the assignment of this Agreement to any corporation with which Airline may merge or consolidate or which may succeed to the business of Airline and provided further that, in connection with any such requested assignment, Airline may request City to release the assigned portion of said Leased Premises from this Agreement and to relieve Airline of rental obligation therefor. In the event City fails or refuses to approve such request and relief, Airline may then assign all or a portion of the Leased Premises to another air transportation company or companies that have executed an airport use and lease agreement with City.

B. Airline may sublet all or any part of the Leased Premises only after obtaining the prior written consent of the Director, but if an event of default shall occur and be continuing under this Agreement, City may collect rent from such sublessee or occupant and apply the amount collected to the extent possible to satisfy the obligations of Airline hereunder, but no such collection shall be deemed a waiver by the City of the covenants contained herein or the acceptance by the City of such sublessee or occupant as a successor to Airline or a release of Airline by City from its obligations hereunder.

C. All of the terms, provisions, covenants, stipulations, conditions and consideration in this Agreement shall extend to and bind the legal representatives, successors, sublessees, and assigns of the respective parties hereto.

Article XIV

MISCELLANEOUS PROVISIONS

Section 14.01. Rules and Regulations

From time to time the Director may adopt and enforce rules and regulations with respect to the occupancy and use of the Airport, its services and facilities, by persons, vehicles, aircraft and equipment that in his opinion will reasonably insure the safe, efficient, and economically practicable operation thereof and provide for the safety and convenience of those using the Airport, and to protect the Airport and its facilities and the public from damage or injury resulting from operations on, into and from the Airport. Airline agrees to observe and obey any and all rules and regulations as are currently in place and as may be reasonably established from time to time, and to require its officers, agents, employees, contractors, and suppliers, to observe and obey the same. City reserves the right to deny access to the Airport or its facilities to any person, firm or corporation that fails or refuses to obey and comply with such rules and regulations. Such rules and regulations of City will not be inconsistent with the terms of this Agreement nor with valid rules, regulations, orders and procedures of the Federal Aviation Administration or any other government agency duly authorized to make or enforce rules and regulations for the operation of the Airport and the operation of aircraft using the Airport. Airline at all times shall be furnished (at the notice address provided herein and to Airline's on-Airport manager) a current copy of any such City rules or regulations and any amendments thereto, and Airline reserves the right to contest any such rules and regulations which it believes to be unreasonable.

Section 14.02. Compliance with Law

A. General. Airline shall not use the Airport or any part thereof, or knowingly permit the same to be used by any of its employees, officers, agents, subtenants, contractors, invitees, or licensees for any illegal purposes and shall, at all times during the term of this Agreement, comply with all applicable regulations, ordinances, and laws of the City, the State of Texas, or the Federal Government, and of any governmental bodies which may have jurisdiction over the Airport. Nothing in this Section 14.02 shall modify the provisions of Section 14.01 or limit Airline's rights thereunder.

B. Compliance with Statutes, Ordinances and Regulations. At all times during the term of this Agreement, Airline shall, in connection with its activities and operations at the Airport:

1. Comply with and conform to all applicable present and future statutes and ordinances, and regulations promulgated thereunder, of all Federal, State, and other government bodies of competent jurisdiction that apply to or affect, either directly or indirectly, Airline or Airline's operations and activities under this Agreement. Airline shall comply with all applicable provisions of the Americans with Disabilities Act of 1990 (42 U.S.C. Section 12101), as may be amended from time to time, and federal regulations promulgated thereunder that may be made applicable as a result of construction activities conducted by Airline.

2. Subject to prior written approval of the Director, make, at its own expense, all non-structural improvements, repairs, and alterations to its Exclusive Use Space, equipment, and personal property that are required to comply with or conform to any of such statutes, ordinances, or regulations (subject to Section 14.01).

3. As respects the City, be and remain an independent contractor with respect to all installations, construction, and services performed by or on behalf of Airline hereunder.

C. Compliance with Environmental Laws.

1. Airline shall comply with all federal, state, local statutes, ordinances, regulations, rules, policies, codes or guidelines now or hereafter in effect, as same may be amended from time to time, which govern Hazardous Materials or relate to the protection of human health, safety or the environment, applicability of which are invoked by the conduct of Airline's business operations at the Airport and shall include but not be limited to: the Federal Insecticide, Fumicide, and Rodenticide Act, 7 U.S.C. Section 136 et seq.; the Safe Drinking Water Act, 42 U.S.C. Section 300(f) et seq.; the Oil Pollution Control Act of 1990, 33 U.S.C. Section 270 et seq.; the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as

amended, 42 U.S.C., Section 9601 et seq.; and as amended by the Superfund Amendments and Reauthorization Act of 1986, Pub. Law No. 99-499, 100 Stat. 1613; the Toxic Substances Control Act, 15 U.S.C., Section 2601 et seq.; the Clean Air Act, 42 U.S.C. 7401 et seq.; the Clean Water Act, 33 U.S.C., Section 1251, et seq.; the Hazardous Materials Transportation Act, 49 U.S.C., Section 1801 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C., Section 6901 et seq.; or their State counterparts; and all substances defined as hazardous waste or as hazardous substances under the laws of Texas and/or the United States or in regulations promulgated pursuant to such laws (collectively, "Environmental Laws").

2. Any fines, penalties, or remediation costs that may be levied against the City by the Environmental Protection Agency or the Texas Natural Resource Conservation Commission or any other governmental agency for Airline's failure to comply with the Environmental Laws as required herein shall be reimbursed to the City by Airline within twenty-one (21) days of receipt of an invoice from City for such fines or penalties.

3. Airline shall prevent the presence, use, generation, release, omission, discharge, storage, disposal or transportation of any Hazardous Materials by Airline on, under, in, above, to or from the Airport or any other areas or facilities subject to this Agreement, other than in strict compliance with all Environmental Laws.

4. Airline acknowledges that the Airport is subject to the National Pollution Discharge Elimination System Program ("NPDES") and its regulations relating to stormwater discharges, 40 CFR Part 122, for operations that occur at the Airport. Airline further acknowledges that it is familiar with these NPDES stormwater regulations, that it will conduct operations at the Airport in compliance with 40 CFR Part 122 or any applicable NPDES permit, as either may be amended from time to time.

5. City and Airline both acknowledge that close cooperation is necessary to ensure compliance with any NPDES stormwater discharge permit, as well as to ensure safety and to minimize costs. Airline acknowledges that it may be necessary to undertake to minimize the exposure of stormwater to materials generated, stored, handled or otherwise used by Airline as defined in the federal stormwater regulations, by implementing and maintaining "Best Management Practices" as defined in 40 CFR, Part 122.2 and as implemented in any applicable NPDES permit, as either may be amended from time to time.

6. Airline acknowledges that City's NPDES stormwater discharge permit and any subsequent amendments, extensions or renewals thereto, to the extent affecting Airline's operations at the Airport, is incorporated by reference into this Agreement. Airline agrees to be bound by all applicable portions of said permit. City shall promptly notify Airline of any changes to any portions of said permit applicable to, or that affect, Airline's operations.

7. City shall provide Airline with written notice of those NPDES stormwater discharge permit requirements (including any modifications thereto) that Airline shall be obligated to perform from time to time at the Airport, including, but not limited to: certification of non-stormwater discharges; collection of stormwater samples; preparation of stormwater pollution prevention or similar plans; implementation of "good housekeeping" measures or Best Management Practices; and maintenance of necessary records. Such written notice shall include applicable deadlines. Airline, within fifteen (15) days of receipt of such written notice, shall notify City in writing if it disputes any of the NPDES stormwater discharge permit requirements it is being directed to undertake. If Airline does not provide such timely notice, it is deemed to assent to undertake such requirements. If Airline provides City with written notice, as required above, that it disputes such NPDES stormwater discharge permit requirements, City and Airline agree to negotiate a prompt resolution of their differences. Airline warrants that it will not object to City notices required pursuant to this paragraph unless Airline has a good faith basis to do so.

8. City and Airline agree to provide each other upon request, with any non-privileged information collected and submitted to any governmental entity(ies) pursuant to applicable NPDES stormwater regulations.

9. Airline agrees to participate in any reasonable manner requested by the City in any City organized task force or other work group established to coordinate stormwater activities at the Airport.

10. Upon reasonable notice based on the circumstances and without materially disrupting Airline's operations (except in case of emergencies when notice shall not be

required), City shall have the right at any time and from time to time to enter upon Airline's Leased Premises for purposes of inspection to ensure that Airline is complying with this Section 14.02.C. without such inspection constituting a trespass.

11. All such remedies of City with regard to environmental requirements as set forth herein shall be deemed cumulative in nature and shall survive termination of this Agreement.

D. INDEMNIFICATION. Airline shall protect, defend, indemnify, and hold harmless City and its officers, agents, and employees from and against any loss, cost, claim (including claims for remediation costs or in kind remediation), demand, penalty, fine, liability and expense (including but not limited to attorneys' and consultants' fees, court costs and litigation expenses) and hereafter referred to as "liability" from whomever received, whether a private person or governmental entity related to:

1. Airline's use or the presence caused by airline of hazardous materials of whatever kind or nature, known or unknown, contingent or otherwise on the Airport, which liability may arise out of any investigation, monitoring, cleanup, containment, removal, storage or restoration work required or incurred hereunder by City or any other entity or person in a reasonable belief that such work is required by any applicable environmental law;

2. Any actual, threatened, or alleged contamination by hazardous materials on the Airport premises by airline or its agents;

3. The disposal, release or threatened release of hazardous materials by airline or its agents at the Airport that is on, from, or affects soil, air, water, vegetation, buildings, personal property, or persons;

4. Any personal injury, death or property damage (real or personal) arising out of or related to Hazardous Materials used (including storage or disposal) by Airline at the Airport; or

5. Any violation by Airline of Environmental Laws;

provided, however, that the foregoing indemnity shall not be applicable to losses, costs, expenses, claims, demands, penalties, fines, settlements, liabilities and expenses resulting from conditions existing as of the effective date of this Agreement and which such conditions are not the result of any operations, activities, actions or inactions of airline or its agents, or which are caused solely by city or its agents.

E. Airline shall not be responsible in any way for any Hazardous Materials that exist on the Airport, the presence of which was not caused by Airline. In the event that any such presence of Hazardous Materials not caused by Airline results in Airline being substantially deprived of the use or benefit of any material portion of the Leased Premises, City agrees to use its best efforts to provide replacement space for Airline during the period of such deprivation or to abate the rent due hereunder in an equitable manner.

Section 14.03. Nondiscrimination

A. General. In the use and occupation of the Airport, Airline shall not unlawfully discriminate against any person or class of persons by reason of race, color, religion, sex, national origin or ancestry, age, or physical or mental handicap.

B. Civil/Human Rights Laws. In its operations at the Airport and in its use of the Airport, Airline shall not, on the grounds of race, color, religion, sex, national origin or ancestry, or age, discriminate or permit discrimination against any person or group of persons in any manner prohibited by Part 21 of the Federal Aviation Regulations, the Civil Rights Act of 1964, as amended, the Equal Pay Act of 1963, the Rehabilitation Act of 1973, and Section 15-17 of the City's Code of Ordinances. Without limiting the generality of the foregoing, Airline agrees to not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin or ancestry, or age. Airline agrees to take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex, national origin or ancestry, age, or physical or mental handicap. Such action shall include, but not be limited to: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; selection for training; and disciplinary actions and grievances. Airline agrees to post, in conspicuous places available to employees and applicants for employment, notices to be provided setting forth the

provisions of this nondiscrimination clause.

C. USDOT Requirements. Airline, for itself, its successors in interest, and assigns, as a part of the consideration of this Agreement, does hereby covenant and agree that, in the event improvements are constructed, maintained, or otherwise operated on the Airport for a purpose for which a United States Department of Transportation program or activity is extended or for another purpose involving the provision of similar services or benefits, Airline shall maintain and operate such improvements and services in compliance with all other requirements imposed pursuant to 49 CFR, Part 21 (Non-discrimination in Federally Assisted Programs of the Department of Transportation), as said regulations may be amended.

Airline, for itself, its heirs, personal representatives, successors in interest, and assigns, as a part of the consideration of this Agreement, does hereby covenant and agree that: (1) no person on the grounds of race, color, religion, sex, national origin or ancestry, or age, shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination in the use of said improvements; (2) that in the construction of any improvements on, over, or under such land and the furnishing of services thereon, no person on the grounds of race, color, religion, sex, national origin or ancestry, or age, shall be excluded from participation in, denied the benefits of, or otherwise be subjected to unlawful discrimination; (3) that Airline shall use the Airport facilities in compliance with all other requirements imposed by, or pursuant to, 49 C.F.R., Part 21 (Non-discrimination in Federally Assisted Programs of the Department of Transportation), as said regulations may be amended; and (4) Airline assures that it will undertake an affirmative action program as required by 14 C.F.R., Part 152, Subpart E, Non-discrimination Airport in Aid Program, to ensure that no person shall on the grounds of race, color, religion, national origin or ancestry, sex, age, or physical or mental handicap be excluded from participating in any employment activities covered in 14 CFR, Part 152, Subpart E, or such employment activities covered in Section 15-17 of the City's Code of Ordinances. Airline assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by this Section 14.03. Airline assures that it will require that any covered suborganization similarly will undertake affirmative action programs and that the suborganization will require assurance from the suborganization's suborganization, as required by 14 CFR., Part 152, Subpart E, to the same affect.

Section 14.04. Payment of Taxes

Airline shall pay all taxes that may be levied, assessed or charged upon Airline or its property located on the Airport by the State of Texas or any of its political subdivisions or municipal corporations, and shall obtain and pay for all licenses and permits required by law. However, Airline shall have the right to contest, in good faith, the validity or application of any such tax, license or permit and shall not be considered in default hereunder as long as such contest is in progress. Further, Airline agrees to diligently prosecute such contest.

Section 14.05. Right to Lease to United States Government

During time of war or national emergency City shall have the right to lease the Airport landing area or any part thereof to the United States Government for use by the Armed Forces and, if any such lease is executed, the provisions of this Agreement insofar as they are inconsistent with the provisions of the lease to the Government shall be suspended; however, such suspension shall not extend the term of this Agreement. If, as a result of any such lease, the rights or duties of Airline hereunder are materially affected, then Airline shall receive an equitable rental adjustment.

Section 14.06. Notice or Consent

Any notice or consent required herein to be obtained from or given by City (or Director) may be given by Director unless otherwise provided. Consent of City or Airline when required herein shall not be unreasonably withheld, delayed or conditioned.

Section 14.07. Rights Reserved to City

Nothing contained herein shall unlawfully impair the right of City to exercise its governmental or legislative functions. This Agreement is made subject to the Constitution and laws of the State of Texas and to the Charter of the City of Houston, Texas, and to the provisions of the Airport Improvement Program Grant Agreements applicable to the Airport and its operation, and the provisions of such agreements, insofar as they are applicable to the terms and provisions of this Agreement, shall be considered a part hereof to the same extent as though copied herein at length to the extent, but only to the extent, that the

provisions of any such agreements are required generally by the United States at other civil airports receiving federal funds. To the best of the City's knowledge, nothing contained in such laws or agreements conflicts with the express provisions of this Agreement.

Section 14.08. Favored Nations

Airline shall have the same rights and privileges and pay the same City-established fees and charges, not to exceed those established under the provisions of this Agreement as periodically revised under the terms hereof, with respect to the use of the Airport as are granted to or charged any other airline executing a use and lease agreement with City for use of the Airport. It is understood that ground rentals and lease rentals are set by City Council, as provided by City Charter, and to the extent permitted under applicable Federal law therefore may vary between lessees on account of the different premises to be leased at the time thereof. It is further understood that lease rentals and charges in terminal buildings, flight stations and associated aircraft apron areas constructed in the future and not described in this Agreement may vary from the lease rentals and charges established herein for the facilities, depending upon the capital cost and financing arrangements involved and, therefore may be more or less than the lease rentals established herein for similar facilities.

Section 14.09. Right of Entry

Upon reasonable notice based on the circumstances and without materially disrupting Airline's operations (except in case of emergencies when notice shall not be required), City may enter upon the Leased Premises to which Airline is given rights and privileges under the provisions hereof and which is leased exclusively to Airline hereunder at any time for any purpose necessary, incidental to or connected with the performance of Airline's obligations hereunder, or in the exercise of City's governmental functions, and upon the termination or cancellation of this Agreement, and such entry or reentry shall not constitute a trespass nor give Airline a cause of action for damages against City.

Section 14.10. Notices

Except notices required under Sections 14.02.C.10 and 14.01 herein where notice shall be acceptable if given either in writing or verbally to Airline's Vice President of hub operations, or his/her designee, notices to City and/or Airline provided for herein shall be deemed sufficiently given when delivered or when mailed by certified or registered mail, postage prepaid, or when given by telephone immediately confirmed in writing by telecopier (or other communications device acceptable to the party) as follows or to such other address, telephone or telecopier number as a party may from time to time designate in writing to the other party hereto:

To City:

Director of Aviation
City of Houston
16930 J.F. Kennedy Boulevard
Houston Intercontinental Airport
Houston, Texas 77032
Telephone: (281) 233-1877
Telecopier: (281) 233-1864

To Airline:

(When Delivered)

(When Mailed)

Continental Airlines, Inc.
1600 Smith Street Dept. HQS-PF
Houston, Texas 77002
Attention: Vice President
Corporate Real Estate
Telephone: (713) 324-2245
Telecopier: (713) 324-6954

Continental Airlines, Inc.
P. O. Box 4607 Dept. HQS-PF
Houston, Texas 77210
Attention: Vice President
Corporate Real Estate

With a copy to:

With a copy to:

Continental Airlines, Inc.
1600 Smith Street Dept. HQS - LG
Houston, Texas 77002
Attention: General Counsel
Telephone: (713) 324-2950
Telecopier: (713) 520-6329

Continental Airlines, Inc.
P. O. Box 4607 Dept. HQS-LG
Houston, Texas 77002
Attention: General Counsel

Section 14.11. City's Right to Audit Books and Records

Airline agrees to keep books and records on its operations at the Airport and the Director or any other authorized City representative upon reasonable advance written notice to Airline shall have the right to inspect and audit such books and records to ensure compliance with the prevailing municipal bond disclosure requirements and to determine that City has received

from Airline all moneys due the City under the terms hereof including, but not limited to, the rentals and fees and PFCs (if applicable) payable to Airport by Airline.

Section 14.12. Force Majeure

Neither City nor Airline shall be deemed in violation of this Agreement if it is prevented from performing any of its obligations hereunder by reason of strikes, boycotts, labor disputes, embargoes, shortage of material, acts of God, acts of the public enemy, acts of superior governmental authority, weather conditions, tides, riots, rebellion, sabotage, or any other circumstances for which it is not responsible or which is not in its control; provided, however, that these provisions shall not excuse Airline from paying the rentals and fees hereinbefore specified in Article V.

Section 14.13. Non-Waiver

The acceptance of fees by City for any period or periods after a default of any of the terms, covenants and conditions herein contained to be performed, kept and observed by Airline, shall not be deemed a waiver of any right on the part of City to terminate this Agreement for failure by Airline to perform, keep or observe any of the terms, covenants or conditions of this Agreement, and shall not be deemed a waiver of the right of City to terminate this Agreement pursuant to Article XII of this Agreement.

Section 14.14. Place of Payments

All payments required of the Airline by this Agreement shall be made payable to the City of Houston and shall be mailed to the office of the Director of Aviation, City of Houston, P.O. Box 60106, George Bush Intercontinental Airport, Houston, Texas 77205-0106, or to such other officer or address as may be substituted therefor in writing to Airline by the Director.

Section 14.15. Nonliability of Individuals

No director, officer, agent or employee of either party shall be charged personally or held contractually liable by or to the other party under any term or provision of this Agreement or because of any breach thereof or because of its or their execution or attempted execution.

Section 14.16. Remedies to be Nonexclusive

All remedies provided in this Agreement shall be deemed cumulative and additional and not in lieu of or exclusive of each other or of any other remedy available to City or Airline at law or in equity (to the extent not inconsistent with the express provisions hereof) and the exercise of any remedy or the existence herein of other remedies or indemnities shall not prevent the exercise of any other remedy.

Section 14.17. Exclusiveness of Airline's Rights

Nothing herein contained shall be deemed to grant to Airline any exclusive right or privilege within the meaning of Section 308 of the Federal Aviation Act for the conduct of any activity on the Airport, except that, subject to the terms and provisions hereof, Airline shall have the right to exclusive possession of the exclusive areas leased to Airline under the provisions of this Agreement.

Section 14.18. Other Land and Buildings Excluded

It is agreed and understood that it is not intended by this Agreement or any Exhibit hereto to lease any building, space or area, or set any rental rates for any building, space or area, other than what is specifically described herein.

Section 14.19. Titles

The titles of the several articles of this Agreement are inserted herein for convenience only and are not intended and shall not be construed to affect in any manner the terms and provisions hereof or the interpretation or construction thereof.

Section 14.20. Invalid Provisions

In the event any covenant, condition or provision herein contained is held to be invalid by a court of competent jurisdiction, the invalidity of any such covenant, condition or provision shall in no way affect any other covenant, condition, or provision herein contained, provided the invalidity of any such covenant, condition or provision does not materially prejudice either City or Airline in its respective rights and obligations contained in the valid covenants, conditions and provisions of this agreement.

Section 14.21. Enforcement

The City Attorney or his or her designee shall have the right to enforce all legal rights and obligations under this Agreement without further authorization. Airline covenants to provide to the City Attorney all documents and records that the City Attorney reasonably requests to assist in determining Airline's compliance with this Agreement when a good faith basis exists for the belief that Airline is not in compliance with this Agreement, with the exception of those documents made confidential by federal or state law or regulations and provided that the provision of such documents and records by Airline shall be further limited in any respect that the provision of any documents or records of City pertaining to this Agreement would be limited pursuant to Chapter 552, Texas Gov't. Code, as amended or otherwise.

Section 14.22. Operation of Airport

City agrees to maintain and operate the Airport in accordance with all applicable standards, rules and regulations of the Federal Aviation Administration or its successor. City shall exercise its rights hereunder and otherwise operate the Airport with due regard for the operational requirements and long-term interests of the airlines and the interests of traveling public, in a manner that is consistent with applicable law, federal aviation regulation, federal grant assurances, and City airport revenue bond ordinances.

Section 14.23. Entire Agreement

This Agreement constitutes the entire Agreement of the parties on the subject matter hereof and may not be changed, modified, discharged or extended except by written instrument duly executed by City and Airline. Airline agrees that no representations or grant of rights or privileges shall be binding upon City unless expressed in writing in this Agreement.

Section 14.24. Successors and Assigns

The provisions of this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto; provided, however, this provision shall in no way whatsoever alter the restriction herein regarding assignment and subletting by Airline.

Section 14.25. Subordination

City agrees that the Director, in his discretion, and subject to approval of the City Attorney, shall be permitted to, from time to time, execute any agreement providing for the subordination of any statutory or constitutional landlord's lien over any of Airline's property acquired in connection with any bona fide, third party purchase money equipment (or other personal property) financing (whether through a sale leaseback financing or other equipment lease financing transaction), it being further agreed that the financing of costs expended by Airline for the purchase of equipment or personal property within twelve (12) months prior to such financing transaction shall be considered purchase money financing hereunder; provided, however, that such subordination shall be limited to Airline's property that is financed or refinanced in such transaction.

EXECUTED this _____ day of _____, A.D. 19__.

ATTEST:

CITY OF HOUSTON:

City Secretary

By: _____
Mayor

ATTEST:

CONTINENTAL AIRLINES, INC.

Secretary

By: _____

APPROVED:

COUNTERSIGNED:

Director, Department of Aviation

By: _____
City Controller

APPROVED AS TO FORM:

DATE COUNTERSIGNED:

Senior Assistant City Attorney

By: _____

THE STATE OF TEXAS)(

COUNTY OF HARRIS)(

BEFORE ME, the undersigned authority, a notary public in and for Harris County, Texas, on this day personally appeared LEE P. BROWN, MAYOR of the CITY OF HOUSTON, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and considerations therein expressed as the act and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, A.D. 19__.

Notary Public in and
for Harris County, Texas

THE STATE OF TEXAS)(

COUNTY OF HARRIS)(

BEFORE ME, the undersigned authority, on this day personally appeared _____, Vice-President of the corporation above named, _____, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledges to me that he executed the same for the purpose and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, A.D. 19__.

Notary Public in and
for Harris County, Texas

"A" LEASE

SPECIAL FACILITIES
LEASE AGREEMENT
(AUTOMATED PEOPLE MOVER PROJECT)

by and between

CITY OF HOUSTON, TEXAS
as Lessor
and
CONTINENTAL AIRLINES, INC.
as Lessee

Dated as of March 1, 1997

SPECIAL FACILITIES
LEASE AGREEMENT
(AUTOMATED PEOPLE MOVER PROJECT)

I N D E X

Page No.

ARTICLE I
DEFINITIONS AND INTERPRETATIONS

Section 1.01: Definitions2
Section 1.02: Interpretations6

ARTICLE II
REPRESENTATIONS

Section 2.01: Representations by the City7
Section 2.02: Representations by Lessee7

ARTICLE III
LEASE AND TERM; GRANT OF EASEMENTS AND GROUND LEASES

Section 3.01: Lease of Special Facilities8
Section 3.02: Term of Lease of Special Facilities8
Section 3.03: Easements and Ground Leases8
Section 3.04: Condition of Special Facilities8
Section 3.05: City Right of Entry9

ARTICLE IV
ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECT

Section 4.01: Issuance of Series 1997A Bonds.9
Section 4.02: Issuance of Additional Bonds.9
Section 4.03: Application of Proceeds; Insufficiencies. . . . 10
Section 4.04: Refunding Bonds10
Section 4.05: Optional Redemption of Bonds.11

ARTICLE V
DESIGN, CONSTRUCTION AND ACQUISITION OF THE SPECIAL FACILITIES

Section 5.01: General11
Section 5.02: Special Provisions for Project.12
Section 5.03: Inventory of Special Facilities; Replacements . 14
Section 5.04: Title to Project, Plans and Contracts 14
Section 5.05: Design, Construction and Acquisition of
Additional Special Facilities15
Section 5.06: Personal Property Not Constituting Special
Facilities.15

ARTICLE V
INET RENT AND GROUND RENT

Section 6.01: Net Rent While Bonds Outstanding.16
Section 6.02: Obligation to Pay Net Rent Unconditional. . . . 17
Section 6.03: Pledge of Net Rent.18
Section 6.04: Operation and Maintenance Expenses; Other Costs 18
Section 6.05: Ground Rentals.19

ARTICLE VII
USE OF SPECIAL FACILITIES;

REPRESENTATIONS AND UNDERTAKINGS BY LESSEE AND CITY

Section 7.01: General 19
Section 7.02: Use of Project. 19
Section 7.03: Representations by City with Respect to the Project 20
Section 7.04: Reaffirmation of Options to City with Respect to the Project. 23

ARTICLE VIII

LESSEE'S OBLIGATIONS AND CONDITIONS TO LESSEE'S USE OF SPECIAL FACILITIES

Section 8.01: Maintenance of Special Facilities at Lessee's Expense. 24
Section 8.02: Taxes, Charges, Utilities, Liens. 24
Section 8.03: Compliance with Airport Rules and Regulations and Law; Nondiscrimination. 24
Section 8.04: Compliance with Tax Law 25
Section 8.05: Environmental Matters 25
Section 8.06: City's Right To Maintain or Repair Special Facilities. 28
Section 8.07: Termination Procedures. 28

ARTICLE IX

LIABILITY, INSURANCE AND CONDEMNATION

Section 9.01: Release and Indemnification of City 28
Section 9.02: General Insurance Requirements. 30
Section 9.03: Risks and Minimum Limits of Coverage. 31
Section 9.04: Other Provisions. 32
Section 9.05: Disposition of Insurance Proceeds 33
Section 9.06: Condemnation. 34
Section 9.07: Reconstruction or Repair. 36

ARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section 10.01: Events of Default. 36
Section 10.02: Remedies on Default. 37
Section 10.03: Additional Remedy. 39
Section 10.04: No Remedy Exclusive. 39
Section 10.05: Agreement to Pay Attorneys' Fees and Expenses. 39
Section 10.06: No Additional Waiver Implied by One Waiver . . 39
Section 10.07: Enforcement by City Attorney 39
Section 10.08: Special Rights of Bond Insurer 40

ARTICLE XI

ASSIGNMENTS, SUBLETTING AND TERMINATION BY LESSEE

Section 11.01: Assignments and Subletting by Lessee 40
Section 11.02: Termination of Agreement by Lessee 41
Section 11.03: Special Provisions Regarding Leasehold Mortgage 41

ARTICLE XII

MISCELLANEOUS

Section 12.01: Lessee to Maintain Its Corporate Existence . . 42
Section 12.02: Exempt Facilities. 42
Section 12.03: Notices. 42
Section 12.04: Consents and Approvals 44
Section 12.05: Rights Reserved to City. 45
Section 12.06: Force Majeure. 45
Section 12.07: Severability Clause. 45
Section 12.08: Place of Performance; Laws Governing 45
Section 12.09: Brokerage. 46
Section 12.10: Individuals Not Liable 46
Section 12.11: Binding Nature of Agreement; Benefits of Agreement. 46
Section 12.12: Ambiguities. 46
Section 12.13: Survival 46
Section 12.14: No Merger of Title 46
Section 12.15: Entire Agreement 47

Description of Project Exhibit "A"
Description of Easements Exhibit "B"
Description of Ground Lease Properties Exhibit "C"
Deed and Bill of Sale for Project Exhibit "D"

SPECIAL FACILITIES
LEASE AGREEMENT
(Automated People Mover Project)

THE STATE OF TEXAS

COUNTY OF HARRIS

THIS SPECIAL FACILITIES LEASE AGREEMENT (hereinafter called "Agreement") dated as of the 1st day of March, 1997, is made and entered into between the CITY OF HOUSTON, TEXAS, a municipal corporation and Home Rule City, situated principally in Harris County, Texas (hereinafter called "City"), and CONTINENTAL AIRLINES, INC., a corporation organized and existing under the laws of the State of Delaware, duly authorized to do business in the State of Texas (hereinafter called "Lessee").

W I T N E S S E T H :

WHEREAS, City is the owner of land and certain improvements known as the Houston Intercontinental Airport, located in the City of Houston, Harris County, Texas (hereinafter called "Airport"), which is operated as a public airport, as a part of the City's Airport System (as hereinafter defined), and City has the power and authority to lease premises and facilities thereon and to grant rights and privileges with respect thereto, including those set forth herein; and

WHEREAS, Lessee is engaged in the business of commercial air transportation as a scheduled air carrier and is certificated or otherwise authorized by the United States Government and the hereinafter described Use and Lease Agreement to engage in such business at the Airport (hereinafter referred to as "authorized business"); and

WHEREAS, City and Lessee have heretofore entered into the Term Sheet (as hereinafter defined) pursuant to which the City has agreed to lease to Lessee certain space and facilities in Terminals B and C at the Airport and to issue certain special facilities revenue bonds to finance certain special facilities projects, which bonds are to be secured by the pledge of certain net rentals of the special facilities projects payable by the Lessee; and

WHEREAS, Lessee has heretofore requested the City to undertake the financing of the Project (as hereinafter defined); and

WHEREAS, the City has found and determined that it is in the public interest and a public purpose for the City to finance the costs of the Project through the issuance of certain special facilities revenue bonds payable from certain net rentals of the Project; and

WHEREAS, all ordinances heretofore adopted by the City authorizing the issuance of its Airport System Revenue Bonds payable from any or all gross revenues, tolls, rents, lease moneys, returns, and charges derived by the City from the operation of its Airport System, which includes the Airport, provide for the exclusion from the pledge of such revenues "any rentals (except ground rentals) from net rent leases which may be executed in the future wherein the lease consideration is pledged or otherwise utilized to finance the construction of buildings or facilities for lessee-tenants of the City, but only for such time and to such extent in each case as the rentals reserved in the lease or any extension or renewal thereof (other than ground rent) are required to be deposited in a separate interest and redemption fund in order to meet the City's obligation for interest payments and principal repayment on the bonds or other instruments of indebtedness issued or sold to finance the improvement which is the subject matter of the lease"; and

WHEREAS, the City and Lessee desire to enter into this Agreement (i) to constitute a "net rent lease", to provide for the construction and acquisition of certain Special Facilities initially consisting of the Project, to provide for the issuance of revenue bonds to finance certain costs of such Special Facilities, and to provide for the payment by Lessee of certain Net Rent at times and in amounts sufficient to meet the City's obligation for interest payments and principal repayment on all revenue bonds sold to finance the costs of such Special Facilities and (ii) to set forth certain other agreements of the parties with respect to the Special Facilities and Ground Lease Properties; and

WHEREAS, the City has heretofore determined that the Project is essential to the development and operation of the Airport and, but for the timing requirements stipulated by Lessee, would have been financed, constructed and operated by the City for the benefit of the same members of the traveling public who are intended to be served by the APM (as hereinafter defined);

NOW, THEREFORE, for and in consideration of the premises and of the mutual covenants and agreements herein contained and in consideration of the rentals and other amounts to be paid as herein provided, the City and Lessee do hereby covenant and agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01: Definitions. In this Agreement, the following terms shall have the following meanings, respectively, unless the context clearly indicates otherwise:

"Additional Bonds" shall mean all additional bonds which may be issued by the City payable from the same source as the Series 1997A Bonds (including Net Rent payable under this Agreement) for the purposes and in the general manner specified in Section 4.02 hereof.

"Airport" shall mean Houston Intercontinental Airport, Houston, Texas, as it now exists or may be modified or expanded from time to time in the future.

"Airport System" shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as "Houston Intercontinental Airport," "William P. Hobby Airport" and "Ellington Field" and the "CBD Heliport."

"Airport System Senior and Subordinate Lien Revenue Bonds" shall mean any or all of the City's outstanding bonds and notes of such designation secured by and payable from senior or subordinate liens on Airport System net revenues, including any bonds and notes hereafter issued on a parity therewith.

"APM" or "Automated People Mover" shall mean the automated people mover system to run between Terminals B and C at the Airport as more fully described in Exhibit "A" attached to this Agreement.

"APM Easement" shall mean the Easement(s) so designated in Exhibit "B" attached to this Agreement, for the purpose of the APM, including APM stations.

"Available Moneys" shall mean (i) moneys received by the Trustee and held in the Interest and Redemption Fund for a period of at least 124 days (or, if any such moneys are paid to or for the benefit of any person who is an "insider" within the meaning of the United States Bankruptcy Code with respect to the City or the Lessee or is paid by any such person who is an "insider," 367 days) and not commingled with any moneys so held for less than said period and during and prior to which period no petition in bankruptcy was filed by or against the City or the Lessee under the United States Bankruptcy Code, (ii) moneys with respect to which the Trustee shall have received an opinion of counsel experienced in matters pertaining to the United States Bankruptcy Code that the contemplated use of such moneys would not constitute a transfer of property voidable under Sections 544 or 547 of the United States Bankruptcy Code should the City or the Lessee become a debtor under such Code, or (iii) investment income derived from the investment of moneys described in clauses (i) or (ii).

"Bond Insurer", with respect to the Series 1997A Bonds, shall mean Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto.

"Bonds" shall mean collectively the Series 1997A Bonds and any Additional Bonds and Refunding Bonds from time to time hereafter issued.

"Business Day" shall mean any day other than a Saturday, Sunday, or legal holiday or the equivalent (other than a moratorium) on which banking institutions generally in Houston, Texas or New York, New York are authorized or required by law or executive order to close.

"City" shall mean the City of Houston, Texas, or such other agency, board, authority, or private entity which may succeed to the jurisdiction of the City over the Airport.

"Costs of the Project" or "Costs of the Special Facilities" shall mean all costs of financing the construction and acquisition of the Project or Special Facilities, as the case may be, and the issuance of Bonds for such purpose, including without limitation the following:

(i) all amounts paid by the Lessee, or authorized by the Lessee and paid by or on behalf of Lessee, to design, construct, acquire, fabricate, equip and install the Project or Special Facilities, including without limitation, all costs of utility extensions and connections and all amounts paid under all contracts for goods, services and facilities related thereto;

(ii) all amounts necessary to provide for work performed, material purchased or expenditures incurred, pertaining to or in connection with the Project or any other Special Facilities approved by City and Lessee including, without limitation, the charges of any architects or engineers for plans, specifications, drawings, supervision and inspection for the Project or Special Facilities;

(iii) all expenses incurred by the Lessee and the City for the review of plans, specifications and contracts for the Project or the Special Facilities and for the inspection in connection with the construction and acquisition thereof;

(iv) the cost of any and all permits, licenses, fees, performance and payment bonds, appraisals and insurance policies procured in connection with the acquisition and construction of the Project or Special Facilities;

(v) legal, accounting and bond advisory, underwriting and consultant fees and expenses, including any fees and expenses of any bond insurer and the provider of any reserve fund surety, and all costs and expenses incident to the authorization, issuance, delivery and sale of the Bonds, including without limitation the preparation, execution, delivery and recording of this Agreement, the Trust Indenture, any preliminary and the final offering documents pertaining to the Bonds, and any printing fees for such documents, any purchase agreements pursuant to which the Bonds will be sold, all credit agreements and other documents providing security for the Bonds or the Lessee's obligations and all other agreements and documents involved and contemplated hereby, the costs and fees, including legal fees, incident to the qualification of the Bonds for offer and sale under securities laws and the preparation of any memorandum as to the eligibility of the Bonds for offer and sale and for investment under state laws if required or if applicable;

(vi) interest accruing on the Bonds during the period of construction of the Project or Special Facilities financed with the proceeds thereof, the term of which period shall be determined in the Trust Indenture; and

(vii) such other and additional fees, costs, expenses and expenditures of whatever nature incidental or pertaining to the design, acquisition, construction, fabrication, equipping and installation of the Project or the Special Facilities, including funding of the Reserve Account, and all other costs and expenses that may properly be capitalized as costs of the Project or the Special Facilities.

"Director" shall mean the Director of the Department of Aviation of the City or his designee.

"Easements" shall mean all of the easement or easements described in Exhibit "B" attached hereto, including without limitation the APM Easement.

"Event of Default" shall mean those events so defined in Section 10.01 hereof.

"Ground Lease" shall mean (i) the lease of the Ground Lease Properties by the City to Lessee pursuant to Section 3.03(b) hereof and (ii) with respect to those Ground Lease Properties located within Terminal B, the Use and Lease Agreement.

"Ground Lease Properties" shall mean the properties described in Exhibit "C" attached hereto.

"Ground Rentals" shall mean the rentals to be paid by Lessee directly to the City pursuant to Section 6.05 as consideration for the lease of those Ground Lease Properties described in Exhibit "C."

"Guaranty" shall mean the guaranty agreement dated as of March 1, 1997, from the Lessee to the Trustee with respect to the Series 1997A Bonds.

"Interest and Redemption Fund" shall mean the fund so defined in the Trust Indenture for the collection of Net Rent and payment of the Bonds.

"Leased Premises under the Use and Lease Agreement" shall mean that certain space and improvements in and around at the Airport which were leased by the City to Lessee pursuant to the Use and

Lease Agreement.

"Leasehold Mortgage" shall mean any deed of trust or mortgage of Lessee's leasehold estate created hereunder which is authorized to be granted pursuant to Section 11.03 of this Agreement.

"Leasehold Mortgagee" shall mean the beneficiary or mortgagee under a Leasehold Mortgage.

"Lessee" shall mean Continental Airlines, Inc., a Delaware corporation, and its successors and assigns as lessee hereunder.

"Net Rent" shall mean the net rentals payable by Lessee to the Trustee on behalf of the City pursuant to Section 6.01(a) (i) and (ii) hereof for the purpose of being applied to the payment of the Bonds and making required deposits to the Interest and Redemption Fund and payment of all other amounts due the Bond Insurer under the Trust Indenture.

"Outstanding" shall have the meaning assigned in the Trust Indenture.

"Project" shall mean the APM, together with all replacements thereof and substitutes therefor as required to be made herein, together with any modifications or additions thereto approved by the Director and Lessee. The Project shall constitute the initial Special Facilities.

"Refunding Bonds" shall mean all refunding bonds which may be issued by the City for the purposes set forth in Sections 4.04 hereof, and which shall be payable from the same sources as the Series 1997A Bonds (including Net Rent payable under this Agreement).

"Reserve Account" shall mean the account to be created within the Interest and Redemption Fund so defined in the Trust Indenture for the purpose of constituting a reserve for the payment of Bonds.

"Series 1997A Bonds" shall mean the first series of Bonds to be issued pursuant to this Agreement, which shall be entitled the "City of Houston, Texas, Airport System Special Facilities Revenue Bonds (Automated People Mover Project), Series 1997A."

"Special Facilities" shall mean the Project, all extensions, additions, modifications and improvements thereto and all other improvements, fixtures, equipment and facilities that, pursuant to this Agreement or any supplement hereto or amendment hereof, are financed with any proceeds of the Series 1997A Bonds or any Additional Bonds.

"Term Sheet" shall mean that certain Term Sheet entitled "Continental Expansion at Houston Intercontinental Airport" entered into between the City and Continental on July 5, 1996.

"Trust Indenture" shall mean the Trust Indenture, dated as of March 1, 1997, together with all supplements and amendments thereto, entered into by and between the City and the Trustee to provide for the issuance of and security for the Series 1997A Bonds.

"Trustee" shall mean the bank designated as Trustee under the Trust Indenture, or any successor trustee thereunder.

"Use and Lease Agreement" shall mean that certain use and lease agreement or agreements with respect to Terminals B and C at Houston Intercontinental Airport to be entered into between the City and Lessee as provided in the Term Sheet and, pending the execution thereof, the Term Sheet and the City's and Lessee's existing use and lease agreement for Terminal C at the Airport and Lessee's rights under any existing use and lease agreement for Terminal B at the Airport, and, in the event a definitive use and lease agreement is not entered into on or prior to the expiration of existing use and lease agreement(s) (scheduled to be December 31, 1997), any ordinance or ordinances of the City establishing rates and charges and the terms of occupancy for Terminals B and C (consistent with the Term Sheet) or other mutually agreed upon interim agreement with respect thereto between the City and Lessee.

Section 1.02: Interpretations. All terms defined herein and all pronouns used in this Agreement shall be deemed to apply equally to singular and plural and to all genders. The table of contents, titles and headings of the articles and sections of this Agreement have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Agreement and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and, to provide for the full and timely payment of all Bonds from time to time hereafter issued by the City, which Bonds shall be secured by a pledge of the Net Rent payable under this Agreement.

In the event of any ambiguity contained herein, it shall not be construed for or against any party hereto on the basis that such party did or did not author same.

ARTICLE II

REPRESENTATIONS

Section 2.01: Representations by the City. The City makes the following representations as the basis for its undertakings in this Agreement:

- (a) The City, as the owner of the Airport, is authorized to enter into this Agreement;
- (b) The City has the power and authority to grant the Easements and the Ground Leases to the Lessee for the purposes of constructing, installing, equipping, maintaining and operating the Project;
- (c) The City has the power and authority to acquire the Project constructed, installed and equipped by Lessee on the Ground Lease Properties and the Easements, to acquire the other Special Facilities, and to lease same to Lessee pursuant to the terms and conditions contained herein;
- (d) The City has the power and authority to issue the Bonds for the purpose of paying the Costs of the Special Facilities and to pledge to the payment of the Bonds the Net Rent payable under this Agreement and by proper municipal action it has been authorized to execute and deliver this Agreement; and
- (e) All representations relating to the City contained in the recitals to this Agreement are true and correct in all material respects.

Section 2.02: Representations by Lessee. The Lessee makes the following representations as the basis for its undertakings in this Agreement:

- (a) Lessee is a corporation validly existing under the laws of the State of Delaware; it is in good standing under its certificate of incorporation and the laws of the State of Delaware; it is duly authorized to do business in the State of Texas; it has the power to enter into this Agreement without violating the terms of any other agreement to which it is a party; and by proper corporate action it has been duly authorized to execute and deliver this Agreement;
- (b) Lessee will occupy and possess the Easements and Ground Lease Properties for the purposes and upon the terms and conditions set forth herein; it will, subject to the City's issuance and sale of the Series 1997A Bonds, construct, install and equip the Project substantially in the manner herein provided; it will convey the Project to, or cause title to the Project to vest in, the City in the manner herein provided; and it will occupy, possess, operate and maintain the Project and any other Special Facilities for the purposes and in the manner provided herein, all subject to the terms and conditions of this Agreement; and
- (c) All representations relating to Lessee contained in the recitals to this Agreement are true and correct in all material respects.

ARTICLE III

LEASE AND TERM; GRANT OF EASEMENTS AND GROUND LEASES

Section 3.01: Lease of Special Facilities. Subject to the terms and conditions of this Agreement, the City hereby leases, lets and demises unto Lessee, and Lessee hereby leases and rents from the City, the Special Facilities, which shall consist initially of the Project.

Section 3.02: Term of Lease of Special Facilities. The term of this Agreement and the leasehold estate hereby created in the Special Facilities shall commence on April 17, 1997, being the date of delivery hereof by both the City and Lessee and shall continue, unless sooner terminated in accordance with this Agreement, until the 31st day of December, 2017.

Section 3.03: Easements and Ground Leases. (a) Subject to the terms and conditions of this Agreement, the City hereby grants and conveys to Lessee the Easements for a term corresponding to the term of Lessee's leasehold estate in the Special Facilities including any extensions or renewals thereof. The Easements shall be used solely for the purpose of constructing, equipping, acquiring, operating and maintaining the APM.

(b) Subject to the terms and conditions of this Agreement, the City hereby leases and demises to Lessee the Ground Lease

Properties described in Exhibit "C," for a term corresponding to the term of Lessee's leasehold estate in the Special Facilities, including any extensions or renewals thereof. Except as may otherwise be expressly provided herein or in the Use and Lease Agreement, the Ground Lease Properties shall be used solely for the purpose of constructing, equipping, acquiring, operating and maintaining the APM.

(c) Subject to the terms hereof, Lessee shall have the right of reasonable ingress to and egress from the Special Facilities over the portions of the Airport necessary for the construction, operation and maintenance of the Special Facilities in accordance with the terms hereof but subject to reasonable regulations promulgated by the Director.

(d) In the event the City and Lessee determine it is necessary or desirable to amend, correct, further define or delineate, delete from or add to any descriptions of the Easements or the Ground Lease Properties, they may do so by a supplement or addendum hereto duly executed by the respective parties and consented to by the Bond Insurer.

Section 3.04: Condition of Special Facilities. The Lessee has full and exclusive responsibility for ascertaining the suitability of the Special Facilities, Easements and Ground Lease Properties for their intended use. The City makes no representations or warranties, either express or implied, as to the condition of the Special Facilities, Easements and Ground Lease Properties for the use intended by the Lessee. The Lessee takes the Special Facilities, Easements and Ground Lease Properties in their "as-is" condition. The City acknowledges that Lessee does not assume any responsibility for any Hazardous Materials (as defined in Section 8.05C below) that existed on the Easements or the Ground Lease Properties as of the date hereof.

Section 3.05: City Right of Entry The City may enter upon the Easements, Ground Lease Properties and Special Facilities (i) at any reasonable time for any purpose necessary, incidental to or connected with the performance of Lessee's obligations hereunder, or in the exercise of the City's governmental functions, and (ii) upon the termination or cancellation of this Agreement in accordance with the provisions of Article X hereof, and such entry or reentry shall not constitute a trespass nor give Lessee a cause of action for damages against the City; provided, however, the City shall use all reasonable efforts to minimize any interference or interruption with Lessee's business operations.

ARTICLE IV

ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECT

Section 4.01: Issuance of Series 1997A Bonds. Subject to the terms and conditions of this Agreement, the City shall diligently use its best efforts to issue, sell and deliver the Series 1997A Bonds in an amount sufficient to pay the Costs of the Project, which amount shall be established in the Trust Indenture. The City shall have no obligations to issue, sell, or deliver the Series 1997A Bonds if (i) there exists an Event of Default under this Agreement by Lessee, or (ii) Lessee has not given written approval of the Trust Indenture. The City shall not authorize the sale of the Series 1997A Bonds or enter into the Trust Indenture until the terms of such Bonds and the form of such Trust Indenture have been approved in writing by Lessee in the manner provided in Section 12.04 hereof, which written approval shall be conclusively binding upon Lessee.

Section 4.02: Issuance of Additional Bonds. The City, at the direction of Lessee with the prior written approval of the Bond Insurer, may issue Additional Bonds in amounts sufficient to pay (i) any part of the Costs of the Project not fully funded or provided for out of the proceeds of the Series 1997A Bonds, or (ii) the Costs of the Special Facilities for any additional Special Facilities approved pursuant to Section 5.05 hereof. The City agrees to use its best efforts to issue any Additional Bonds required under Clause (i) above, and the Director shall cooperate in a reasonable manner with Lessee to request the City to issue Additional Bonds under Clause (ii) above; however, no representation is made or assurance given or implied by the City that it will be able to issue, sell and deliver Additional Bonds on terms and conditions satisfactory to Lessee or the Bond Insurer or that it will agree to issue Additional Bonds for any other purpose than as set forth above. Moreover, the issuance of Additional Bonds is made subject to the same conditions enumerated in Section 4.01 and the additional condition that there shall have been executed a supplement to this Agreement to provide for the manner of construction, acquisition and payment for any additional Special Facilities to be financed with such Additional Bonds and to provide for any other matters reasonably deemed necessary by the City in connection with such financing. All Additional Bonds shall be secured and payable as provided in the Trust Indenture. Upon the issuance of any Additional Bonds, the Net Rent and other

amounts payable hereunder shall automatically be increased in the amounts required to provide for the full and timely payment of all principal, interest, redemption premiums, Trustee charges, fees or charges to or of credit enhancers and other related costs and expenses in respect of all Bonds then outstanding, including the Additional Bonds to be issued and amounts due as provided in clause (y) of Section 6.01 hereof. However, the City shall not authorize the issuance of Additional Bonds until the terms thereof and of the supplement to the Trust Indenture relating thereto have been approved in writing by Lessee, which written approval shall be conclusively binding upon Lessee.

Section 4.03: Application of Proceeds; Insufficiencies. (a) Subject to the other terms and provisions hereof, the City hereby agrees to apply the proceeds of the Series 1997A Bonds (by depositing the proceeds into the "Acquisition Fund" and other Funds as established, defined and provided in the Trust Indenture) and any Additional Bonds to pay (but only to the extent of such proceeds) the Costs of the Special Facilities financed therewith. In the event that the proceeds of the Series 1997A Bonds or any Additional Bonds shall be insufficient to pay all Costs of the Special Facilities for which such Bonds were issued, then Lessee shall deposit into the Acquisition Fund amounts which, together with other amounts therein, shall be sufficient to pay all Costs of the Project or Special Facilities as the case may be. Proceeds of such Bonds and deposits, if any, shall be applied first to make any deposits required by the Trust Indenture authorizing the issuance of such Bonds, second to pay all Costs of the Special Facilities incurred on behalf of the City by the Lessee (and which are reasonably approved by Lessee), including the cost of issuance of such Bonds, and last to pay any Costs of the Special Facilities incurred by or on behalf of Lessee. Any proceeds of the Bonds remaining after paying all Costs of the Special Facilities shall be deposited into the Interest and Redemption Fund as provided under the Trust Indenture.

(b) Although the Trust Indenture provides that a reserve fund surety policy may be substituted for funds initially credited to the Reserve Account, Lessee shall not cause such a reserve fund surety policy to be delivered nor shall Lessee request the withdrawal or application of amounts in the Reserve Account for any purpose other than as a reserve for the payment of debt service on the Bonds as provided in the Trust Indenture (or for redeeming Bonds or purchasing Bonds in the open market for cancellation as may be permitted by the Trust Indenture) without the prior written consent of the Director.

Section 4.04: Refunding Bonds. Lessee reserves the right to request the City from time to time to issue Refunding Bonds in any manner permitted by law for the purpose of refunding any of the Bonds from time to time outstanding. Although, no representation is made or assurance given or implied by the City that it will be able to issue, sell and deliver such Refunding Bonds on terms and conditions satisfactory to the Lessee, the City agrees to use its best efforts to issue Refunding Bonds at Lessee's request provided they have a similar maturity pattern, similar redemption features and similar security. All Refunding Bonds, if any, shall be secured and payable as provided in the Trust Indenture, and the Net Rent and other amounts payable hereunder shall automatically be adjusted to provide for the full and timely payment of all principal, interest, redemption premiums, Trustee charges, fees or charges to or of credit enhancers and other related costs and expenses in respect of all Bonds to be outstanding following the issuance of the Refunding Bonds and amounts due as provided in clause (y) of Section 6.01 hereof. Notwithstanding the foregoing, the City shall not authorize the sale of any Refunding Bonds or authorize any supplement to the Trust Indenture for such purpose until the terms of such Refunding Bonds and the supplement to the Trust Indenture are approved in writing by Lessee in the manner provided in Section 12.04 hereof, and it is provided further that the City's receipt of such approval shall be conclusively binding upon Lessee.

Section 4.05: Optional Redemption of Bonds. The City agrees that at the written request of Lessee, the City will exercise any reserved right of optional redemption for any of the Bonds, provided that Lessee makes such request in sufficient time as specifically set forth in the Trust Indenture to permit the City to give any notice required by the Trust Indenture and provided further that Lessee gives the City adequate assurances that it will pay all additional Net Rent required to provide for the payment of the applicable redemption price for such Bonds, together with any related costs and expenses in connection with such redemption. No such Lessee request or approval is required for the City to exercise rights of optional redemption of the Bonds as provided in Section 7.03(d) hereof.

ARTICLE V

Section 5.01: General. Lessee shall cause the Special Facilities to be designed, procured, constructed, installed and completed in accordance with the following provisions.

(a) All plans and specifications for the design, procurement, construction and installation of any discrete element of the Special Facilities, including any alteration or addition thereto, shall be submitted to and receive the written approval of the Director prior to the commencement of any such discrete element of procurement, construction, alteration or installation. The City acknowledges that time is of the essence in reviewing such plans and specifications and shall use diligence to review and respond to all submissions of plans and specifications in a prompt and timely manner; provided that the City will continue its review to the extent practical, as determined by the City, while awaiting additional information from the Lessee. The City's review and response shall be conducted to avoid material, adverse impacts to the most recently published construction schedule approved by the City and the Lessee. The Lessee acknowledges that the City cannot review and respond in such a timely manner unless the Lessee assures that complete and thorough submissions are made to the City for review. Further, the Lessee acknowledges timely review and response by the City requires reasonable response by the Lessee to requests of the City for additional information necessary to complete the City's review.

(b) All such procurement, construction, alteration or installation may be made only after obtaining any required building or construction licenses and permits, which the City agrees to use reasonable efforts to expedite or to assist in obtaining, and, in addition to usual City inspection, shall be subject to inspection by the Director to see that the approved plans and specifications are being followed; provided, however, that the City shall use reasonable efforts to eliminate or avoid any interference or interruption with the construction of the Project.

(c) All such procurement, construction, alteration and installation shall be designed and carried out in accordance with the Department of Aviation's Tenant Improvement Manual, except to the extent inconsistent herewith, which is incorporated herein by reference and a copy of which has been provided to Lessee or as otherwise agreed by the City and Lessee. All such procurement, construction, alteration or installation shall be carried out and completed substantially in accordance with the most recently published construction schedule approved by Director and Lessee. Upon completion of construction, Lessee shall provide the Director with as-built drawings of improvements all on CADD diskette.

(d) Lessee shall make good faith efforts to ensure that its Special Facilities contractors meet the City's overall MWBE participation goals of 24% for design, 17% for construction and 11% for procurement. Lessee shall provide periodic reports as may be reasonably required by the Director or the City's Director of Affirmative Action. The City shall have the right to audit Lessee's efforts under this subsection throughout the term of this Agreement in the same manner as it audits other City contractors.

(e) Lessee shall make good faith efforts to ensure that its Special Facilities contractors that supply services and/or labor comply with the City's drug free work place policy as set forth in City of Houston Executive Order 1-31, as amended.

(f) Upon completion of the Project, Lessee shall (i) submit to the City an affidavit executed by any officer authorized to bind Lessee of Lessee certifying that the Project has been constructed in substantial accordance with the plans and specifications approved by the Director as provided in Section 5.01; all contractors, subcontractors, laborers, materialmen, architects, engineers, and all other parties who have performed work on or furnished materials for the construction, landscaping, fixturing and equipping the Project have been paid in full together with, when appropriate, executed and delivered releases of lien; the Project is fully equipped, furnished, and supplied and is ready for operation; and Lessee has obtained all necessary licenses, permits, and other authorization required as of such date from all governmental authorities having jurisdiction, and (ii) cause the architect of the Project to execute and deliver to the City an affidavit stating that the Project has been constructed and equipped substantially in accordance with the plans and specifications referred to in Section 5.01.

(g) In the event of default of any contractor or subcontractor under any contract made by it in connection with the Project or in the event of breach of warranty with respect to any materials, workmanship, or performance guarantee, the Lessee will promptly proceed, either separately or in conjunction with the City, to exhaust the remedies of the Lessee against the contractor, subcontractor or supplier so in default and against the surety for the performance of such contract. The Lessee agrees to advise the City of the steps it intends to take in connection with any such default.

Section 5.02: Special Provisions for Project. The following special conditions relate to the design and construction of the Project:

(a) The Project shall be designed as the first phase of an Airport-wide automated people mover system that may eventually be expanded to connect with the International Airlines Building and Terminal A.

(b) Lessee shall make available to the City's construction manager, on a timely basis, copies of all final contract documents and reports regarding progress payments and budget status for the Project.

(c) The City shall designate a construction manager to work diligently in a cooperative manner with Lessee in monitoring the design, construction, installation and testing of the Project, and Lessee shall give due consideration to the input and reasonable requests of the City's construction manager in matters affecting the design, construction, installation and testing of the Project.

(d) The sizing of the Project vehicles shall be made by Lessee in consultation with the City, taking into consideration the anticipated peak demands of an integrated Airport-wide automated people mover system to be developed over the long term.

(e) Lessee's bid documents for the Project shall provide for payment and performance bonds for the construction of the guideway and acquisition and installation of the Project systems and vehicles, which shall name the City as a dual obligee and shall be subject to the timely review and approval of the City's Legal Department.

(f) In connection with the design, construction, procurement and installation of the Project and, for so long as Lessee does not elect to contract with the City for its operation, then:

(i) Lessee will obtain or cause to be obtained insurance policies in conformity with Sections 9.02-9.04 hereof;

(ii) Lessee will cause the City and the Leasehold Mortgagee to be named as an additional insured under such policies of insurance and will use its best efforts to cause all contractor warranties and guarantees to inure to the benefit of the City as well as to Lessee; and

(iii) Lessee will use its best efforts to provide indemnities from its contractors to the City to the same extent as Lessee obtains indemnities from such contractors.

(g) The bid documents issued by Lessee for the Project will provide that the contractors/ suppliers contractually commit to providing unit prices (subject to consumer price index or some other reasonably determined escalation) for acquisition of the systems and vehicles required for future expansions to the Project by the City and that such unit prices remain in effect and available to the City for up to 24 months from the date Lessee and its primary construction contractor enter into a contract for the construction of the technology phase of the Project.

(h) The Project shall also be designed and used to support a baggage transfer facility for the sole use of Lessee; provided, however, that:

(i) such baggage transfer facility shall not constitute a part of the Project and the Project shall not include the baggage transfer facility but the baggage transfer facility, if constructed, shall be entitled to rights of support by or suspension from the Project structure;

(ii) such baggage transfer facility shall be designed to be compatible with the Project and shall be operated and maintained at all times so as not to interfere in any material way with the operation, maintenance, security or use of the Project;

(iii) the City may inspect such baggage transfer facility at any time on reasonable notice; provided that the City shall use all reasonable efforts to minimize any interference or interruption with Lessee's business operations.

(i) Lessee shall contractually provide that all parties contracting directly with Lessee for the preparation of Project Plans and Contracts (as defined in Section 5.04(b) below) to expressly recognize the City's and the Leasehold Mortgagee's rights

to use, enjoy and exercise all rights as owner of the Project, subject to the limitations contained in Section 5.04(b).

Section 5.03: Inventory of Special Facilities; Replacements.

Upon completion of the Project, and upon the construction and acquisition of any additional Special Facilities, Lessee shall provide the Director with a detailed written inventory of all furnishings, fixtures and equipment constituting a material part of such Special Facilities, certified by any officer authorized to bind Lessee, which inventory shall include a complete description of each such item or class of items of such furnishings, fixtures and equipment including make, model and serial numbers, if any. Lessee shall from time to time, upon the reasonable request by Director, amend and revise such inventory to reflect all replacements and substitutes of any such items; provided, however, that Lessee may substitute for or replace commercially fungible items in such inventory with substantially comparable items and take the other actions permitted in Sections 8.01 and 8.04 hereof without notice. All such Special Facilities, and all replacements and substitutions therefor, shall be the absolute property of the City and shall not be disposed of by Lessee except as permitted herein.

Section 5.04: Title to Project, Plans and Contracts. (a) In consideration for the City's issuance of Bonds to finance the Costs of the Project as provided herein, the City shall acquire title to the Project at the time of construction, acquisition or installation and from time to time during construction, subject to the terms and provisions of this Agreement, the leasehold estate of Lessee herein created and the rights of the Leasehold Mortgagee, and such title shall automatically vest in the City immediately upon such construction, acquisition or installation without further notice or action. In this regard, Lessee hereby agrees to execute and deliver to the City the Deed and Bill of Sale for Project, after completion thereof, as set forth in Exhibit "D" and such further documentation as shall be reasonably requested by the City to evidence the City's acquisition of title to the Project in accordance with the terms of this Agreement.

(b) As further consideration for the City's issuance of Bonds to finance the Costs of the Project, the City shall acquire an interest (on a par with Lessee's interest therein and the rights of the Trustee and the Bond Insurer under the Leasehold Mortgage) in all plans, specifications, drawings, contracts, warranties, bonds and other documents and contractual rights relating to the Special Facilities, the cost of which constitutes a Cost of the Project (collectively, the "Project Plans and Contracts"). Moreover, Lessee shall cause the City to be authorized, as owner of an interest in the Project Plans and Contracts, to have the authority, right and power to use, enjoy and exercise all rights under the Project Plans and Contracts available to Lessee in order to be able to cause the design, construction, acquisition, completion and operation of the Project. The City agrees that it will not exercise any such authority, rights or powers under this subsection so long as it has not acquired or assumed Lessee's leasehold in the Project as contemplated in Section 7.03 hereof or no Event of Default by Lessee has occurred and is continuing hereunder.

Section 5.05: Design, Construction and Acquisition of Additional Special Facilities.

(a) From time to time hereafter, Lessee may request the City to undertake to issue Additional Bonds to finance additional Special Facilities. The Director shall cooperate in a reasonable manner with Lessee to request the City to provide such financing, and if consummated, then this Agreement shall be supplemented to provide for the design, construction and acquisition of such Special Facilities, for payment of the Costs of the Special Facilities and any other matters deemed appropriate by the City and Lessee. The Net Rent and other amounts payable hereunder shall automatically be increased to provide for the payment of the Additional Bonds, in the amount and manner set forth in Section 4.02 hereof.

(b) It is expressly acknowledged and understood by Lessee that this Agreement shall impose no obligation of any kind upon the City to issue or undertake to issue any Additional Bonds to finance additional Special Facilities except for the best efforts obligations set forth in Section 4.02. If the City elects not to issue Additional Bonds for such purpose, Lessee may construct such improvements at its sole cost.

Section 5.06: Personal Property Not Constituting Special Facilities. Lessee's equipment, trade fixtures and personal property not constituting Special Facilities (i.e. not financed with Bonds and not constituting a replacement, repair or substitution for Special Facilities) may be located on the Easements or Ground Lease Property without becoming Special Facilities and, so long as no Event of Default by Lessee has occurred and is continuing hereunder, may be removed by Lessee

provided that such removal will not damage or impair the Special Facilities or that Lessee at its expense restores the Special Facilities to the same or better condition than existed prior to such removal. Any and all such equipment, trade fixtures and personal property not removed by Lessee prior to the expiration of this Agreement, or if this Agreement ends by early termination, within 60 days after receipt by Lessee of a written notice issued by the Director to remove such property, shall thereupon become a part of the land upon which it is located and title thereto shall thereupon vest in the City, and City reserves the right to remove such property not so removed by Lessee, and if such removal is accomplished within the 30 day period after the expiration of this Agreement or the 60 day period referred to above (after the early termination of the Agreement), such removal by the City shall be at Lessee's expense.

ARTICLE VI

NET RENT AND GROUND RENT

Section 6.01: Net Rent While Bonds Outstanding. (a) Lessee shall pay to the City, by depositing directly with the Trustee for the account of the Interest and Redemption Fund, Net Rent for so long as any Bonds remain Outstanding or amounts are due and owing to the Bond Insurer under the Trust Indenture at such times and in such amounts as follows:

(i) on or before the fourth Business Day prior to each interest and/or principal payment date on the Bonds,

(A) all interest payable on all Bonds on such date; plus

(B) all principal (if any) payable on all Bonds on such date, whether payable at maturity (whether scheduled or accelerated) or earlier redemption (regardless of whether such redemption is optional, extraordinary or mandatory); plus

(C) all redemption premiums (if any) payable on all Bonds on such date.

(ii) immediately upon receipt of written notice from the Trustee for the Bonds advising it that such amounts are due and payable:

(A) all unpaid principal, accrued interest and redemption premiums and/or indemnifications on all Bonds which are declared due and payable under any extraordinary redemption or acceleration provision in the Trust Indenture; plus

(B) any deficiency in the Reserve Account of the Interest and Redemption Fund resulting from any withdrawal from such Account required by the Trust Indenture or from a decrease in valuation of investments in such Reserve Account;

(C) all fees, charges, reimbursements, expenses and interest charges due to any bond insurer or provider of a reserve fund surety in connection therewith;

provided, however, that if the Trust Indenture allows payments of such amounts as are described in (ii) above on a later date or in installments, they shall be payable as required by the Trust Indenture without further notice by the Trustee.

In addition to the above described Net Rent, Lessee shall pay (x) directly to the Trustee, all Trustee charges and any other related costs and expenses in connection with the payment of principal, interest or redemption premiums on the Bonds in accordance with the Trust Indenture, and (y) directly to the Trustee at such times and in such amounts, together with amounts available therefor under the Trust Indenture so as to ensure compliance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder and Section 4.9 of the Trust Indenture.

(b) So long as the Reserve Account is fully funded in the amount and manner required by the Trust Indenture, the Net Rent payable under subsection 6.01(a) of this Agreement shall be reduced by the total of any amounts then on deposit in the Interest and

Redemption Fund (exclusive of the Reserve Account therein) in excess of the amount then needed for the purpose of paying, or reimbursing the Bond Insurer for the payment of, previously matured interest, principal, matured or redeemed Bonds, and redemption premiums, if any, whether such excess amounts become available by reason of (i) amounts deposited in the Interest and Redemption Fund from the proceeds of the Bonds, (ii) previous overpayments of Net Rent, (iii) surplus funds from proceeds of the Bonds deposited to the credit of such Interest and Redemption Fund at the end of the construction and acquisition of the Project, (iv) interest earnings from the investment or deposit of any amounts from time to time credited to the Interest and Redemption Fund (including interest earnings from the Reserve Account therein that are not required to be retained in the Reserve Account and are permitted to be used for such purpose by the Trust Indenture), or (v) any other circumstance which results in excess funds, other than amounts provided by the Bond Insurer, being properly deposited in the Interest and Redemption Fund that are available for such purpose. The reductions in the Net Rent payments contemplated by this subsection 6.01(b) shall be made by applying such excess amounts as a credit(s) against the next Net Rent payment(s) due after such excess amounts have actually become available in the Interest and Redemption Fund, until such excess amounts are exhausted. The City shall request the Trustee to calculate such reductions and furnish them to the Lessee in a timely manner prior to the date on which Net Rent is payable. In the event the Trustee fails to furnish Lessee with the amount of any such reduction, it shall be the Lessee's obligation to ascertain the correct amount of such reductions or pay as Net Rent the full amount provided in subsection 6.01(a) hereof. After all Net Rent has been paid and no Bonds remain Outstanding within the meaning of the Trust Indenture and no amounts remain due and owing to the Bond Insurer or otherwise under the Trust Indenture, then, any amounts remaining in the Interest and Redemption Fund or Reserve Account therein which are paid over to the City by the Trustee shall be deemed overpayments of Net Rent and paid over by the City to Lessee within 30 days of their receipt by the City.

Section 6.02: Obligation to Pay Net Rent Unconditional. It is understood and acknowledged by the Lessee that the Bonds will be insured by the Bond Insurer and sold to the purchasers thereof in reliance upon the commitment of Lessee to make the payments of Net Rent and other amounts payable pursuant to Section 6.01(a) hereunder provided in Section 6.01 above, subject only to the reductions provided in subsection (b) thereof. Accordingly, the obligations of the Lessee to make the payments of Net Rent and other amounts payable pursuant to Section 6.01(a) hereunder thus required shall be absolute and unconditional and so long as the Bonds remain outstanding within the meaning of the Trust Indenture or any amount is due and owing the Bond Insurer under the Trust Indenture, the Lessee (i) will not suspend or discontinue any payments of Net Rent and other amounts payable pursuant to Section 6.01(a) hereunder provided herein or seek any offset against its obligations to pay such amounts or recoupment of any amounts so paid, and (ii) will not terminate this Agreement or otherwise seek to avoid or to reduce the payment of Net Rent and other amounts payable pursuant to Section 6.01(a) hereunder for any reason, including without limiting the generality of the foregoing, termination of the Use and Lease Agreement, failure of the Lessee to complete the Project, failure of the City to acquire the Project, failure of the Lessee or the City to complete the construction or acquisition of any other Special Facilities, failure of the City to pay or cause to be paid any Costs of the Special Facilities (but without limiting the City's obligations under Section 4.03 hereof) or any acts or circumstances that may constitute failure of consideration, destruction or damage to or condemnation of such facilities, or frustration of purpose, any change in the tax or other laws of the United States of America or the State of Texas, or any political subdivision of either thereof or any failure of the City to perform or observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with this Agreement. It is provided, however, that nothing contained in this Section shall be construed to release the City from the performance of any of the agreements on its part herein contained, and in the event the City should fail to perform such agreement, the Lessee may, without limitation of any other rights that the Lessee may then have, institute such actions against the City as it may deem necessary to compel the performance thereon, to seek damages or other relief or to restrain or enjoin forbidden acts provided that such institution of such actions shall not result in a reduction of the payment of Net Rent or other amounts payable pursuant to Section 6.01(a) hereunder.

Section 6.03: Pledge of Net Rent. It is expressly understood and agreed that the Net Rent and other amounts payable pursuant to Section 6.01(a) payable hereunder shall be pledged to the payment of the Bonds and amounts due under the Trust Indenture in accordance with the Trust Indenture, and that, so long as any Bonds remain Outstanding or any amount is due and owing the Bond Insurer under the Trust Indenture, such Net Rent and other amounts payable pursuant to Section 6.01(a) shall be paid in the amounts and manner

herein specified. In the Trust Indenture the City shall covenant not to permit any modification of or amendment to Section 6.01 of this Agreement or to any other provision hereof that would have the effect of reducing, altering or modifying the commitments of Lessee contained in Sections 6.01 or 6.02 hereof or would materially minimize, reduce or lessen the rights of the City after an Event of Default in the payment of Net Rent and other amounts payable pursuant to Section 6.01(a) by Lessee or would materially and adversely affect the security provided for the payment of the Bonds and other amounts due under the Indenture, and no such modification or amendment hereto shall be permitted while the Bonds remain Outstanding or any amount is due and owing the Bond Insurer under the Trust Indenture.

Section 6.04: Operation and Maintenance Expenses; Other Costs. The Net Rent and other amounts payable pursuant to Section 6.01(a), which is to be pledged to the payment of the Bonds and amounts due under the Trust Indenture, is intended to be a net return to the City. Accordingly, in addition to the payment of all Net Rent and other amounts payable pursuant to Section 6.01(a) hereunder, the Lessee hereby agrees to pay all Ground Rentals directly to the City and to pay (or cause to be paid pursuant to the Use and Lease Agreement or other agreement with the City or others) all operation and maintenance expenses applicable to the Special Facilities, including, without limitation, utility costs, costs of vehicle, guideway and system maintenance service contracts, any insurance premiums applicable thereto, any and all ad valorem or other property taxes lawfully levied or assessed against the Special Facilities or Lessee's leasehold estate therein, any and all lawful excise and other types of taxes imposed on or in respect of such properties, the expenses of upkeep thereof of every kind and character, including the repair or ordinary restoration thereof, and every other item of expense imposed on Lessee pursuant to this Agreement and, if the Special Facilities are operated by the City, all direct and allocable indirect Airport System costs of operating and maintaining the Special Facilities in a manner consistent with other such allocations equitably applied on an Airport-wide basis.

Section 6.05: Ground Rentals. (a) Lessee shall pay to the City, as Ground Rentals for the Ground Lease Properties described in Exhibit "C" the following: (i) For item (1) \$0.22 per square foot for the footings per year beginning January 1, 1999 and escalating 15% on January 1, 2004 and 15% on each succeeding fifth year during the term of this Agreement, payable annually in advance on January 1, 1999 and each January 1 thereafter, and (ii) for item (2), an amount equal on a per square foot basis to the charge for comparable space under the Use and Lease Agreement, payable on the same basis as rates and charges under the Use and Lease Agreement.

(b) Except as set forth in subsection (a) above, all charges for Ground Lease Properties and Easements are or will be included in rents and charges under the Use and Lease Agreement.

(c) The Lessee's undertaking of the Project as herein provided shall constitute additional consideration to the City for the demise, as herein provided, of the Ground Lease Properties and Easements.

(d) The City and Lessee agree that any future Use and Lease Agreement with respect to Terminal B shall, during the term of this Agreement, exclude (or be expressly subordinate to) the leasehold estate herein created in the Ground Lease Properties in Terminal B.

ARTICLE VII

USE OF SPECIAL FACILITIES; REPRESENTATIONS AND UNDERTAKINGS BY LESSEE AND CITY

Section 7.01: General. Lessee shall have the rights to use and enjoy the Special Facilities, including the rights of possession and quiet enjoyment of the Special Facilities, for the purpose of (i) constructing, maintaining and operating the Project in accordance with the terms hereof and (ii) subject to the terms of the Use and Lease Agreement, conducting other authorized activities of Lessee not inconsistent with the terms hereof.

Section 7.02: Use of Project. The Lessee hereby covenants with the City as follows:

(a) The Project shall be used as a transportation facility, open to the public, without direct charge to the passengers using it.

(b) While operating the Project, Lessee shall at its sole expense cause the Project to be operated in a manner consistent with the applicable sections of 14 CFR Parts 107 and 108 such that passengers using the Project will continue to be deemed to be properly screened within the meaning of such regulation, as it may

be amended from time to time. If the City extends the Project, then the City shall continue to cause the Project to be operated in such manner.

(c) Lessee understands and acknowledges that fines and/or penalties may be assessed by the Federal Aviation Administration for the Lessee's non-compliance with the provisions of 14 CFR Paragraphs 107 and 108 (1988) entitled "Airport Security." Any such fines or penalties assessed against the City because of the Lessee's non-compliance with 14 CFR Paragraphs 107 or 108, as amended from time to time, shall be promptly reimbursed to the City by the Lessee.

Section 7.03: Representations by City with Respect to the Project. In consideration of (i) Lessee's agreement herein to lease, design, construct, acquire and operate the Project in the manner herein provided, and to pay Net Rent sufficient to repay the Bonds, and (ii) Bond Insurer's issuance of a policy of bond insurance with respect to the Series 1997A Bonds, the City represents and agrees as follows:

- (a) The City reaffirms and incorporates by reference the commitments contained in the Term Sheet in Section I(D)(10)-(12) and III(B)(5) thereof with respect to the exercise of its option to purchase Lessee's interest in the Project (and all Special Facilities, Easements and Ground Lease Properties) when the Project is extended to the International Airlines Building or Terminal A and is to be operated with the Project as a single system.
- (b) The City covenants and agrees that it will not operate any extensions of the automated people mover separately from the Project, but will take appropriate steps so that the entire Project, as extended to the International Airlines Building and/or Terminal A, is operated as a single system.
- (c) The City represents that it intends to extend the Project in the future at its expense to serve one or more additional terminals at the Airport. The Department of Aviation of the City has initiated action to amend its master plan and capital improvement plan to include an extension of the Project from Terminal C to the International Airlines Building, and the City has issued a request for qualifications to design such extension of the Project.
- (d) The City covenants that in connection with the purchase, acquisition and/or assumption of Lessee's leasehold obligations for the Project referred to in (a) above, it will defease or retire the Bonds at the earliest date financially beneficial to the City that such Bonds can be defeased or retired through a refinancing based on the credit of revenues of the Airport System or at such earlier date as the City determines in its sole discretion that it is financially viable to use other available funds for the retirement and/or defeasance of such Bonds (such date hereinafter referred to as the "Bond Discharge Date"); provided that without Lessee's consent the City may exercise the right of optional redemption of the Bonds on or after July 15, 2007 to accomplish such refinancing or defeasance if it certifies in writing to Lessee (i) that it has or will when needed have funds available to redeem such Bonds and (ii) that such refinancing or defeasance will not, by itself, cause an increase in the capital component of Lessee's rates and charges for the Project unless entirely offset by reductions in Lessee's other rates and charges at the Airport as a result of such refinancing or defeasance. From and after the Bond Discharge Date, all amounts deposited in or credited to all funds and accounts held under the Trust Indenture (other than the Policy Payment Account) shall become property of the City (subject to the rights of the owners of the Bonds), but must be applied to pay or reimburse the payment of debt service on the Bonds and/or pay other expenses under the Trust Indenture or, after no further amounts are due under the Trust Indenture, pay for capital expenditures for Special Facilities. Prior to the Bond Discharge Date, the City shall fulfill its commitments to acquire and/or assume Lessee's interest in the Project by entering into a sublease of the Special Facilities, Ground Lease Properties and Easements from Lessee pursuant to which the City Airport System shall become responsible for all covenants of Lessee arising hereunder after such acquisition and/or assumption, including payment of Net Rent, costs of operation, maintenance and

insurance of the Project and the payment of any other rentals required hereunder and shall irrevocably and unconditionally make sublease payments equal to Lessee's Net Rent and other amounts due under Section 6.01 of this Agreement directly to the Trustee for the Bonds, provided that no such sublease shall relieve Lessee of its obligations to pay the full amount of Net Rent and other amounts due under this Agreement. During any sublease of the Project to the City prior to the Bond Discharge Date, the City (i) shall use its best efforts to cause the Project to be operated so as to provide the same or substantially similar levels of service (based on frequency and capacity) to Terminals B and C as were provided prior to such date and (ii) shall include the costs of subleasing the Project (including all operation and maintenance expenses for which Lessee is liable hereunder) in rates and charges imposed on airlines benefitting from the availability and service of the Project to the terminals from which such airlines operate (but no failure by benefitting airlines to pay such rates and charges shall relieve the City of its obligations as set forth above).

(e) In order to prevent the acquisition or control of the leasehold interest herein created in the Special Facilities, Easements and Ground Lease Properties by the Trustee or other third party and to assure that the Project can be utilized and operated as an integral part of the Airport to provide service to the traveling public connecting between Terminals B and C and to be available for expansion by the City as contemplated herein and in the Term Sheet, the City further agrees as follows. In the event of (i) a Lessee bankruptcy or abandonment which allows the City to exercise the option granted by Lessee in the Term Sheet and reaffirmed herein to assume both the rights and obligations of Lessee under this Agreement and the construction and supplier contracts for the Project, or (ii) a foreclosure or threatened foreclosure by the Trustee on Lessee's leasehold estate in the Project (or any of the Special Facilities, Easements or Ground Lease Properties), then, without limiting the City's obligations under Sections 10.02, 10.03 and 10.04, the Director shall in a timely manner use best efforts to take all necessary action including seeking such City Council approval as may be required either (x) to relet the Project to a lessee or sublessee approved in writing by the Bond Insurer (whose approval may not unreasonably be withheld) and exercise such other remedies as shall be available to it and shall be permitted by the Trust Indenture and shall apply proceeds from the exercise of such remedies to debt service on or redemption of the Bonds and all amounts due the Bond Insurer as provided in Section 10.02 hereof and all other amounts due under the Trust Indenture; or (y) to acquire rights to the Lessee's leasehold estate in the Project (together with its interest in all Special Facilities, Easements and Ground Lease Properties) by purchase for a purchase price equal to the cost of redeeming or defeasing all outstanding Bonds and payment of all amounts due the Bond Insurer or by unconditional and irrevocable sublease for a net rental (after payment of Project operating and maintenance expenses and Ground Rentals) equal to the scheduled, unaccelerated debt service on the Bonds and all amounts due the Bond Insurer and other amounts due under the Trust Indenture or (z) to assume the scheduled, unaccelerated obligations of Lessee hereunder, with the City's obligations under (y) and (z) secured by and payable from net revenues of the Airport System after payment of debt service and all debt service reserve requirements on the Airport System's Senior and Subordinate Lien Revenue Bonds only.

(f) So long as the Bonds are Outstanding or any amounts remain due to the Bond Insurer, in order to further secure the its obligations and undertakings contained in this Section 7.03, the City hereby covenants as follows:

(i) the City will at all times fix, charge, impose and collect rentals, rates, fees and charges for the use of the Airport System in order that revenues will be at least sufficient, after providing for the payment, funding or appropriation for all prior and senior obligations of the Airport System, to provide for the payment of all scheduled, unaccelerated obligations undertaken, assumed or otherwise incurred by the City pursuant to this Section

(ii) the City will not permit the sale or disposition of the Airport System or any substantial part thereof except as may be permitted in its ordinances authorizing the issuance of the City's Airport System Senior and Subordinate Lien Revenue Bonds (the "Sale or Encumbrance of Airport System Covenants"), whether or not such bonds remain outstanding; provided, however, that, notwithstanding the Sale and Encumbrance of Airport System Covenants, (i) the City will not authorize any transfer of less than all of the Airport that includes the Special Facilities or any Terminals at the Airport until the occurrence of the City's prior purchase, acquisition and/or assumption of Lessee's leasehold obligations as provided in subsection (d) above (without regard to whether the Project has been extended as contemplated in subsection (a) above), (ii) any transferee of the Airport System or any substantial part thereof that includes the City's interest in the Special Facilities shall be required to assume all obligations of the City under or pursuant to this Agreement and the Trust Indenture, and (iii) any written opinion of an Airport Management Consultant required by the Sale or Encumbrance of Airport System Covenants shall also conclude that the ability to meet the rate covenant and other covenants of the City in this Agreement and the Trust Indenture shall not be materially and adversely affected to the same extent as if such covenants were included in the ordinances authorizing the City's Airport System Senior and Subordinate Lien Bonds; and

(iii) the City will not issue any bonds, notes or other obligations secured on a parity with any obligations incurred by the City pursuant to clauses (y) or (z) of subsection (e) above unless, prior to the issuance of such parity obligations, the Director of Aviation certifies the availability of Net Revenues of the Airport System, after providing for all Debt Service Requirements on Airport System Senior and Subordinate Lien Revenue Bonds (as such terms are defined in the ordinances authorizing the City's Airport System Senior and Subordinate Lien Revenue Bonds) at least equal to the scheduled, unaccelerated debt service on such obligations to be issued as well as the obligations incurred by the City pursuant to such clauses (y) and (z) above.

(g) In the event Lessee has funded any portion of the capital cost of the Project with funds not reimbursed with proceeds of Bonds and such expenditure can be documented to the reasonable satisfaction of the Director, the purchase price and rental rates for the City's acquisition or sublease of Lessee's interest in the Project pursuant to Section 7.03(d) shall be increased by an amount or amounts derived by assuming that the original principal amount of the Bonds had been increased by an amount equal to such unreimbursed capital contribution and that such assumed additional amount of Bonds amortized proportionately with the Series 1997A Bonds, and any resulting increased amounts in such purchase price or rental rate (over and above the amounts required to be paid pursuant to Section 7.03(d)) shall be paid directly to Lessee by the City.

Section 7.04: Reaffirmation of Options to City with Respect to the Project. In consideration of the City's agreements herein, the Lessee hereby reaffirms its grants of options to the City (as contained in the Term Sheet) to allow the City to purchase Lessee's interest in the Project as described in Section 7.03(a) above (or at any time after the Project is operational as provided in the Term Sheet) in consideration of the City's defeasance, retirement or assumption of the obligations of Lessee with respect to the Special Facilities, Easements and Ground Lease Properties as described in Section 7.03(d) and (e) above, which options may be exercised immediately by the City at any time upon occurrence of the conditions referred to in Sections 7.03(a), (d) and (e) or after the Project is operational upon written notice to Lessee by the City, and Lessee consents to the City's payment in such events of all amounts intended for debt service on or defeasance or redemption of the Bonds directly to the Trustee.

ARTICLE VIII

LESSEE'S OBLIGATIONS AND CONDITIONS TO
LESSEE'S USE OF SPECIAL FACILITIES

Section 8.01: Maintenance of Special Facilities at Lessee's Expense. Subject to the other terms of this Agreement, Lessee shall throughout the term of this Agreement assume the entire responsibility, cost and expense, for all repair and maintenance whatsoever of the Special Facilities, whether such repair or maintenance be ordinary or extraordinary, structural or otherwise. Additionally, without limiting the generality of the foregoing, Lessee shall:

(a) Maintain at all times the Special Facilities in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair.

(b) [omitted]

(c) Keep at all times, in a clean and orderly condition and appearance, the Special Facilities which are open to or visible by the general public.

Section 8.02: Taxes, Charges, Utilities, Liens. (a) Lessee shall pay all taxes that may be levied, assessed or charged upon the Special Facilities or Lessee's leasehold estate therein by the State of Texas or any of its political subdivisions or municipal corporations, and shall obtain and pay for all licenses and permits required by law. However, Lessee shall have the right to contest, in good faith, the validity or application of any such tax, license or permit and shall not be considered in default hereunder as long as such contest is in progress and diligently prosecuted. City agrees to cooperate with Lessee in all reasonable ways in connection with any such contest other than a contest of any tax, permit or license of the City.

(b) Lessee shall pay for all water, heat, electricity, air conditioning, sewer rents and other utilities to the extent that such utilities are furnished to the Special Facilities other than pursuant to the Use and Lease Agreement.

(c) Lessee shall neither cause or permit any laborers, mechanics, builders, carpenters, materialmen, contractors, or other liens or encumbrances (including judgment and tax liens) against the Special Facilities or any City property by virtue of the construction, repair or replacement of the Special Facilities; provided, however, that Lessee may at its own expense in good faith contest the validity of any alleged or asserted lien and may permit any contested lien to remain unsatisfied and undischarged during the period of such contest and any appeal therefrom unless by such action any part of the Special Facilities may be subject to a material risk of loss or forfeiture, in any of which events such lien shall be promptly satisfied or bonded around in accordance with Texas law.

Section 8.03: Compliance with Airport Rules and Regulations and Law; Nondiscrimination. With respect to the Special Facilities, Lessee shall observe and obey Airport rules and regulations promulgated pursuant to the Use and Lease Agreement, shall comply with applicable law as provided in the Use and Lease Agreement, and shall not discriminate against any person or class of persons by reason of race, color, religion, sex, national origin or ancestry, age or physical or mental handicaps as provided in the Use and Lease Agreement.

Section 8.04: Compliance with Tax Law. With respect to the Special Facilities, Lessee hereby covenants and agrees as follows:

(a) Lessee shall comply or cause to be complied with all tax covenants with respect to the Special Facilities and the Bonds contained in Section 5.4 of the Trust Indenture;

(b) Lessee shall continuously repair, preserve, replace or substitute, as needed, all Special Facilities, at its expense, to the extent necessary to maintain and/or extend the reasonably expected economic life of the Special Facilities to satisfy the tax covenant contained in Section 5.4(c) of the Trust Indenture. All property for which replacements or substitutions are made by Lessee as provided herein shall become Lessee's property (and such replacement or substituted property shall become the City's property);

(c) Lessee hereby elects not to claim depreciation or an investment credit for federal income tax purposes with respect to any portion of the Special Facilities; Lessee will take all actions necessary to make this election binding on all its successors in interest under this Agreement; and this election shall be irrevocable.

Section 8.05: Environmental Matters.

A. Lessee shall comply with all federal, state, local statutes, ordinances, regulations, rules, policies, codes or guidelines now or hereafter in effect, as same may be amended from time to time, which govern Hazardous Materials (as hereinbelow defined) or relate to the protection of human health, safety or the environment and which are applicable to the conduct of Lessee's business operations from the Special Facilities, and shall include but not be limited to: the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. Section 136 et seq.; the Safe Drinking Water Act, 42 U.S.C. Section 300(f) et seq.; the Oil Pollution Control Act of 1990, 33 U.S.C. Section 270 et seq.; the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq.; and as amended by the Superfund Amendments and Reauthorization Act of 1986, Pub. Law No. 99-499, 100 Stat. 1613; the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq.; the Clean Air Act as amended, 42 U.S.C. Section 7401 et seq.; the Clean Water Act, 33 U.S.C. Section 1251, et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C., Section 6901 et seq.; and those substances defined as hazardous waste or as hazardous substances under the laws of Texas and/or the United States or in regulations promulgated pursuant to such laws (collectively, "Environmental Laws").

B. Any fines or penalties that may be levied against the City by the Environmental Protection Agency or the Texas Natural Resource Conservation Commission or any other governmental agency for Lessee's failure to comply with the Environmental Laws as required by Section 8.05(A) hereof shall be reimbursed to the City by Lessee within ten (10) days of receipt of an invoice from City for such fines or penalties.

C. Lessee shall prevent the presence, use, generation, release, omission, discharge, storage, disposal or transportation of any Hazardous Materials on, under, in, above, to or from facilities subject to this Agreement by Lessee, other than in strict compliance with all Environmental Laws. For purposes of this Section, "Hazardous Materials" shall be interpreted in the broadest sense to include any and all substances, materials, wastes, pollutants, oils, or governmental regulated substances or contaminants as defined or designated as hazardous, toxic, radioactive, dangerous, or any other similar term in or under any of the Environmental Laws, including but not limited to, asbestos and asbestos containing materials, petroleum products including crude oil or any fraction thereof, gasoline, aviation fuel, jet fuel, diesel fuel, lubricating oils and solvents, urea formaldehyde, flammable explosives, PCBs, radioactive materials or waste, or any other substance that, because of its quantity, concentration, physical, chemical, or infectious characteristics may cause or threaten a present or potential hazard to human health or the environment when improperly generated, used, stored, handled, treated, discharged, distributed, disposed or released. Hazardous Materials shall also mean any and all hazardous materials, hazardous wastes, toxic substances, or regulated substances under any Environmental Laws.

D. Lessee acknowledges that the Airport is subject to the National Pollution Discharge Elimination System Program ("NPDES") and its regulations relating to stormwater discharges, 40 CFR Part 122, for operations that occur at the Airport. Lessee further acknowledges that it is familiar with these NPDES stormwater regulations, that it will conduct operations at the Special Facilities subject to 40 CFR Part 122 as it may be amended from time to time.

E. City and Lessee both acknowledge that close cooperation is necessary to ensure compliance with any NPDES stormwater discharge permit, as well as to ensure safety and to minimize costs. Lessee acknowledges that it may be necessary to undertake to minimize the exposure of stormwater to significant materials generated, stored, handled or otherwise used by Lessee at the Special Facilities as defined in the federal stormwater regulations, by implementing and maintaining "Best Management Practices" as defined in 40 CFR, Part 122.2, as it may be amended from time to time.

F. Lessee acknowledges that City's NPDES stormwater discharge permit, to the extent affecting the Special Facilities, is incorporated by reference into this Agreement and any subsequent amendments, extensions or renewals. Lessee agrees to be bound by all applicable portions of said permit. City shall promptly notify Lessee of any changes to any portions of said permit applicable to, or that affect, Lessee's operations.

G. City shall provide Lessee with written notice of those NPDES stormwater discharge permit requirements that Lessee shall be obligated to perform from time to time at the Special Facilities, including, but not limited to: certification of non-stormwater

discharges; collection of stormwater samples; preparation of stormwater pollution prevention or similar plans; implementation of "good housekeeping" measures or Best Management Practices; and maintenance of necessary records. Such written notice shall include applicable deadlines. Lessee, within 15 days of receipt of such written notice, shall notify City in writing if it disputes any of the NPDES stormwater discharge permit requirements it is being directed to undertake. If Lessee does not provide such timely notice, it is deemed to assent to undertake such requirements. If Lessee provides City with written notice, as required above, that it disputes such NPDES stormwater discharge permit requirements, City and Lessee agree to negotiate a prompt resolution of their differences. Lessee warrants that it will not object to City notices required pursuant to this paragraph unless Lessee has a good faith basis to do so.

H. City and Lessee agree to provide each other upon request, with any non-privileged information collected and submitted to any governmental entity(ies) pursuant to applicable NPDES stormwater regulations applicable to the Special Facilities.

I. Lessee agrees to participate in any reasonable manner requested by the City in any City organized task force or other work group established to coordinate stormwater activities at the Airport.

J. All such remedies of City with regard to environmental requirements as set forth herein shall be deemed cumulative in nature and shall survive termination of this Agreement.

K. LESSEE SHALL PROTECT, DEFEND, INDEMNIFY AND HOLD HARMLESS THE CITY AND ITS OFFICERS, AGENTS AND EMPLOYEES FROM AND AGAINST ANY LOSS, COST, CLAIM, DEMAND, PENALTY, FINE, SETTLEMENT, LIABILITY AND EXPENSE (INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEYS' AND CONSULTANTS' FEES, COURT COSTS AND LITIGATION EXPENSES) RELATED TO

(1) LESSEE'S USE OF HAZARDOUS MATERIALS OF WHATEVER KIND OR NATURE, KNOWN OR UNKNOWN, ON THE SPECIAL FACILITIES;

(2) ANY ACTUAL, THREATENED OR ALLEGED CONTAMINATION BY HAZARDOUS MATERIALS ON THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES BY LESSEE OR ITS AGENTS;

(3) THE DISPOSAL, RELEASE OR THREATENED RELEASE OF HAZARDOUS MATERIALS BY LESSEE OR ITS AGENTS AT THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES THAT IS ON, FROM OR AFFECTS THE SOIL, AIR, WATER, VEGETATION, BUILDINGS, PERSONAL PROPERTY, PERSONS;

(4) ANY PERSONAL INJURY, DEATH OR PROPERTY DAMAGE (REAL OR PERSONAL) ARISING OUT OF OR RELATED TO HAZARDOUS MATERIALS USED BY LESSEE AT THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES; OR

(5) ANY VIOLATION BY LESSEE OF ANY ENVIRONMENTAL LAWS AT GROUND LEASE PROPERTIES, EASEMENTS OR THE SPECIAL FACILITIES.

PROVIDED HOWEVER, THAT NONE OF THE FOREGOING INDEMNITY SHALL BE APPLICABLE TO LOSSES, COSTS, EXPENSES, CLAIMS, DEMANDS, PENALTIES, FINES, SETTLEMENTS, LIABILITIES AND EXPENSES WHICH RESULT FROM CONDITIONS EXISTING AS OF THE EFFECTIVE DATE OF THIS AGREEMENT OR WHICH RESULT FROM THE ACTION OF THE CITY OR ITS AGENTS.

Section 8.06: City's Right To Maintain or Repair Special Facilities. In the event Lessee fails (i) to commence within thirty (30) days after written notice from the Director to do any maintenance or repair work to the Special Facilities required to be done under the provisions of this Agreement, other than preventive maintenance; (ii) to commence such work within a period of ninety (90) days if such notice specifies that the work to be accomplished by the Lessee involves preventive maintenance only; or (iii) to diligently continue to completion any such work as required under this Agreement; then, the Director or the City may, at its option, and in addition to any other remedies which may be available to it, enter the Special Facilities, without such entering causing or constituting a cancellation of this Agreement or an interference with the possession of the Special Facilities, and repair, maintain, replace, rebuild or paint all or any part of the Special Facilities and do all things reasonably necessary to accomplish the work required, and the reasonable cost and expense thereof shall be payable to the City by Lessee on written demand; provided, however, if in the reasonable opinion of the Director or the City, the Lessee's failure to perform any such repair or maintenance endangers the safety of the public, the employees or other tenants at the Airport, and the Director or the City so states same in its notice to Lessee, the Director or the City may perform such maintenance at any time after the giving of such notice, and Lessee agrees to pay to City the reasonable cost and expense of such performance on demand. In the event of the exercise by City of any

repair work on the Special Facilities, City shall use all reasonable efforts to minimize any interference or interruption with Lessee's business operations.

Section 8.07: Termination Procedures. Upon the expiration or termination of this Agreement pursuant to any terms hereof, Lessee shall surrender the Special Facilities to the City in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair, unless otherwise permitted in Article IX hereof.

ARTICLE IX

LIABILITY, INSURANCE AND CONDEMNATION

Section 9.01: Release and Indemnification of City.

A. THE LESSEE, ITS SUCCESSORS AND ASSIGNS OF THIS AGREEMENT (IN THIS SECTION, THE "AIRLINE") HEREBY RELEASE, RELINQUISH AND DISCHARGE THE CITY, ITS PREDECESSORS, SUCCESSORS, ASSIGNS, LEGAL REPRESENTATIVES AND ITS COLLECTIVE FORMER, PRESENT AND FUTURE AGENTS, EMPLOYEES AND OFFICERS (COLLECTIVELY IN THIS SECTION "CITY") FROM ANY LIABILITY OF THE CITY FOR (i) ANY DAMAGE TO PROPERTY OF AIRLINE OR (ii) FOR CONSEQUENTIAL DAMAGES SUFFERED BY AIRLINE, WHERE ANY SUCH DAMAGE IS SUSTAINED IN CONNECTION WITH OR ARISING OUT OF THE PERFORMANCE OF THIS AGREEMENT.

B. WITH NO INTENT TO AFFECT AIRLINE'S ENVIRONMENTAL INDEMNIFICATION SET FORTH IN SECTION 8.05(L), AIRLINE, EXPRESSLY AGREES TO PROTECT, DEFEND, INDEMNIFY AND HOLD THE CITY COMPLETELY HARMLESS FROM AND AGAINST (BUT SUBJECT TO SECTIONS D, E AND F HEREOF): (I) ANY AND ALL LIABILITIES, LAWSUITS, CAUSES OF ACTION, LOSSES, CLAIMS, JUDGMENTS, DAMAGES, FINES OR DEMANDS ARISING BY REASON OF OR IN CONNECTION WITH THE ACTUAL OR ALLEGED ERRORS, OMISSIONS, OR NEGLIGENT ACTS OF AIRLINE OR OF THE CITY IN CONNECTION WITH OR ARISING OUT OF THE PERFORMANCE OF THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO, BODILY INJURY, ILLNESS, PHYSICAL OR MENTAL IMPAIRMENT, DEATH OF ANY PERSON, OR THE DAMAGE TO OR DESTRUCTION OF ANY REAL OR PERSONAL PROPERTY; AND (II) ALL COSTS FOR THE INVESTIGATION AND DEFENSE OF ANY AND ALL LIABILITIES, LAWSUITS, CAUSES OF ACTION, LOSSES, CLAIMS, JUDGMENTS, DAMAGES, FINES OR DEMANDS REFERRED TO IN THE PRECEDING CLAUSE (I) INCLUDING, BUT NOT LIMITED TO, REASONABLE ATTORNEY FEES, COURT COSTS, DISCOVERY COSTS, AND EXPERT FEES). SUBJECT TO SUBSECTIONS D, E AND F HEREOF, AIRLINE'S AGREEMENT TO PROTECT, DEFEND, INDEMNIFY AND HOLD HARMLESS THE CITY EXPRESSLY EXTENDS TO THE ACTUAL OR ALLEGED JOINT OR CONCURRENT NEGLIGENCE OF CITY AND AIRLINE.

C. UPON THE FILING BY ANYONE OF ANY TYPE OF CLAIM, CAUSE OF ACTION, OR LAWSUIT AGAINST THE CITY FOR ANY TYPE OF DAMAGES ARISING OUT OF INCIDENTS FOR WHICH CITY IS TO BE INDEMNIFIED BY AIRLINE PURSUANT TO THIS SECTION 9.01, THE CITY SHALL, WITHIN 45 DAYS OF CITY BECOMING AWARE THEREOF, NOTIFY AIRLINE OF SUCH CLAIM, CAUSE OF ACTION OR LAWSUIT. IN THE EVENT THAT AIRLINE DOES NOT SETTLE OR COMPROMISE SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT AT ITS OWN COST, TO THE EXTENT AIRLINE IS REQUIRED TO INDEMNIFY CITY PURSUANT TO THIS SECTION 9.01, THEN AIRLINE SHALL UNDERTAKE THE LEGAL DEFENSE OF SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT AT ITS OWN COST THROUGH COUNSEL OF RECOGNIZED CAPACITY OR OTHERWISE NOT REASONABLY DISAPPROVED BY THE CITY BOTH ON BEHALF OF ITSELF AND ON BEHALF OF CITY UNTIL FINAL DISPOSITION, INCLUDING ALL APPEALS. THE CITY MAY, AT ITS SOLE COST AND EXPENSE, PARTICIPATE IN THE LEGAL DEFENSE OF ANY SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT BY AIRLINE TO DEFEND AGAINST SUCH CLAIM, CAUSE OF ACTION OR LAWSUIT. ANY FINAL JUDGMENT RENDERED AGAINST CITY FOR ANY CAUSE FOR WHICH CITY IS TO BE INDEMNIFIED AGAINST PURSUANT TO THIS SECTION 9.01 SHALL BE CONCLUSIVE AGAINST AIRLINE AS TO LIABILITY AND AMOUNT UPON THE EXPIRATION OF THE TIME FOR ALL APPEALS.

D. THE PROVISIONS OF SECTION 9.01B AND C HEREOF SHALL NOT APPLY TO ANY CLAIM OR DEMAND (I) ARISING AT ANY TIME WHEN THE CITY IS OPERATING THE PROJECT (OR IS RESPONSIBLE FOR THE OPERATION THEREOF PURSUANT TO ANY SUBLEASE OR OTHER AGREEMENT), (II) ARISING SOLELY FROM THE NEGLIGENCE OF THE CITY OR SOLELY FROM THE BREACH OF THE CITY'S EXPRESS OBLIGATIONS HEREUNDER, OR WHEN THE CITY IS MORE THAN 50% LIABLE OR, (III) IF SUCH CLAIM OR DEMAND RELATES TO ANY ACT OR OMISSION OCCURRING OUTSIDE THE PREMISES LEASED EXCLUSIVELY OR PREFERENTIALLY TO AIRLINE UNDER THIS AGREEMENT, UNLESS AIRLINE IS MORE LIABLE FOR (I.E., IS MORE AT FAULT FOR) SUCH CLAIM OR DEMAND THAN EACH OTHER PARTY TO SUCH CLAIM OR DEMAND, OR (IV) TO THE EXTENT THE CLAIM OR DEMAND IS COVERED UNDER THE INSURANCE CARRIED PURSUANT TO SECTIONS 9.02 AND 9.03 HEREOF; PROVIDED, THAT, IF (a) A CLAIM OR DEMAND IS MADE AGAINST AIRLINE BY A THIRD PARTY FOR WHICH AIRLINE HAS INSURANCE COVERAGE PURSUANT TO SECTIONS 9.02 AND 9.03 HEREOF, AND (b) THERE IS A DEDUCTIBLE CARRIED BY AIRLINE APPLICABLE TO SUCH CLAIM OR DEMAND (OR AIRLINE, THROUGH SELF-INSURANCE OR OTHER SELF-FUNDED INSURANCE PROGRAM, BEARS THE FINANCIAL RISK OF ANY PORTION OF SUCH CLAIM OR DEMAND AS TO THE DEDUCTIBLE ONLY), THEN THE PROVISIONS OF SECTION 9.01B AND C (AND BY REFERENCE, SUBSECTIONS D AND E HEREOF) SHALL APPLY TO SUCH PORTION OF THE CLAIM OR DEMAND THAT IS SUBJECT TO SUCH DEDUCTIBLE

OR SELF-INSURANCE OF THE DEDUCTIBLE OR OTHER SELF-FUNDED INSURANCE PROGRAM AS TO THE DEDUCTIBLE (AND TO ANY OTHER PORTION OF THE CLAIM OR DEMAND AS TO THE CITY THAT IS NOT SATISFIED WITH INSURANCE PROCEEDS). FOR PURPOSES OF THIS SECTION, LESSEE STIPULATES THAT AS TO EACH CLAIM OR DEMAND THAT MAY BE SUBJECT TO THE PROVISIONS HEREOF, THE DEDUCTIBLE AMOUNT SHALL NEVER BE DEEMED TO BE GREATER THAN \$1,000,000.

E. NOTWITHSTANDING ANYTHING IN THIS SECTION TO THE CONTRARY, THE LIABILITY OF THE AIRLINE UNDER SECTION 9.01.B AND C SHALL NOT EXCEED \$1,000,000 PER OCCURRENCE.

F. THE PROVISIONS OF THIS SECTION 9.01.B, C, D AND E SHALL BE INDEPENDENT OF ANY INDEMNITIES TO WHICH THE CITY MAY BE ENTITLED UNDER THE PROVISIONS OF THE USE AND LEASE AGREEMENT OR ANY OTHER AGREEMENT BETWEEN THE CITY AND LESSEE; PROVIDED, THAT CITY AGREES THAT IT SHALL NOT REQUIRE THAT AIRLINE ENTER INTO ANY INDEMNIFICATION UNDER THE USE AND LEASE AGREEMENT EXPANDING AIRLINE'S DUTIES UNDER THIS SECTION 9.01 SOLELY AS IT RELATES TO THE SPECIAL FACILITIES OR OTHERWISE ARISING OUT OF THE PERFORMANCE OF THIS AGREEMENT.

Section 9.02: General Insurance Requirements. With no intent to limit Lessee's liability or the indemnification provisions herein, Lessee shall provide and maintain certain insurance in full force and effect at all times during the term of this Agreement and all extensions thereto, as set forth in Section 9.03 below. If any of the insurance is written as "claims made" coverage, then Lessee agrees to keep such claims made insurance in full force and effect by purchasing policy period extensions for at least three years after the expiration or termination of this Agreement.

Section 9.03: Risks and Minimum Limits of Coverage.

Worker's Compensation:	Statutory
Employer's Liability:	Bodily injury by accident- \$1,000,000 (each accident) Bodily injury by disease- \$1,000,000 (policy limit) Bodily injury by disease- \$1,000,000 (each employee)

Commercial General Liability: (including broad form coverage, contractual liability, bodily and personal injury, and products and completed operations)	Combined single limit of: \$100,000,000 per occurrence/aggregate Products and Completed operations \$10,000,000 aggregate
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All Risk: (Covering Special Facilities including fire, lightning, vandalism, and extended coverage perils)	Replacement value of the Special Facilities, but not less than the prin- cipal amount of Bonds Outstanding
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Automobile Liability Insurance: (For automobiles used by Lessee in the course of its performance under this Agreement, including Lessee's non-owned and hired autos)	\$5,000,000 combined single limit per occurrence
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In connection with the design, construction, procurement and installation of the Special Facilities, Lessee shall contractually require its principal construction contractors and architects/engineers contracting with Lessee (as the case may be) to carry the following additional coverages and limits of liability, unless Lessee carries policies of insurance covering such risk; provided, however, if reasonable under the circumstances, Lessee may, with the concurrence of the Director, require lower limits of liability:

Professional Liability (in the case of architects and engineers)	\$10,000,000 per occurrence/ aggregate
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Builders Risk: (in the case of contractors)	Replacement value of the Special Facilities, but not less than the principal amount of Bonds Outstanding
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(Aggregate limits are per 12-month period unless otherwise indicated.)

Section 9.04. Other Provisions.

A. Form of Policies. The insurance carried by Lessee may be in one or more policies of insurance, the form of which shall be

reasonably satisfactory to the Director. Nothing the Director does or fails to do shall relieve Lessee from its duties to provide the required coverage hereunder (unless specifically provided otherwise in such action), and the Director's actions or inactions shall not be construed as waiving the City's rights hereunder.

B. Issuers of Policies. The issuer of any policy carried by Lessee shall have a Certificate of Authority to transact insurance business in the State of Texas and have a Best's rating of at least B+ and a Best's Financial Size Category of Class VI or better, according to the most current edition of Best's Key Rating Guide, Property-Casualty United States. Each issuer must be responsible and reputable, must have financial capability consistent with the risks covered, and shall be subject to approval by the Director.

C. Insured Parties. Each policy carried by Lessee, except those for Workers Compensation, Professional Liability and Employer's Liability, shall name the City (and its officers, agents, and employees) and the Trustee as Additional Insured parties on the original policy and all renewals or replacements during the term of this Agreement. The City, the Trustee and Lessee shall be named joint Loss Payees on All Risk and Builders Risk coverages, subject to distribution of proceeds as provided elsewhere herein; provided, that, unless otherwise agreed by the Lessee, or unless the particular insurance is "claims made" coverage as set forth in Section 9.02, the City shall not be entitled to assert any rights by virtue of being an additional insured in respect of any claim or demand arising out of the operation or maintenance of the APM if, at the time of the claim or demand, the City is operating or maintaining the APM or is responsible for the operation or maintenance thereof pursuant to a sublease or other agreement.

D. Deductibles. Subject to Section 9.01(D) herein, Lessee shall assume and bear any claims or losses to the extent of any deductible amounts (or deductible amounts that are self-insured by Lessee or covered under any self-funded insurance program of Lessee) and waives any claim it may ever have for the same against the City, its officers, agent, or employees.

E. Cancellation. Each policy carried by Lessee shall expressly state that it may not be canceled, materially modified or not renewed unless the insurance company gives thirty (30) days' advance written notice in writing to the Director.

F. Aggregates. Lessee shall give written notice to the Director within five (5) days of the date upon which total claims by any party against Lessee reduce the aggregate amount of coverage below the amounts required by this Agreement. In the alternative, the policy may contain an endorsement establishing a policy aggregate for the particular project or location subject to this Agreement.

G. Subrogation. Each policy carried by Lessee shall contain an endorsement to the effect that the issuer waives any claim or right in the nature of subrogation to recover against the City, its officers, agents, or employees.

H. Endorsement of Primary Insurance. Each policy hereunder except Worker's Compensation and Professional Liability shall be primary insurance to any other insurance available to the Additional Insured and Loss Payee with respect to claims arising hereunder.

I. Liability for Premium. Lessee shall be solely responsible for payment of all insurance premiums on Lessee's policies required hereunder, and the City shall not be obligated to pay any premiums.

J. Contractors and Subcontractors. Lessee shall contractually require all its contractors, and all its contractors to require its subcontractors, to carry insurance naming the City and the Trustee as an additional insured; however, contractual liability shall be limited to the extent of such contractor's or subcontractor's indemnification obligations under the applicable contract. Such insurance shall meet all of the above requirements as Lessee can successfully require such contractors or subcontractors to meet, except amount. The amount shall be commensurate with the amount of the contract. Lessee shall provide copies of such insurance certificates to the Director.

K. Proof of Insurance. Within five (5) days of the effective date of this Agreement and at any time during the term of this Agreement, Lessee shall furnish the Director, the Trustee and the Bond Insurer with certificates of insurance, along with an affidavit from Lessee confirming that the certificates accurately reflect the insurance coverage that will be available during the term. If requested in writing by the Director, the Trustee or the Bond Insurer, Lessee shall furnish the City with certified copies of Lessee's insurance policies.

Notwithstanding the proof of insurance required to be carried by Lessee as set forth above, it is the intention of the parties hereto that Lessee, continuously and without interruption, maintain in force the required insurance as set forth above. Lessee agrees that the City shall never be argued to have waived or be estopped from asserting its right to terminate this Agreement hereunder because of any acts or omissions by the City regarding its review of insurance documents provided by Lessee, its agents, employees, or assigns.

Section 9.05: Disposition of Insurance Proceeds. In the event all of the Special Facilities or any part thereof is damaged or destroyed by an insured casualty and any Bonds remain Outstanding or any amount remains due and owing to the Bond Insurer, then, notwithstanding any provision to the contrary in the Use and Lease Agreement, the following provisions shall be applicable to the expenditure of any insurance proceeds relating to such Special Facilities:

(i) If either (A) the insurance proceeds (less the cost of removing the debris resulting from such casualty) together with any moneys in the Interest and Redemption Fund (including the Reserve Account) are sufficient to pay all of the interest, principal and other obligations accrued and to accrue on said Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee requests that the Special Facilities not be repaired or rebuilt, or (B) the insurance proceeds (less the cost of removing the debris resulting from such casualty) together with any moneys available in the Interest and Redemption Fund (including the Reserve Account) are insufficient and the Lessee agrees to pay the deficiency in Available Moneys and requests that the Special Facilities not be repaired or rebuilt, then in either case the Lessee may elect to terminate this Agreement and be released from all unaccrued obligations hereunder; provided that the insurance proceeds (less the cost of removing the debris resulting from such casualty) and the deficiency payments, if any, paid in Available Moneys by the Lessee shall be simultaneously deposited into the Interest and Redemption Fund for the Bonds and the moneys therein shall be applied to pay the obligations with respect to the Outstanding Bonds and other amounts due to the Bond Insurer and under the Trust Indenture. If the said proceeds and funds are in excess of the amount then necessary to pay the obligations with respect to the Outstanding Bonds and other amounts due to the Bond Insurer and under the Trust Indenture, any such excess after payment or provision for the payment of the Bonds within the meaning of the Trust Indenture and other amounts due to the Bond Insurer and under the Trust Indenture has been made shall be divided between the City and the Lessee as their respective interests appear at the time of such damage or destruction; or

(ii) If all Bonds and all amounts due to the Bond Insurer and due under the Indenture are not repaid as provided in clause (i) above, Lessee agrees to cause such insurance proceeds to be deposited in the Acquisition Fund under the Trust Indenture and to promptly repair and rebuild the Special Facilities with the insurance proceeds, and if such proceeds are insufficient for such purposes, the Lessee shall pay the deficiency. If such proceeds are in excess of the amount necessary for such purposes, any such excess shall be transferred by the Trustee to the Interest and Redemption Fund as a credit to the next due payments of Net Rent, with such credit to continue until the amount thereof is exhausted and if the Net Rent is paid in full, thereafter, any excess proceeds shall pay other amounts due under the Indenture, and if no such amounts are due and owing, the excess shall be paid to Lessee. The repair or restoration of the Special Facilities shall either be in accordance with the original plans and specifications, together with alterations or modifications made or agreed upon prior to the casualty, or in accordance with new or modified plans and specifications, the alternative to be determined by the mutual agreement of the City and Lessee. Before any reconstruction or repair under this paragraph, Lessee shall submit plans and specifications to the Director for approval and such reconstruction or repair shall be substantially in accordance therewith subject to such changes as may be reasonably requested by Lessee and approved by the City.

Section 9.06: Condemnation. In the event that the Special Facilities or any part thereof shall be taken or condemned in any eminent domain, condemnation, compulsory acquisition or like

proceeding by any competent authority or conveyed under threat thereof for any public or quasipublic use or purpose and at such time Bonds remain Outstanding within the meaning of the Trust Indenture or any other amounts remain due under the Trust Indenture, then, notwithstanding any provision to the contrary in the Use and Lease Agreement, the condemnation proceeds shall be applied as follows:

(i) If all or a substantial part of the Special Facilities is taken and either (A) the condemnation proceeds attributable to the Special Facilities together with any moneys in the Interest and Redemption Fund are sufficient to pay all of the interest, principal and other obligations accrued and to accrue on the Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee requests that the Special Facilities not be rebuilt elsewhere, or (B) the condemnation proceeds attributable to the Special Facilities and moneys available in the Interest and Redemption Fund are insufficient to pay all of the interest, principal and other obligations accrued and to accrue on the Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee agrees to pay in Available Moneys the deficiency and requests that the Special Facilities not be rebuilt elsewhere or terminal facilities suitable for such purpose are not available elsewhere, the City will terminate this Agreement and release the Lessee from all unaccrued obligations hereunder, provided that the condemnation proceeds attributable to the Special Facilities and deficiency, if any, paid by Lessee in Available Moneys shall be deposited into the Interest and Redemption Fund for the Bonds and moneys therein shall be applied to pay the obligations with respect to the outstanding Bonds and all other amounts due under the Trust Indenture. If the said proceeds and funds are in excess of the amount then necessary to pay the obligations with respect to the Outstanding Bonds and all other amounts due under the Trust Indenture, any such excess after payment or provision for the payment of the Bonds and all other amounts due under the Trust Indenture within the meaning of the Trust Indenture has been made shall be divided between the City and the Lessee as their respective interests appear at the time of the taking.

(ii) If all or a substantial part of the Special Facilities is taken and the Lessee requests that the Special Facilities be rebuilt elsewhere, the Special Facilities shall be rebuilt elsewhere and paid for with the condemnation proceeds attributable to the Special Facilities, and if such proceeds are insufficient for such purposes the Lessee shall pay the deficiency. If such proceeds attributable to the Special Facilities are in excess of the amount necessary for such purpose, any such excess shall be paid to the City and deposited by it to the Interest and Redemption Fund for said Bonds as a credit to the next due payments of Net Rent, with such credit to continue until the amount thereof is exhausted and, thereafter, any excess proceeds shall pay other amounts due under the Indenture, and if no such amounts are due and owing, the excess shall be paid to Lessee.

(iii) In the event that title to or use of less than a substantial part of the Special Facilities is taken by the power of eminent domain (that is, if the primary use of the Special Facilities is not substantially impaired by deletion of the part taken) the Lessee shall determine whether any rebuilding is necessary. Any condemnation proceeds attributable to the Special Facilities that are not used for the purposes of rebuilding shall be assigned to the City and deposited into the Interest and Redemption Fund and applied to redeem as many Bonds as may be redeemed at the next available redemption date.

The City covenants that it will not exercise its rights of eminent domain with respect to the Special Facilities in any manner that will result in insufficient condemnation proceeds or other funds to redeem or defease the Bonds and pay all amounts due under the Trust Indenture except with the prior consent of the Bond Insurer.

Section 9.07: Reconstruction or Repair. The rebuilding of the Special Facilities under Sections 9.05 or 9.06 shall be either in accordance with the original plans and specifications, together with alterations or modifications made or agreed upon prior to the taking, or in accordance with new or modified plans and specifications, the alternative to be determined by the mutual agreement of the Lessee and the Director.

EVENTS OF DEFAULT AND REMEDIES

Section 10.01: Events of Default. The following shall be Events of Default as to the Lessee under this Agreement:

(a) Failure by the Lessee to pay the Net Rent required to be paid under Article VI hereof and, for amounts to be paid pursuant to Section 6.01(a) (i), the continuation of such failure for more than one Business Day.

(b) Failure by the Lessee to pay any Ground Rentals due under Section 6.05(a) hereof within fifteen (15) Business Days after being notified in writing by the City of such failure.

(c) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement other than as referred to in subsection (a) or (b) next above, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Lessee and the Bond Insurer by the City (except (i) if any insurance required to be maintained by Lessee is to be canceled or not renewed, such notice and the period for remedy by Lessee shall be limited to the period ending on the date on which such cancellation or nonrenewal is scheduled to occur and (ii) where fulfillment of another obligation requires activity over a period of time, and the Lessee shall commence to perform whatever may be required for fulfillment within thirty (30) days after the receipt of notice and shall diligently continue such performance without interruption, except for causes beyond its control, to completion within sixty (60) days or such longer period as may be approved by the Bond Insurer).

(d) Any material lien shall be filed against the Special Facilities or Ground Lease Properties or Lessee's interest therein or any part thereof in violation of this Agreement by a party other than the City and shall remain unreleased for a period of sixty (60) days from the date of such filing unless within said period the Lessee is contesting in good faith the validity of such lien in accordance with Section 8.02(c) hereof.

(e) Whenever an involuntary petition shall be filed against Lessee under any bankruptcy or insolvency law or under the reorganization provisions of any law of like import or a receiver of Lessee for all or substantially all of the property of Lessee shall be appointed without acquiescence and such petition or appointment is not discharged within ninety (90) days after its filing.

(f) The dissolution or liquidation of the Lessee or the filing by the Lessee of a voluntary petition in bankruptcy, or failure by the Lessee within ninety (90) days to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry on its operations at the Special Facilities, or general assignment by the Lessee for the benefit of its creditors, or the entry by the Lessee into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceeding for its reorganization or liquidation instituted under the provisions of the federal bankruptcy laws, or under any similar laws which may hereafter be enacted. The term "dissolution or liquidation of the Lessee," as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Lessee resulting either from a merger or consolidation of the Lessee into or with another corporation or a dissolution or liquidation of the Lessee following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 12.01 hereof.

(g) Whenever Lessee shall fail to provide adequate assurance (i) that Lessee will promptly cure all defaults hereunder, if any; (ii) that Lessee will compensate, or provide adequate assurance that Lessee will promptly compensate, the City, the Trustee and the Bond Insurer for any actual pecuniary loss to such party resulting from any Event of Default hereunder; and (iii) of future performance by Lessee of the terms and conditions of this Agreement, each within thirty (30) days after (1) the granting of an Order for Relief with respect to Lessee pursuant to Title XI of the United States Code; (2) the initiation of a proceeding under any bankruptcy or insolvency law or the reorganization provisions of any law of like import; or (3) the granting of the relief sought in an involuntary proceeding against the Lessee under any bankruptcy or insolvency law. As used in this Agreement, adequate assurance of future performance of this Agreement shall include, but shall not be limited to, adequate assurance (1) of the source of Net Rent and other consideration due hereunder and (2) that the assumption or assignment of this Agreement will not breach any provision, such as a use, management, or ownership provision, in this Agreement, any other material lease, any financing agreement, or master agreement relating to the Leased Premises under the Use

and Lease Agreement and/or Special Facilities.

Section 10.02: Remedies on Default. Whenever any Event of Default referred to in Section 10.01 hereof shall have happened and continue to exist, then, subject to Sections 10.07 and 10.08 below, the City may take any one or more of the following remedial steps as against the Lessee:

(a) The City may, and upon a payment default shall, re-enter and take possession of the Special Facilities and Ground Lease Properties without terminating this Agreement and in a timely manner use its best efforts to (i) complete construction and equipping of the Special Facilities (and apply proceeds of the Bonds for such purpose) and (ii) either (x) operate the Special Facilities and Ground Lease Properties and impose rates and charges on airline tenants in Terminals B and C for their availability, operation and maintenance in accordance with the Use and Lease Agreement or (y) sublease the Special Facilities and Ground Lease Properties on a net rent lease basis to sublessees which (other than the City) shall have been approved in writing by the Bond Insurer (whose approval may not unreasonably be withheld), provided further that in either event the City shall use its best efforts to impose and collect rates and charges or rental rates sufficient to provide for operating and maintenance expenses and Ground Rentals to the same extent as Lessee is obligated to do so and to provide additional amounts equal to the Net Rent and other amounts set forth in Section 6.01, all for the account of the Lessee, holding the Lessee liable for the difference between the rents and other amounts payable by the Lessee hereunder and the charges received from airline tenants and/or the rents and other amounts received from any sublessee with respect to the Special Facilities and Ground Lease Properties. All proceeds derived by the City from any charges and/or rents (net of operating and maintenance expenses and any allocable Ground Rentals payable or remaining unpaid hereunder, and up to the amount of all Net Rent payable hereunder) shall be remitted to the Trustee for deposit in the Interest and Redemption Fund to support repayment of the Bonds.

(b) The City may terminate this Agreement, exclude the Lessee from possession of the Special Facilities and Ground Lease Properties and use its best efforts to (i) complete construction and equipping of the Special Facilities (and apply proceeds of the Bonds for such purpose) and (ii) either (x) operate the Special Facilities and Ground Lease Properties and impose rates and charges on airline tenants in Terminals B and C for their availability, operation and maintenance in accordance with the Use and Lease Agreement or (y) lease the same on a net rent lease basis to lessees which (other than the City) shall have been approved in writing by the Bond Insurer (whose approval may not unreasonably be withheld), provided further that in either event the City shall use its best efforts to impose and collect rates and charges or rental rates sufficient to provide for operating and maintenance expenses and Ground Rentals to the same extent as Lessee is obligated to do so and to pay the Net Rent and other amounts set forth in Section 6.01, all for the account of the Lessee, holding the Lessee liable for all rents and other amounts due under this Agreement and not received by the City from charges or rents with respect to the Special Facilities and Ground Lease Properties. All gross proceeds derived by the City from any charges and/or rents (net of operating and maintenance expenses and any allocable Ground Rentals payable or remaining unpaid hereunder, and up to the amount of all Net Rent payable hereunder) shall be remitted to the Trustee for deposit in the Interest and Redemption Fund to support repayment of the Bonds.

(c) The City may take whatever other action at law or in equity as may appear necessary or desirable to collect the rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Lessee under this Agreement. The City shall use its best efforts to cause the Special Facilities to be constructed and installed and to either (i) cause the Special Facilities and Ground Lease Properties to be operated in consideration of charges imposed on airline tenants in accordance with the Use and Lease Agreement or (ii) sublease (or lease as applicable) the Special Facilities and Ground Lease Properties on a net rent lease basis for the account of Lessee as provided in clauses (a) and (b) above after an Event of Default by Lessee, whether or not City retakes possession of the Special Facilities and Ground Lease Properties or terminates this Agreement.

(d) In connection with any reletting of the Special Facilities and Ground Lease Properties, the City agrees not to charge tenant(s) Ground Rentals in excess of those charged (or that would be charged) to Lessee.

Section 10.03: Additional Remedy. In addition to the other remedies herein provided, the City may, in the case of an Event of Default under Section 10.01(c), enter the Special Facilities and Ground Lease Properties (without such entering causing or constituting a termination of this Agreement or an interference with the possession of the Special Facilities and Ground Lease

Properties by Lessee) and do all things reasonably necessary to cure such Event of Default, charging to Lessee the reasonable cost and expense thereof and Lessee agrees to pay to City upon demand such charge in addition to all other amounts payable by Lessee hereunder.

Section 10.04: No Remedy Exclusive. No remedy herein conferred upon or reserved to the City is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or hereafter existing under law or in equity (to the extent not inconsistent with the terms hereof). No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, unless such notice is herein expressly required or is required by law.

Section 10.05: Agreement to Pay Attorneys' Fees and Expenses. In the event there should be an Event of Default under any of the provisions of this Agreement and the City should determine that the services of an attorney are required or the City incurs other expenses for the collection of rent or the enforcement of performance or observance of any obligation or agreement on the part of Lessee, the Lessee agrees that it will on demand therefor pay to the City the reasonable, just and necessary fee of such attorneys and other reasonable expenses so incurred.

Section 10.06: No Additional Waiver Implied by One Waiver. In the event any covenant contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. Failure of either party hereto to insist on the strict performance of any of the agreements herein or to exercise any rights or remedies accruing hereunder upon an Event of Default or failure of performance shall not be considered a waiver of the right to insist on, and to enforce by any appropriate remedy, strict compliance with any other obligation hereunder or to exercise any right or remedy occurring as a result of any future default or failure of performance.

Section 10.07: Enforcement by City Attorney. The City Attorney or his or her designee shall have the right to enforce all legal rights and obligations under this Agreement without further authorization. Lessee covenants to provide to the City Attorney all documents and records within Lessee's possession that the City Attorney reasonably deems necessary to assist in determining Lessee's compliance with this Agreement, with the exception of those documents made confidential by federal or state law or regulation and provided that the provision of such documents and records by Lessee shall further be limited in any respect that the provision of any documents or records by the City pertaining to this Agreement would be limited pursuant to Chapter 552, Texas Government Code, as amended, or otherwise.

Section 10.08: Special Rights of Bond Insurer. Notwithstanding any provision herein to the contrary, in order to obtain a commitment of insurance for the Series 1997A Bonds from the Bond Insurer, the City agrees that, so long as the Bond Insurer is not in default in its payment obligations under its municipal bond insurance policy for the Series 1997A Bonds (the "Bond Policy"), the exercise of its remedies as set forth in this Article shall be subject to the consent of (as further provided below) and direction by the Bond Insurer except as limited in the Trust Indenture and that, in addition, the Bond Insurer may, as provided in the Trust Indenture, exercise any and all rights of the holders of the Series 1997A Bonds to direct the exercise of such remedies. The consent of the Bond Insurer to the exercise of remedies (i) shall only be required for the termination of this Agreement or the exercise of remedies enumerated in the first sentence of Section 10.02(c), (ii) shall not be unreasonably withheld and (iii) shall, to the greatest extent practicable, when granted, carry with it the consent to the implementation of such remedy by the City without requiring further consent; provided that clause (iii) shall not be deemed to abrogate the City's obligation to obtain the Bond Insurer's consent to a new Lessee or sublessee (other than the City) as provided elsewhere herein and in the Trust Indenture and provided further that, in order to protect Bond Insurer's interests in the Leasehold Mortgage and the security for the Bonds and repayments of claims made under the Bond Policy and other amounts due to the Bond Insurer, during any period that the Bond Insurer or Trustee is the Lessee hereunder, the City may not terminate this Agreement without the Bond Insurer's prior consent, to be given in the sole discretion of the Bond Insurer, so long as any Bonds remain Outstanding or any amounts remain due and payable under the Trust Indenture.

ASSIGNMENTS, SUBLETTING AND TERMINATION BY LESSEE

Section 11.01: Assignments and Subletting by Lessee. (a) This Agreement may not be assigned or otherwise transferred in whole or in part by Lessee (except pursuant to Sections 11.03 and 12.01 hereof) without the prior written consent of the Director and the Bond Insurer; provided, however, that, unless permitted by Section 7.6(b) of the Trust Indenture or Sections 11.03 or 12.01 hereof, the City will not consent to any assignment by Lessee of its rights hereunder without first obtaining a written agreement from the Lessee that Lessee shall remain primarily liable for Net Rent hereunder. Lessee may sublet the Special Facilities and Ground Lease Properties or any part thereof to any party, subject to the condition that in either instance Lessee first obtains the written consent of the Director and the Bond Insurer to such subletting and all the terms thereof, unless such subletting is expressly authorized herein.

(b) If Lessee sublets all or any part of the Special Facilities and Ground Lease Properties or if all or any part of the Special Facilities and Ground Lease Properties are occupied (pursuant to a written consent from the Director and the Bond Insurer) by anyone other than Lessee (including any subsidiary of Lessee or a code-share affiliate of Lessee), the City may, if an Event of Default shall have occurred hereunder and be continuing, collect rent from such sublessee or occupant and the City shall apply the amount collected to the extent possible to satisfy the obligations of Lessee hereunder, but no such collection shall be deemed a waiver by the City of the covenants contained herein or an acceptance by the City of any such sublessee, claimant or occupant as a successor Lessee, nor a release of Lessee by the City from the further performance by the Lessee of the covenants imposed upon Lessee herein.

(c) NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, SO LONG AS ANY BONDS REMAIN OUTSTANDING OR ANY AMOUNT IS DUE UNDER THE INDENTURE NO SUCH SUBLEASE OR ASSIGNMENT SHALL BE AUTHORIZED IF IN ANY WAY IT RELEASES LESSEE FROM ITS PRIMARY OBLIGATIONS HEREUNDER, INCLUDING ITS OBLIGATION TO PAY NET RENT.

Section 11.02: Termination of Agreement by Lessee. Lessee shall not terminate this Agreement for any reason whatsoever as long as any of the Bonds remain Outstanding within the meaning of the Trust Indenture or any other amounts are due and owing under the Trust Indenture.

Section 11.03: Special Provisions Regarding Leasehold Mortgage. In order to further secure the Series 1997A Bonds, the City expressly consents to Lessee's assignment of its rights hereunder pursuant to a Leasehold Mortgage and, subject to the following conditions:

(i) The City shall be given at least 30 days written notice of any event of default under the Leasehold Mortgage giving rise to a right of foreclosure and the City shall have an opportunity to cure the default (with the consent of the Bond Insurer) or exercise the rights contained in Section 7.03 hereof or to take other actions acceptable to the Trustee and the Bond Insurer to avert such foreclosure;

(ii) Any assignment or sale of the Lessee's leasehold estate hereunder, unless made to the City or an entity approved by the Director, shall be made only to an entity that expressly assumes the insurance and other obligations of Lessee contained herein with respect to the operation of the Special Facilities, subject to the provisions of the Contingent Lease Agreement.

(iii) The City shall give notice to the Leasehold Mortgagee and the Trustee and the Bond Insurer of any Event of Default under this Agreement and allow a 30 day cure period after receipt of such notice prior to exercising any right to terminate this Agreement or relet or sublet the leasehold estate hereunder.

(iv) In connection with any such Leasehold Mortgage, the Director may enter into such reasonable or customary agreement or agreements with the Leasehold Mortgagee with respect to notices of default, the cure periods and forbearance provisions, or consents to future assignments, with respect to the exercise of remedies, and the Director shall, upon reasonable request of the Leasehold Mortgagee or any successor to the rights of Lessee hereunder by reason of a foreclosure or deed in lieu of foreclosure under the Leasehold Mortgage, execute estoppel certificates with respect to this Agreement.

(v) So long as any Bonds remain Outstanding,

the City shall not, without the prior written consent of the Leasehold Mortgagee, either (i) consent to or accept any abatement or prepayment of Net Rent hereunder or (ii) accept any surrender of Lessee's leasehold estate hereunder..

ARTICLE XII

MISCELLANEOUS

Section 12.01: Lessee to Maintain Its Corporate Existence.

The Lessee shall throughout the term hereof maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided, that the Lessee may, without violating the agreement contained in this Section, consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise dispose of all or substantially all of its assets as an entirety and thereafter dissolve, provided, if Lessee is not the surviving corporation, the surviving, resulting or transferee corporation, as the case may be, (i) assumes in writing all of the obligations of the Lessee herein and (ii) qualifies or is qualified to do business in Texas.

Section 12.02: Exempt Facilities. In order to assure that

interest on the Bonds shall be exempt from federal income taxation, the Lessee covenants and agrees that it shall not, and it shall not permit or allow any other person to, construct, acquire, use, employ, modify, rebuild or repair the Project or any Special Facilities in any manner that would cause or allow it or them to be or become facilities which are not included within those set forth and described in Sections 142(a)(1) and (c) of the Internal Revenue Code of 1986, as amended, and the regulations prescribed thereunder, and the City covenants and agrees that it will not permit or allow any of the foregoing to occur. The Lessee hereby makes an irrevocable election, which it shall cause to be binding on all successors in interest under this Agreement, not to claim for federal income tax purposes depreciation or investment credit with respect to the Special Facilities or any component thereof. It is further agreed and acknowledged by Lessee that the City shall never be required or requested hereunder to issue any Bonds or expend any proceeds thereof to pay any Costs of the Special Facilities that would have the effect of causing interest on any of the Bonds not to be exempt from federal income taxation.

Section 12.03: Notices. (a) Any and all notices required or

permitted to be given hereunder shall be deemed sufficiently given when delivered or when mailed by registered or certified mail, return receipt requested, postage prepaid, or when given by telephone immediately confirmed in writing by telecopier (or other communication device acceptable to the party) to any party hereto as follows or at such other address, telephone number or telecopier number as any party may from time to time designate in writing to the other parties hereto:

City:

Director, Department of Aviation
City of Houston
P. O. Box 60106
Houston, Texas 77205
Attention: Director
Telephone: (281) 233-3000
Telecopier: (281) 230-2864

and

City Legal Department
P. O. Box 1582
Houston, Texas 77001
Attention: City Attorney
Telephone: (713) 247-2000
Telecopier: (713) 247-1017

Lessee:

Continental Airlines, Inc.
2929 Allen Parkway, Suite 2010
Houston, Texas 77019
Attention: General Counsel
Telephone: (713) 834-2948
Telecopier: (713) 834-2687

and

Continental Airlines, Inc.
2929 Allen Parkway, Suite 1401
Houston, Texas 77019
Attention: Staff Vice President,

Corporate Real Estate and
Environmental Affairs
Telephone: (713) 834-2245
Telecopier: (713) 834-6954

and

Continental Airlines, Inc.
2929 Allen Parkway, Suite 1588
Houston, Texas 77019
Attention: Vice President, Corporate Finance
Telephone: (713) 834-2544
Telecopier: (713) 834-2448

Trustee:

Texas Commerce Bank National Association
Attention: Global Trust Service
600 Travis Street, Suite 1150
Houston, Texas 77002
Attention: Corporate Trust Department
Telephone: (713) 216-4808
Telecopier: (713) 216-5476

Bond Insurer:

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022
Attention: Managing Director -
Surveillance and General
Counsel Re: Policy No. _____
Telephone: (212) 826-0100
Telecopier: (212) 339-3529

(b) All computations for the expiration of time periods required by this Agreement shall be computed from the date such notice is deposited in the United States mail, as set forth above; provided, however, that should the last day of the period fall on a Saturday, Sunday or legal holiday, the period shall run until the end of the next day which is neither a Saturday, Sunday nor legal holiday.

Section 12.04: Consents and Approvals. (a) With respect to the approvals herein required of the Lessee, Lessee shall from time to time furnish to the City a certificate signed by its Secretary or an Assistant Secretary, and such certificate shall set forth the officers or representatives of Lessee who are authorized to grant such approvals and to bind the Lessee thereto; and the City and all third parties affected by any such approvals, including the holders of Bonds, may rely upon any writing purporting to grant such approvals signed by any officer or representative thus certified as being conclusively binding upon Lessee, and any such writing shall itself constitute conclusive evidence that any and all corporate actions necessary to be taken with respect to the matter thus approved by such officer or representative to have been so taken by the corporation, and that the approval therein given has been authorized by the corporation.

(b) Any consent or approval herein required of the City may be given by the Director unless otherwise provided.

(c) All consents or approvals of the City, or any department thereof, the Bond Insurer, or Lessee when required herein shall not be unreasonably withheld or delayed.

(d) All consents and approvals required or permitted herein by either party shall be given in writing.

(e) An approval by the Director, or by any other instrumentality of the City, of any part of Lessee's performance shall not be construed to waive compliance with this Agreement except as expressly set forth in such approval or to establish a standard of performance other than required by this Agreement or by law.

Section 12.05: Rights Reserved to City. Nothing contained herein shall unlawfully impair the right of City to exercise its governmental or legislative functions. This Agreement is made subject to the Constitution and laws of the State of Texas and to the provisions of the Airport Improvement Program Grant Agreements applicable to the Airport and its operation, and the provisions of such agreements, insofar as they are applicable to the terms and provisions of this Agreement, shall be considered a part hereof to the same extent as though copied herein at length to the extent, but only to the extent, that the provisions of any such agreements are required generally by the United States at other civil airports receiving federal funds. To the best of City's knowledge, nothing contained in such laws or agreements conflicts with the express provisions of this Agreement.

Section 12.06: Force Majeure. Neither the City nor Lessee shall be deemed in violation of this Agreement if it is prevented from performing any of the obligations hereunder by reason of strikes, boycotts, labor disputes, embargoes, shortage of material, acts of God, acts of the public enemy, acts of superior governmental authority, weather conditions, floods, riots, rebellion, sabotage, war, or any other circumstances for which it is not responsible or which is not in its control, and the time for performance shall be automatically extended by the period the party is prevented from performing its obligations hereunder; provided, however, that these provisions shall not apply to any failure by the Lessee to pay the rentals and other charges pursuant to Article VI hereof, expressly including the Net Rent and other amounts payable pursuant to Section 6.01(a) payable thereunder.

Section 12.07: Severability Clause. If any word, phrase, clause, paragraph, section or other part of this Agreement shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Agreement and the application of such word, phrase, clause, sentence, paragraph, section or other part of this Agreement to any other person or circumstance shall not be affected thereby and it is expressly agreed and understood that the obligation of Lessee to make the rental payments to City required under the provisions of Article VI hereof shall continue to remain in full force and effect.

Section 12.08: Place of Performance; Laws Governing. This Agreement shall be performable and enforceable in Harris County, Texas, and shall be construed in accordance with the laws of the State of Texas, the City Charter and Ordinances of the City of Houston, Federal law and all applicable State and Federal regulations. Lessee acknowledges that, to the extent the City's Charter or Texas law requires any expenditure of funds that may be contemplated to be made by the City herein to be prefunded to be valid, then such expenditure shall be subject to City Council approval; provided, that, the City agrees to use its best efforts to obtain such approval.

Section 12.09: Brokerage. The Lessee and the City each to the other represents and warrants that no brokers have been concerned on their behalf in the negotiation of this Agreement and that there are no such brokers who are or may be entitled to be paid commissions in connection therewith. The Lessee and the City shall indemnify and save harmless each other of and from any claim for commission or brokerage made by any such brokers when such claims are based in whole or in part upon any acts or omissions of the Lessee or the City as applicable.

Section 12.10: Individuals Not Liable. No director, officer, agent or employee of the City or Lessee shall be charged personally or held contractually liable by or to the other party under any term or provision of this Agreement or of any supplement or amendment hereto because of any breach thereof or because of his or their execution of same.

Section 12.11: Binding Nature of Agreement; Benefits of Agreement. This Agreement shall inure to the benefit of, and be binding upon, the City and Lessee, and their respective legal representatives, successors and assigns. This Agreement is not made for the benefit of, nor may it be relied upon by, any third party other than the holders of the Bonds and the Bond Insurer, unless expressly herein provided.

Section 12.12: Ambiguities. In the event of any ambiguity in any of the terms of this Agreement, it shall not be construed for or against any party hereto on the basis that such party did or did not author the same.

Section 12.13: Survival. Lessee and the City shall remain obligated to the other party hereto under all clauses of this Agreement that expressly or by their nature extend beyond the expiration or termination of this Agreement, including but not limited to the obligation to pay Net Rent and other amounts payable pursuant to Section 6.01(a) and the indemnity provisions hereof. Without limiting the foregoing, Lessee expressly acknowledges that its obligation to pay Net Rent shall not terminate until all Bonds, all obligations under the Trust Indenture and all obligations to the Bond Insurer are fully and finally paid.

Section 12.14: No Merger of Title. There shall be no merger of this Agreement (or of the leasehold estate created by this Agreement) with the ownership of any portion of or interest in the Special Facilities or Ground Lease Properties by reason of the fact that the same person or entity may acquire, own or hold, directly or indirectly, this Agreement (or the rights and interests created by this Agreement) together with an ownership, leasehold or other right or interest in the Special Facilities or Ground Lease Properties; and no such merger shall occur unless and until the City and all persons and entities holding (a) the rights and interest created by this Agreement and (b) the ownership, leasehold or other rights or interest in the Special Facilities and Ground

Lease Properties or any part thereof shall join in a written instrument expressly effecting such merger. Without limiting the generality of the foregoing, it is agreed that no merger of title shall arise if the City becomes a sublessee hereunder.

Section 12.15: Entire Agreement. This Agreement, together with the Trust Indenture, constitutes the entire agreement between the City and Lessee pertaining to the subject matter hereof.

IN WITNESS WHEREOF, this Agreement has been entered into and effective as of the date first above written, and executed in multiple counterparts by the respective officers of the parties hereto.

ATTEST: CITY OF HOUSTON
By _____
City Secretary Mayor

APPROVED AS TO FORM COUNTERSIGNED BY:

Senior Assistant City Attorney City Controller

APPROVED

Director, Department of Aviation

CONTINENTAL AIRLINES, INC.

ATTEST: By: _____
Title: _____

Title: _____

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, a Notary Public in and for Harris County, Texas, on this day personally appeared BOB LANIER, Mayor of the CITY OF HOUSTON, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, as the act and deed of the CITY OF HOUSTON, the said municipal corporation, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, 1997.

Notary Public in and for
Harris County, Texas

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared _____, _____ of Continental Airlines, Inc., a corporation, known to me to be the person and officer whose name is to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, 1997.

Notary Public in and for
Harris County, Texas

EXHIBITS TO BE ATTACHED

- Exhibit "A" Description of Project
- Exhibit "B" Description of Easements
- Exhibit "C" Description of Ground Lease Properties
- Exhibit "D" Deed and Bill of Sale for Project

EXHIBIT "A"

DESCRIPTION OF PROJECT

All properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances to be acquired, constructed, fabricated and/or installed in, on, as a part of or around the Ground Lease Properties and the Easements that are financed with proceeds of the Series 1997A Bonds and leased to the Lessee pursuant to the Special Facilities Lease Agreement, including without limitation the following:

The Series 1997A Special Facilities (APM) include an aboveground dual-lane people mover track connecting Terminals B and C; passenger boarding stations at both terminals comprised of approximately 9,000 square feet each; a maintenance facility at Terminal B comprised of approximately 9,000 square feet; a control facility in Terminal B comprised of approximately 2,000 square feet; two APM transportation vehicles (capable of accommodating 80 passengers each and traveling at a speed of approximately 30 miles per hour); power distribution and appurtenances as required by HL&P; any required APM propulsion substation; APM technical and administrative support area in flight station 6 comprised of approximately 4,200 square feet; and certain necessary switches and power distribution, control communications and station equipment. When completed, the new APM system between Terminals B and C is expected to be capable of transporting approximately 2,100 passengers per hour.

However, there is expressly excluded from the APM any and all properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances provided to the Lessee by the City pursuant to the Use and Lease Agreement.

EXHIBIT "B"

DESCRIPTION OF EASEMENTS

The Easements shall consist of the following:

- (1) An aerial easement running between Terminals B and C at the Airport in the corridor depicted in the diagrams attached as Exhibit B-1 (the "APM Corridor") for the purpose of an aboveground APM, together with space for APM Stations adjacent to Terminals B and C, depicted as the "Terminal B APM Station" and "Terminal C APM Station" in the diagram attached as Exhibit B-1, and an APM propulsion substation. The minimum clearance below the APM (and any suspended baggage transfer facility) must be at least 20 feet 0 inches above the roadway below. The height of the APM guideway surface is 42 feet above the roadway below and the highest point of the APM stations shall not extend above the parapet of Terminal B, parking level four, or such other clearance and/or height as approved by the Director.

EXHIBIT "C"

DESCRIPTION OF GROUND LEASE PROPERTIES

The Ground Lease Properties shall consist of the following:

- (1) Footprints for up to 60 support columns located at sites within the APM Corridor (as described in Exhibit "B") approved by the Director pursuant to the Agreement with cross-sections not to exceed 30 square feet each and footings not to exceed 580 square feet each, or such other dimensions as shall be approved by the Director.
- (2) Such portions of the space located in the Mezzanine Level of Terminal B in the shaded area depicted in the diagram attached as Exhibit C-1 and such portions of the space located in the ramp level of Flight Station 6 of Terminal B in the shaded area depicted in the diagram attached as Exhibit C-1 as are necessary for the administration and operation of the APM.

EXHIBIT "D"

DEED AND BILL OF SALE

THE STATE OF TEXAS

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF HARRIS

THAT CONTINENTAL AIRLINES, INC., a corporation (hereinafter called "Grantor"), for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) cash and other good and valuable considerations to it in hand paid by the CITY OF HOUSTON, TEXAS, a municipal corporation and home-rule city situated principally in Harris County, Texas (hereinafter called "Grantee"), the receipt and sufficiency of which are here acknowledged and confessed, has GRANTED, BARGAINED, SOLD AND CONVEYED and by these presents does GRANT, BARGAIN, SELL AND CONVEY unto the Grantee that certain airport Special Facilities more fully described in Exhibit "A" attached hereto located in and at Houston Intercontinental Airport in leased space and/or in the easements leased or granted to Grantee by Grantor which leased space and/or easements are more fully described in Exhibit "B" attached hereto.

TO HAVE AND TO HOLD the aforesaid Special Facilities, together with all and singular the rights and appurtenances thereto in any way belonging unto Grantee, its successors and assigns forever; and it is hereby agreed that Grantor, its successors and legal representatives are hereby bound to WARRANT AND FOREVER DEFEND, all and singular, said property unto Grantee, its successors and assigns against every person whosoever lawfully claiming or to claim the same, or any part thereof, by, through or under Grantor, but not otherwise.

THE EXECUTION, delivery and acceptance of this conveyance is made pursuant to the terms of that certain Special Facilities Lease Agreement dated as of _____, 1997, by and between Grantor and Grantee.

EXECUTED as of the _____ day of _____, 199_.

CONTINENTAL AIRLINES, INC.

By _____
Title: _____

ATTEST:

Assistant Secretary

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared _____, _____ of the CONTINENTAL AIRLINES, INC., a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 199_.

Notary Public in and for
Harris County, Texas

(SEAL)

"TERMINAL LEASE"
OR
"B" LEASE

FIRST AMENDED AND RESTATED
SPECIAL FACILITIES
LEASE AGREEMENT
(CONTINENTAL AIRLINES, INC. TERMINAL IMPROVEMENT PROJECTS)

by and between

CITY OF HOUSTON, TEXAS
as Lessor
and
CONTINENTAL AIRLINES, INC.
as Lessee

Dated as of March 1, 1997

Amended and Restated as of December 1, 1998

SPECIAL FACILITIES
LEASE AGREEMENT
(CONTINENTAL AIRLINES, INC. TERMINAL IMPROVEMENT PROJECTS)

I N D E X

Page No.

ARTICLE I
DEFINITIONS AND INTERPRETATIONS

Section 1.01: Definitions2
Section 1.02: Interpretations7

ARTICLE II
REPRESENTATIONS

Section 2.01: Representations by the City7
Section 2.02: Representations by Lessee7

ARTICLE III
LEASE AND TERM; GRANT OF EASEMENTS AND GROUND LEASES

Section 3.01: Lease of Special Facilities8
Section 3.02: Term of Lease of Special Facilities8
Section 3.03: Easements and Ground Leases8
Section 3.04: Condition of Special Facilities9
Section 3.05: City Right of Entry9

ARTICLE IV
ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECTS

Section 4.01: Issuance of Series 1997B Bonds and
Series 1998B Bonds.10
Section 4.02: Issuance of Additional Bonds.10
Section 4.03: Application of Proceeds; Insufficiencies.10
Section 4.04: Refunding Bonds11
Section 4.05: Optional Redemption of Bonds.11

ARTICLE V
DESIGN, CONSTRUCTION AND ACQUISITION OF THE SPECIAL FACILITIES

Section 5.01: General11
Section 5.02: Special Provisions for the 1997B Project.13
Section 5.03: Inventory of Special Facilities; Replacements13
Section 5.04: Title to Projects13
Section 5.05: Design, Construction and Acquisition of Additional
Special Facilities.13
Section 5.06: Personal Property Not Constituting Special
Facilities14

ARTICLE VI
NET RENT AND GROUND RENT

Section 6.01: Net Rent While Bonds Outstanding.14

Section 6.02:	Obligation to Pay Net Rent Unconditional.	16
Section 6.03:	Pledge of Net Rent.	16
Section 6.04:	Operation and Maintenance Expenses; Other Costs	16
Section 6.05:	Charges for Ground Lease Properties and Easements	17

ARTICLE VII

USE OF SPECIAL FACILITIES; REPRESENTATIONS AND UNDERTAKINGS BY LESSEE AND CITY

Section 7.01:	General	17
Section 7.02:	Rights to Use Lessee's Terminal Improvements Subject to Use and Lease Agreement.	17
Section 7.03:	Reservation to City of Special Rights with Respect to Special Facilities in Terminal B	18
Section 7.04:	Non-Extension of Terminal B Lease	20
Section 7.05:	Non-Extension of Terminal C Lease	20
Section 7.06:	Non-Extension of IAB License Agreement.	20

ARTICLE VIII

LESSEE'S OBLIGATIONS AND CONDITIONS TO LESSEE'S USE OF SPECIAL FACILITIES

Section 8.01:	Maintenance of Special Facilities at Lessee's Expense.	21
Section 8.02:	Taxes, Charges, Utilities, Liens.	21
Section 8.03:	Compliance with Airport Rules and Regulations and Law; Nondiscrimination.	22
Section 8.04:	Compliance with Tax Law	22
Section 8.05:	Environmental Matters	22
Section 8.06:	City's Right To Maintain or Repair Special Facilities.	25
Section 8.07:	Termination Procedures.	25

ARTICLE IX

LIABILITY, INSURANCE AND CONDEMNATION

Section 9.01:	Release and Indemnification of City	26
Section 9.02:	General Insurance Requirements.	28
Section 9.03:	Risks and Minimum Limits of Coverage.	28
Section 9.04:	Other Provisions.	29
Section 9.05:	Disposition of Insurance Proceeds	30
Section 9.06:	Condemnation.	31
Section 9.07:	Reconstruction or Repair.	32

ARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section 10.01:	Events of Default.	32
Section 10.02:	Remedies on Default.	34
Section 10.03:	Additional Remedy.	35
Section 10.04:	No Remedy Exclusive.	35
Section 10.05:	Agreement to Pay Attorneys' Fees and Expenses.	35
Section 10.06:	No Additional Waiver Implied by One Waiver	36
Section 10.07:	Enforcement by City Attorney	36

ARTICLE XI

ASSIGNMENTS, SUBLETTING AND TERMINATION BY LESSEE

Section 11.01:	Assignments and Subletting by Lessee	36
Section 11.02:	Termination of Agreement by Lessee	37

ARTICLE XII

MISCELLANEOUS

Section 12.01:	Lessee to Maintain Its Corporate Existence	37
Section 12.02:	Exempt Facilities.	37
Section 12.03:	Notices.	37
Section 12.04:	Consents and Approvals	39
Section 12.05:	Rights Reserved to City	40
Section 12.06:	Force Majeure.	40
Section 12.07:	Severability Clause.	40
Section 12.08:	Place of Performance; Laws Governing	40
Section 12.09:	Brokerage.	40
Section 12.10:	Individuals Not Liable	41
Section 12.11:	Binding Nature of Agreement; Benefits of Agreement.	41
Section 12.12:	Ambiguities.	41
Section 12.13:	Survival	41
Section 12.14:	No Merger of Title	41
Section 12.15:	Entire Agreement	41

Description of Project	Exhibit "A"
Description of Easements	Exhibit "B"
Description of Ground Lease Properties	Exhibits "C" and "D"
Deed and Bill of Sale for Project	Exhibit "E"

FIRST AMENDED AND RESTATED
SPECIAL FACILITIES
LEASE AGREEMENT
(Continental Airlines, Inc. Terminal Improvement Projects)

THE STATE OF TEXAS

COUNTY OF HARRIS

THIS SPECIAL FACILITIES LEASE AGREEMENT (hereinafter called "Agreement") dated as of the 1st day of March, 1997 (Amended and Restated as of December 1, 1998), is made and entered into between the CITY OF HOUSTON, TEXAS, a municipal corporation and Home Rule City, situated principally in Harris County, Texas (hereinafter called "City"), and CONTINENTAL AIRLINES, INC., a corporation organized and existing under the laws of the State of Delaware, duly authorized to do business in the State of Texas (hereinafter called "Lessee").

W I T N E S S E T H :

WHEREAS, City is the owner of land and certain improvements known as the George Bush Intercontinental Airport/Houston, located in the City of Houston, Harris County, Texas (hereinafter called "Airport"), which is operated as a public airport, as a part of the City's Airport System (as hereinafter defined), and City has the power and authority to lease premises and facilities thereon and to grant rights and privileges with respect thereto, including those set forth herein; and

WHEREAS, Lessee is engaged in the business of commercial air transportation as a scheduled air carrier and is certificated or otherwise authorized by the United States Government and the hereinafter described Use and Lease Agreement to engage in such business at the Airport (hereinafter referred to as "authorized business"); and

WHEREAS, City and Lessee have heretofore entered into the Use and Lease Agreement and IAB License Agreement (both as hereinafter defined) pursuant to which the City has leased to Lessee certain space and facilities in Terminals B and C at the Airport and granted certain occupancy rights to Lessee in the IAB at the Airport; and

WHEREAS, Lessee has heretofore requested the City to undertake the financing of the 1997B Project (as hereinafter defined), and the City has done so through the issuance of its Series 1997B Bonds (as hereinafter defined); and

WHEREAS, Lessee has heretofore requested the City to undertake the financing of the 1998B Project (as hereinafter defined); and

WHEREAS, the City has found and determined that it is in the public interest and a public purpose for the City to finance the costs of the Projects (as hereinafter defined) through the issuance of certain special facilities revenue bonds payable from certain net rentals of the Projects; and

WHEREAS, all ordinances heretofore adopted by the City authorizing the issuance of its Airport System Revenue Bonds payable from any or all gross revenues, tolls, rents, lease moneys, returns, and charges derived by the City from the operation of its Airport System, which includes the Airport, provide for the exclusion from the pledge of such revenues "any rentals (except ground rentals) from net rent leases which may be executed in the future wherein the lease consideration is pledged or otherwise utilized to finance the construction of buildings or facilities for lessee-tenants of the City, but only for such time and to such extent in each case as the rentals reserved in the lease or any extension or renewal thereof (other than ground rent) are required to be deposited in a separate interest and redemption fund in order to meet the City's obligation for interest payments and principal repayment on the bonds or other instruments of indebtedness issued or sold to finance the improvement which is the subject matter of the lease"; and

WHEREAS, the City and Lessee desire to enter into this Agreement (i) to constitute a "net rent lease", to provide for the construction and acquisition of certain Special Facilities initially consisting of the Projects, to provide for the issuance of revenue bonds to finance certain costs of such Special Facilities, and to provide for the payment by Lessee of certain Net Rent at times and in amounts sufficient to meet the City's obligation for interest payments and principal repayment on all revenue bonds sold to finance the costs of such Special Facilities and (ii) to set forth certain other agreements of the parties with respect to the Special Facilities;

NOW, THEREFORE, for and in consideration of the premises and

of the mutual covenants and agreements herein contained and in consideration of the rentals and other amounts to be paid as herein provided, the City and Lessee do hereby covenant and agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01: Definitions. In this Agreement, the following terms shall have the following meanings, respectively, unless the context clearly indicates otherwise:

"Additional Bonds" shall mean all additional bonds which may be issued by the City payable from the same source as the Series 1997B Bonds and the Series 1998B Bonds (including Net Rent payable under this Agreement) for the purposes and in the general manner specified in Section 4.02 hereof.

"Airport" shall mean George Bush Intercontinental Airport/Houston, Houston, Texas, as it now exists or may be modified or expanded from time to time in the future.

"Airport System" shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as "George Bush Intercontinental Airport/Houston," "William P. Hobby Airport" and "Ellington Field" and the "CBD Heliport."

"Baggage Transfer Facility" shall mean that facility more fully described in Exhibit "A" to this Agreement.

"Bonds" shall mean collectively the Series 1997B Bonds, the Series 1998B Bonds and any Additional Bonds and Refunding Bonds from time to time hereafter issued.

"Bus Stations" shall mean the bus stations to be located at Terminals B and C as more fully described in Exhibit "A" to this Agreement.

"Business Day" shall mean any day other than a Saturday, Sunday, or legal holiday or the equivalent (other than a moratorium) on which banking institutions generally in Houston, Texas or New York, New York are authorized or required by law or executive order to close.

"City" shall mean the City of Houston, Texas, or such other agency, board, authority, or private entity which may succeed to the jurisdiction of the City over the Airport.

"Costs of the Project" or "Costs of the Special Facilities" shall mean all costs of financing the construction and acquisition of the Projects or Special Facilities, as the case may be, and the issuance of Bonds for such purpose, including without limitation the following:

(i) all amounts paid by the Lessee, or authorized by the Lessee and paid by or on behalf of Lessee, to design, construct, acquire, fabricate, equip and install the Projects or Special Facilities, including without limitation, all costs of utility extensions and connections and all amounts paid under all contracts for goods, services and facilities related thereto;

(ii) all amounts necessary to provide for work performed, material purchased or expenditures incurred, pertaining to or in connection with the Projects or any other Special Facilities approved by City and Lessee including, without limitation, the charges of any architects or engineers for plans, specifications, drawings, supervision and inspection for the Projects or Special Facilities;

(iii) all expenses incurred by the Lessee and the City for the review of plans, specifications and contracts for the Projects or the Special Facilities and for the inspection in connection with the construction and acquisition thereof;

(iv) the cost of any and all permits, licenses, fees, performance and payment bonds, appraisals and insurance policies procured in connection with the acquisition and construction of the Projects or Special Facilities;

(v) legal, accounting and bond advisory, underwriting and consultant fees and expenses, including any fees and expenses of any bond insurer and the provider of any reserve fund surety, and all costs and expenses incident to the authorization, issuance, delivery and sale of the Bonds, including without limitation the preparation, execution, delivery and recording of this Agreement, the Trust Indenture, any preliminary and the final offering documents pertaining to the Bonds, and any printing fees for such documents, any purchase agreements pursuant to which the Bonds will be sold, all credit agreements and other documents providing security for the Bonds or the Lessee's obligations and all other agreements and documents involved and contemplated hereby, the costs and fees, including legal fees, incident to the qualification of the Bonds for offer and sale under securities laws and the preparation of any memorandum as to the eligibility of the Bonds for offer and sale and for investment under state laws if required or if applicable;

(vi) interest accruing on the Bonds during the period of construction of the Projects or Special Facilities financed with the proceeds thereof, the term of which period shall be determined in the Trust Indenture;

(vii) such other and additional fees, costs, expenses and expenditures of whatever nature incidental or pertaining to the design, acquisition, construction, fabrication, equipping and installation of the Projects or the Special Facilities, including funding of the Reserve Account, and all other costs and expenses that may properly be capitalized as costs of the Projects or the Special Facilities; and

(viii) any costs of a prior Project for which insufficient funds are available from the proceeds of the Series of Bonds issued for such prior Project.

"Director" shall mean the Director of the Department of Aviation of the City or his designee.

"Easements" shall mean all of the easement or easements described in Exhibit "B" attached hereto.

"Event of Default" shall mean those events so defined in Section 10.01 hereof.

"Ground Lease Properties" shall mean those portions of the Leased Premises under the Use and Lease Agreement in Terminal B as are reasonably necessary to make the Special Facilities leasable and in Terminal C as are located underneath the Special Facilities located therein and those portions of the Leased Premises under the IAB License Agreement as are reasonably necessary to make the Special Facilities in the IAB leasable.

"Ground Rentals" shall mean the rentals to be paid by Lessee directly to the City pursuant to Section 6.05 as consideration for those portions of the Leased Premises under the Use and Lease Agreement and IAB License Agreement that constitute Ground Lease Properties and Easements.

"Ground Support Equipment" shall mean that equipment appurtenant to the space and gates in Terminal B as more fully described in Exhibit "A" to this Agreement.

"Guaranty" shall mean the guaranty agreement dated as of March 1, 1997, from the Lessee to the Trustee with respect to the Series 1997B Bonds and the guaranty agreement dated as of December 1, 1998, from the Lessee to the Trustee with respect to the 1998B Bonds.

"IAB" shall mean the Mickey Leland International Airlines Building at the Airport.

"IAB License Agreement" shall mean collectively or individually those certain license and lease agreements from time to time in effect with respect to the Lessee's occupancy of the IAB at the Airport.

"Interest and Redemption Fund" shall mean the fund so defined in the Trust Indenture for the collection of Net Rent and payment of the Bonds.

"Leased Premises" under the Use and Lease Agreement and/or under the IAB License Agreement shall mean that certain space and improvements in and around at the Airport which were or will be leased by the City to Lessee pursuant to the Use and Lease Agreement and/or licensed by the City to Lessee pursuant to the IAB License Agreement.

"Lessee" shall mean Continental Airlines, Inc., a Delaware corporation, and its successors and assigns as lessee hereunder.

"Lessee's IAB Improvements" shall mean those tenant improvements, fixtures, equipment and related facilities in the International Airlines Building as more fully described in Exhibit "A-1" to this Agreement.

"Lessee's Terminal B Improvements" shall mean those tenant improvements, fixtures, equipment and related facilities in Terminal B as more fully described in Exhibits "A" and "A-1" to this Agreement.

"Lessee's Terminal C Improvements" shall mean those tenant improvements, fixtures, equipment and related facilities in Terminal C as more fully described in Exhibits "A" and "A-1" to this Agreement.

"Net Rent" shall mean the net rentals payable by Lessee to the Trustee on behalf of the City pursuant to Section 6.01(a) (i) and (ii) hereof for the purpose of being applied to the payment of the Bonds and making required deposits to the Interest and Redemption Fund.

"1997B Project" shall mean the Lessee's Terminal B Improvements, Lessee's Terminal C Improvements, the Prior Tenant Improvements, the Bus Stations and the Ground Support Equipment, and, at Lessee's option, to be exercised no later than December 31, 1999, may include the Baggage Transfer Facility, all as more fully described in Exhibit "A" attached hereto and by this reference made a part hereof, together with any modifications, additions or reductions thereto approved by the Director and the Lessee. The 1997B Project shall constitute the initial Special Facilities.

"1998B Project" shall mean the Lessee's Terminal B Improvements, Lessee's Terminal C Improvements, and Lessee's IAB Improvements, all as more fully described in Exhibit "A-1" attached hereto and by this reference made a part hereof, together with any modifications, additions or reductions thereto approved by the Director and the Lessee.

"Outstanding" shall have the meaning assigned in the Trust Indenture.

"Prior Tenant Improvements" shall mean the remaining leasehold estate and tenant improvements of the tenant or tenants located in Terminal B occupying such space prior to Lessee's occupancy of Terminal B, as more fully described in Exhibit "A" to this Agreement.

"Project" or "Projects" means, either individually or collectively, the 1997B Project and the 1998B Project.

"Qualified Terminal C Occupancy Agreement" shall mean, for the period beginning January 1, 2018 (i) an extension or renewal of the Use and Lease Agreement with respect to all or a material portion of Terminal C airline space, (ii) an interim extension or renewal agreement for all or a material portion of Terminal C airline space pending negotiation of a definitive extension or renewal of the Use and Lease Agreement, or (iii) a written document evidencing Lessee's commitment to occupy all or a material portion of Terminal C airline space for a specified period of time pursuant to the terms of a City ordinance; provided, however, if any of the foregoing relate to a material portion but not all of Terminal C airline space, then it shall be accompanied by a written certification of the Director of the Department of Aviation of the City as containing provisions reasonably satisfactory to the Director of the Department of Aviation of the City that will reasonably allow (i) Lessee to make use of the Special Facilities, and (ii) other airline tenants, if any, in Terminal C to use those Special Facilities as may, in the reasonable opinion of the Director, be required to support the tenancy of such other airline tenants.

"Refunding Bonds" shall mean all refunding bonds which may be issued by the City for the purposes set forth in Sections 4.04 hereof, and which shall be payable from the same sources as the Series 1997B Bonds and Series 1998B Bonds (including Net Rent payable under this Agreement).

"Series 1997B Bonds" shall mean the first series of Bonds to be issued pursuant to this Agreement, which shall be entitled the "City of Houston, Texas, Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 1997B."

"Series 1998B Bonds" shall mean the second series of Bonds to be issued pursuant to this Agreement, which shall be entitled the "City of Houston, Texas, Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects),

Series 1998B."

"Special Facilities" shall mean the Projects, all extensions, additions, modifications and improvements thereto and all other improvements, fixtures, equipment and facilities that, pursuant to this Agreement or any supplement hereto or amendment hereof, are financed with any proceeds of the Series 1997B Bonds, the Series 1998B Bonds or any Additional Bonds.

"Trust Indenture" shall mean the Trust Indenture, dated as of March 1, 1997, as supplemented by the First Supplemental Trust Indenture dated as of December 1, 1998, together with all supplements and amendments thereto, entered into by and between the City and the Trustee to provide for the issuance of and security for the Series 1997B Bonds and the Series 1998B Bonds.

"Trustee" shall mean the bank designated as Trustee under the Trust Indenture, or any successor trustee thereunder.

"Use and Lease Agreement" shall mean that certain Use and Lease Agreement with respect to Terminals B and C at the Airport effective as of January 1, 1998, entered into between the City and Lessee.

Section 1.02: Interpretations. All terms defined herein and all pronouns used in this Agreement shall be deemed to apply equally to singular and plural and to all genders. The table of contents, titles and headings of the articles and sections of this Agreement have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Agreement and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and, to provide for the full and timely payment of all Bonds from time to time hereafter issued by the City, which Bonds shall be secured by a pledge of the Net Rent payable under this Agreement. In the event of any ambiguity contained herein, it shall not be construed for or against any party hereto on the basis that such party did or did not author same.

ARTICLE II

REPRESENTATIONS

Section 2.01: Representations by the City. The City makes the following representations as the basis for its undertakings in this Agreement:

(a) The City, as the owner of the Airport, is authorized to enter into this Agreement;

(b) The City has the power and authority to grant the Easements and the Ground Lease Properties to the Lessee for the purposes of constructing, installing, equipping, maintaining and operating the Projects;

(c) The City has the power and authority to acquire the Projects constructed, installed and equipped by Lessee on the Ground Lease Properties and the Easements, to acquire the other Special Facilities, and to lease same to Lessee pursuant to the terms and conditions contained herein;

(d) The City has the power and authority to issue the Bonds for the purpose of paying the Costs of the Special Facilities and to pledge to the payment of the Bonds the Net Rent payable under this Agreement and by proper municipal action it has been authorized to execute and deliver this Agreement; and

(e) All representations relating to the City contained in the recitals to this Agreement are true and correct in all material respects.

Section 2.02: Representations by Lessee. The Lessee makes the following representations as the basis for its undertakings in this Agreement:

(a) Lessee is a corporation validly existing under the laws of the State of Delaware; it is in good standing under its certificate of incorporation and the laws of the State of Delaware; it is duly authorized to do business in the State of Texas; it has the power to enter into this Agreement without violating the terms of any other agreement to which it is a party; and by proper corporate action it has been duly authorized to execute and deliver this Agreement;

(b) Lessee will occupy and possess the Easements and Ground Lease Properties for the purposes and upon the terms and conditions set forth herein; it will, subject to the City's issuance and sale of the Series 1997B Bonds and the Series 1998B Bonds, construct, install and equip the Projects substantially in the manner herein provided; it will convey the Projects to, or cause title to the

Projects to vest in, the City in the manner herein provided; and it will occupy, possess, operate and maintain the Projects and any other Special Facilities for the purposes and in the manner provided herein, all subject to the terms and conditions of this Agreement; and

(c) All representations relating to Lessee contained in the recitals to this Agreement are true and correct in all material respects.

ARTICLE III

LEASE AND TERM; GRANT OF EASEMENTS AND GROUND LEASES

Section 3.01: Lease of Special Facilities. Subject to the terms and conditions of this Agreement, the City hereby leases, lets and demises unto Lessee, and Lessee hereby leases and rents from the City, the Special Facilities, which shall consist initially of the Projects.

Section 3.02: Term of Lease of Special Facilities. The term of this Agreement and the leasehold estate hereby created in the Special Facilities shall commence on April 17, 1997, for the 1997B Project, and January 20, 1999, for the 1998B Project (being the respective dates of delivery by both the City and Lessee of the original form of this Agreement and the first amended and restated form of this Agreement) and shall continue, unless sooner terminated in accordance with this Agreement, until the 31st day of December, 2017; provided, however, that with respect to Lessee's Terminal C Improvements, such term shall continue, so long as the Use and Lease Agreement with Lessee for Terminal C remains in effect through extension or renewal (including interim extensions or renewals) or so long as Lessee continues to occupy Terminal C pursuant to a Qualified Terminal C Occupancy Agreement, until the 31st day of December, 2027 and provided, further, that with respect to Lessee's IAB Improvements, such term shall continue, so long as the IAB License Agreement remains in effect through extension or renewal until the 15th day of July, 2029; provided, further, however, that at such time, if ever, as Lessee shall have no right to occupy Terminal B or C or IAB, then Lessee's rights of occupancy under this Agreement shall end with respect to that portion of the Special Facilities as follows: (i) if its right to occupy Terminal C ceases, then all rights to occupy Special Facilities shall also terminate; if Lessee's rights to occupy the IAB shall terminate, then only Lessee's rights to occupy the Special Facilities in the IAB shall terminate; and if Lessee's rights to occupy Terminal B shall cease, then only Lessee's rights to occupy the Special Facilities in Terminal B shall also terminate, except to the extent necessary to support Lessee's obligation to sublease such Special Facilities in Terminal B to the City pursuant to Section 7.03.

Section 3.03: Easements and Ground Leases. (a) Subject to the terms and conditions of this Agreement, the City hereby grants and conveys to Lessee the Easements for a term corresponding to the term of Lessee's leasehold estate in the Special Facilities located in or appurtenant to such Easement including any extensions or renewals thereof. The Easements shall be used solely for the purpose of constructing, equipping, acquiring, operating and maintaining the Special Facilities.

(b) Subject to the terms and conditions contained in the Use and Lease Agreement and the IAB License Agreement, the City has leased to Lessee the Leased Premises under the Use and Lease Agreement and the IAB License Agreement. Those portions of the Leased Premises under the Use and Lease Agreement and the IAB License Agreement designated in Exhibits "C" and "D" (or other portions approved by the Director) may be used for the purpose of constructing, equipping, acquiring, operating and maintaining the Special Facilities.

(c) Subject to the terms hereof, Lessee shall have the right of reasonable ingress to and egress from the Special Facilities over the portions of the Airport necessary for the construction, operation and maintenance of the Special Facilities in accordance with the terms hereof, including the operation of buses between the bus stations constituting part of the Special Facilities, but subject to reasonable regulations promulgated by the Director.

(d) In the event the City and Lessee determine it is necessary or desirable to amend, correct, further define or delineate, delete from or add to any descriptions of the Ground Lease Properties, the Easements or the portions of the Leased Premises under the Use and Lease Agreement and the IAB License Agreement shown on Exhibits "C" and "D," they may do so by a supplement or addendum hereto duly executed by the respective parties.

Section 3.04: Condition of Special Facilities. The Lessee has full and exclusive responsibility for ascertaining the suitability of the Special Facilities, Easements, and Ground Lease Properties for their intended use. The City makes no

representations or warranties, either express or implied, as to the condition of the Special Facilities, Easements, and Ground Lease Properties for the use intended by the Lessee. The Lessee takes the Special Facilities, Easements, and Ground Lease Properties in their "as-is" condition. The City acknowledges that Lessee does not assume any responsibility, except to the extent caused by Lessee, for any Hazardous Materials (as defined in Section 8.05C below) that existed on the Easements or Ground Lease Properties as of the respective dates of commencement of the term.

Section 3.05: City Right of Entry The City may enter upon the Easements, Ground Lease Properties and Special Facilities (i) at any reasonable time for any purpose necessary, incidental to or connected with the performance of Lessee's obligations hereunder, or in the exercise of the City's governmental functions, and (ii) upon the termination or cancellation of this Agreement in accordance with the provisions of Article X hereof, and such entry or reentry shall not constitute a trespass nor give Lessee a cause of action for damages against the City; provided, however, the City shall use all reasonable efforts to minimize any interference or interruption with Lessee's business operations.

ARTICLE IV

ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECTS

Section 4.01: Issuance of Series 1997B Bonds and Series 1998B Bonds. Subject to the terms and conditions of this Agreement, the City has heretofore issued the Series 1997B Bonds to pay costs of the 1997B Project, and the City shall diligently use its best efforts to issue, sell and deliver the Series 1998B Bonds in amounts sufficient to pay the Costs of the 1998B Project and unfunded 1997B Project Costs, which amounts shall be established in the Trust Indenture. The City shall have no obligations to issue, sell, or deliver the Series 1998B Bonds if (i) there exists an Event of Default under this Agreement by Lessee, or (ii) Lessee has not given written approval of the Trust Indenture. The City shall not authorize the sale of the Series 1998B Bonds or enter into any related supplement to the Trust Indenture until the terms of such Bonds and the form of such Trust Indenture have been approved in writing by Lessee in the manner provided in Section 12.04 hereof, which written approval shall be conclusively binding upon Lessee.

Section 4.02: Issuance of Additional Bonds. The City, at the direction of Lessee, may issue Additional Bonds in amounts sufficient to pay (i) any part of the Costs of the Projects not fully funded or provided for out of the proceeds of the Series 1997B Bonds or Series 1998B Bonds, or (ii) the Costs of the Special Facilities for any additional Special Facilities approved pursuant to Section 5.05 hereof. The City agrees to use its best efforts to issue any Additional Bonds required under Clause (i) above, and the Director shall cooperate in a reasonable manner with Lessee to request the City to issue Additional Bonds under Clause (ii) above; however, no representation is made or assurance given or implied by the City that it will be able to issue, sell and deliver Additional Bonds on terms and conditions satisfactory to Lessee or that it will agree to issue Additional Bonds for any other purpose than as set forth above. Moreover, the issuance of Additional Bonds is made subject to the same conditions enumerated in Section 4.01 and the additional condition that there shall have been executed a supplement to this Agreement to provide for the manner of construction, acquisition and payment for any additional Special Facilities to be financed with such Additional Bonds and to provide for any other matters reasonably deemed necessary by the City in connection with such financing. All Additional Bonds shall be secured and payable as provided in the Trust Indenture. Upon the issuance of any Additional Bonds, the Net Rent payable hereunder shall automatically be increased in the amounts required to provide for the full and timely payment of all principal, interest, redemption premiums, Trustee charges and other related costs and expenses on all Bonds then outstanding, including the Additional Bonds to be issued. However, the City shall not authorize the issuance of Additional Bonds until the terms thereof and of the supplement to the Trust Indenture relating thereto have been approved in writing by Lessee, which written approval shall be conclusively binding upon Lessee.

Section 4.03: Application of Proceeds; Insufficiencies. Subject to the other terms and provisions hereof, the City hereby agrees to apply the proceeds of the Series 1997B Bonds and Series 1998B Bonds (by depositing the proceeds into the "Acquisition Fund" and other Funds as established, defined and provided in the Trust Indenture) and any Additional Bonds to pay (but only to the extent of such proceeds) the Costs of the Special Facilities financed therewith. In the event that the proceeds of the Series 1997B Bonds, Series 1998B Bonds or any Additional Bonds shall be insufficient to pay all Costs of the Special Facilities for which such Bonds were issued, then Lessee shall deposit into the Acquisition Fund amounts which, together with other amounts therein, shall be sufficient to pay all Costs of the Projects or Special Facilities as the case may be. Proceeds of such Bonds and

deposits, if any, shall be applied first to make any deposits required by the Trust Indenture authorizing the issuance of such Bonds, second to pay all Costs of the Special Facilities incurred on behalf of the City by the Lessee (and which are reasonably approved by Lessee), including the cost of issuance of such Bonds, and last to pay any Costs of the Special Facilities incurred by or on behalf of Lessee. Any proceeds of the Bonds remaining after paying all Costs of the Special Facilities shall be deposited into the Interest and Redemption Fund as provided under the Trust Indenture.

Section 4.04: Refunding Bonds. Lessee reserves the right to request the City from time to time to issue Refunding Bonds in any manner permitted by law for the purpose of refunding any of the Bonds from time to time outstanding. Although no representation is made or assurance given or implied by the City that it will agree to issue such Refunding Bonds or that it will be able to issue, sell and deliver such Refunding Bonds on terms and conditions satisfactory to the Lessee, the City agrees to use its best efforts to issue Refunding Bonds at Lessee's request provided they have a similar maturity pattern, similar redemption features and similar security. All Refunding Bonds, if any, shall be secured and payable as provided in the Trust Indenture, and the Net Rent payable hereunder shall automatically be adjusted to provide for the full and timely payment of all principal, interest, redemption premiums, Trustee charges and other related costs and expenses on all Bonds to be outstanding following the issuance of the Refunding Bonds. Notwithstanding the foregoing, the City shall not authorize the sale of any Refunding Bonds or authorize any supplement to the Trust Indenture for such purpose until the terms of such Refunding Bonds and the supplement to the Trust Indenture are approved in writing by Lessee in the manner provided in Section 12.04 hereof, and it is provided further that the City's receipt of such approval shall be conclusively binding upon Lessee.

Section 4.05: Optional Redemption of Bonds. The City agrees that at the written request of Lessee, the City will exercise any reserved right of optional redemption for any of the Bonds, provided that Lessee makes such request in sufficient time as specifically set forth in the Trust Indenture to permit the City to give any notice required by the Trust Indenture and provided further that Lessee gives the City adequate assurances that it will pay all additional Net Rent required to provide for the payment of the applicable redemption price for such Bonds, together with any related costs and expenses in connection with such redemption.

ARTICLE V

DESIGN, CONSTRUCTION AND ACQUISITION OF THE SPECIAL FACILITIES

Section 5.01: General. Lessee shall cause the Special Facilities to be designed, procured, constructed and installed in accordance with the following provisions.

(a) All plans and specifications for the design, procurement, construction and installation of any discrete element of the Special Facilities, including any alteration or addition thereto, shall be submitted to and receive the written approval of the Director prior to the commencement of any such discrete element of procurement, construction, alteration or installation. The City acknowledges that time is of the essence in reviewing such plans and specifications and shall use diligence to review and respond to all submissions of plans and specifications in a prompt and timely manner; provided that the City will continue its review to the extent practical, as determined by the City, while awaiting additional information from the Lessee. The City's review and response shall be conducted to avoid material, adverse impacts to the most recently published construction schedule approved by the City and the Lessee. The Lessee acknowledges that the City cannot review and respond in such a timely manner unless the Lessee assures that complete and thorough submissions are made to the City for review. Further, the Lessee acknowledges timely review and response by the City requires reasonable response by the Lessee to requests of the City for additional information necessary to complete the City's review.

(b) All such procurement, construction, alteration or installation may be made only after obtaining any required building or construction licenses and permits, which the City agrees to use reasonable efforts to expedite or to assist in obtaining, and, in addition to usual City inspection, shall be subject to inspection by the Director to see that the approved plans and specifications are being followed; provided, however, that the City shall use reasonable efforts to eliminate or avoid any interference or interruption with the construction of the Project.

(c) All such procurement, construction, alteration and installation shall be designed and carried out in accordance with the Department of Aviation's Tenant Improvement Manual, except to the extent inconsistent herewith, which is incorporated herein by reference and a copy of which has been provided to Lessee or as

otherwise agreed by the Director and Lessee. All such procurement, construction, alteration or installation shall be carried out and completed substantially in accordance with the most recently published construction schedule approved by Director and Lessee. Upon completion of construction, Lessee shall provide the Director with as-built drawings of improvements all on CADD diskette.

(d) Lessee shall make good faith efforts to ensure that its Special Facilities contractors meet the City's overall MWBE participation goals of 24% for design, 17% for construction and 11% for procurement. Lessee shall provide periodic reports as may be reasonably required by the Director or the City's Director of Affirmative Action. The City shall have the right to audit Lessee's efforts under this subsection throughout the term of this Agreement in the same manner as it audits other City contractors.

(e) Lessee shall make good faith efforts to ensure that its Special Facilities contractors that supply services and/or labor comply with the City's drug free work place policy as set forth in City of Houston Executive Order 1-31, as amended.

(f) Upon completion of each Project, Lessee shall (i) submit to the City an affidavit executed by any officer authorized to bind Lessee of Lessee certifying that the Project has been constructed in substantial accordance with the plans and specifications approved by the Director as provided in Section 5.01; all contractors, subcontractors, laborers, materialmen, architects, engineers, and all other parties who have performed work on or furnished materials for the construction, landscaping, fixturing and equipping the Project has been paid in full together with, when appropriate, executed and delivered releases of lien; the Project is fully equipped, furnished, and supplied and are ready for operation; and Lessee has obtained all necessary licenses, permits, and other authorization required as of such date from all governmental authorities having jurisdiction, and (ii) cause the architect of the Project to execute and deliver to the City an affidavit stating that the Project has been constructed and equipped substantially in accordance with the plans and specifications referred to in Section 5.01.

(g) In the event of default of any contractor or subcontractor under any contract made by it in connection with the Projects or in the event of breach of warranty with respect to any materials, workmanship, or performance guarantee, the Lessee will promptly proceed, either separately or in conjunction with the City, to exhaust the remedies of the Lessee against the contractor, subcontractor or supplier so in default and against the surety for the performance of such contract, to the extent of commercial practicability. The Lessee agrees to advise the City of the steps it intends to take in connection with any such default.

Section 5.02: Special Provisions for the 1997B Project. The following special conditions relate to the design and construction of the 1997B Project:

(a) Lessee shall cause all amounts paid for Prior Tenant Improvements to be applied for the construction, acquisition, equipping and furnishing of other eligible airport improvements in conformity with Section 5.4 of the Trust Indenture and Section 8.04 of this Agreement.

(b) The Ground Support Equipment, although to be used primarily as equipment pertinent to the space and gates in Terminal B, may be moved by Lessee about the Airport and its use need not be limited solely to support of gates at Terminal B.

Section 5.03: Inventory of Special Facilities; Replacements. Upon completion of the Projects, and upon the construction and acquisition of any additional Special Facilities, Lessee shall provide the Director with a detailed written inventory of all furnishings, fixtures and equipment constituting a material part of such Special Facilities, certified by any officer authorized to bind Lessee, which inventory shall include a complete description of each such item or class of items of such furnishings, fixtures and equipment including make, model and serial numbers, if any. Lessee shall from time to time, upon the reasonable request by Director, amend and revise such inventory to reflect all replacements and substitutes of any such items; provided, however, that Lessee may substitute for or replace commercially fungible items in such inventory with substantially comparable items and take the other actions permitted in Sections 8.01 and 8.04 hereof without notice.

Section 5.04: Title to Projects. In consideration for the City's issuance of Bonds to finance the Costs of the Projects as provided herein, the City shall acquire title to the Projects at the time of construction, acquisition or installation and from time to time during construction, subject to the terms and provisions of this Agreement and the leasehold estate of Lessee herein created and such title shall automatically vest in the City immediately upon such construction, acquisition or installation without further

notice or action. In this regard, Lessee hereby agrees to execute and deliver to the City the Deed and Bill of Sale for Projects, after completion thereof, as set forth in Exhibit "D" and such further documentation as shall be reasonably requested by the City to evidence the City's acquisition of title to the Projects in accordance with the terms of this Agreement.

Section 5.05: Design, Construction and Acquisition of Additional Special Facilities.

(a) From time to time hereafter, Lessee may request the City to undertake to issue Additional Bonds to finance additional Special Facilities. The Director shall cooperate in a reasonable manner with Lessee to request the City to provide such financing, and if consummated, then this Agreement shall be supplemented to provide for the design, construction and acquisition of such Special Facilities, for payment of the Costs of the Special Facilities and any other matters deemed appropriate by the City and Lessee. The Net Rent payable hereunder shall automatically be increased to provide for the payment of the Additional Bonds, in the amount and manner set forth in Section 4.02 hereof.

(b) It is expressly acknowledged and understood by Lessee that this Agreement shall impose no obligation of any kind upon the City to issue or undertake to issue any Additional Bonds to finance additional Special Facilities except for the best efforts obligations set forth in Section 4.02. If the City elects not to issue Additional Bonds for such purpose, Lessee may construct such improvements at its sole cost.

Section 5.06: Personal Property Not Constituting Special Facilities. Lessee's equipment, trade fixtures and personal property not financed with Bonds and not constituting a replacement, repair or substitution for Special Facilities under Section 8.04(b) may be located on the Easements or Ground Lease Properties without becoming Special Facilities and, so long as no Event of Default by Lessee has occurred and is continuing hereunder, may be removed by Lessee provided that such removal will not damage or impair the Special Facilities or that Lessee at its expense restores the Special Facilities to the same or better condition than existed prior to such removal. Any and all such equipment, trade fixtures and personal property not removed by Lessee prior to the expiration of this Agreement, or if this Agreement ends by early termination, within 60 days after receipt by Lessee of a written notice issued by the Director to remove such property, shall thereupon become a part of the land upon which it is located and title thereto shall thereupon vest in the City, and City reserves the right to remove such property not so removed by Lessee, and if such removal is accomplished within the 30 day period after the expiration of this Agreement or the 60 day period referred to above (after the early termination of the Agreement), such removal by the City shall be at Lessee's expense.

ARTICLE VI

NET RENT AND GROUND RENT

Section 6.01: Net Rent While Bonds Outstanding. (a) Lessee shall pay to the City, by depositing directly with the Trustee for the account of the Interest and Redemption Fund, Net Rent for so long as any Bonds remain Outstanding within the meaning of the Trust Indenture at such times and in such amounts as follows, which obligation shall survive the termination of this Agreement:

(i) on or before each interest and/or principal payment date on the Bonds,

(A) all interest payable on all Bonds on such date; plus

(B) all principal (if any) payable on all Bonds on such date, whether payable at maturity or earlier redemption (regardless of whether such redemption is optional, extraordinary or mandatory); plus

(C) all redemption premiums (if any) payable on all Bonds on such date.

(ii) immediately upon receipt of written notice from the Trustee for the Bonds advising it that such amounts are due and payable:

(A) all unpaid principal, accrued interest and redemption premiums and/or indemnifications on all Bonds which are declared due and payable under any extraordinary redemption or acceleration provision in the Trust Indenture;

provided, however, that if the Trust Indenture allows payments

of such amounts on a later date or in installments, they shall be payable as required by the Trust Indenture without further notice by the Trustee.

In addition to the above described Net Rent, Lessee shall pay (x) directly to the Trustee, all Trustee charges and any other related costs and expenses in connection with the payment of principal, interest or redemption premiums on the Bonds in accordance with the Trust Indenture, (y) directly to the Trustee at such times and in such amounts, together with amounts available therefor under the Trust Indenture so as to ensure compliance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, and (z) directly to any bond insurer or provider of a reserve fund surety, all fees, charges, reimbursements, expenses and interest charges due in connection therewith.

(b) The Net Rent payable under subsection 6.01(a) of this Agreement shall be reduced by the total of any amounts then on deposit in the Interest and Redemption Fund in excess of the amount then needed for the purpose of paying previously matured interest, principal, matured or redeemed Bonds, and redemption premiums, if any, whether such excess amounts become available by reason of (i) amounts deposited in the Interest and Redemption Fund from the proceeds of the Bonds, (ii) previous overpayments of Net Rent, (iii) surplus funds from proceeds of the Bonds deposited to the credit of such Interest and Redemption Fund at the end of the construction and acquisition of the Project, (iv) interest earnings from the investment or deposit of any amounts from time to time credited to the Interest and Redemption Fund, or (v) any other circumstance which results in excess funds being properly deposited in the Interest and Redemption Fund that are available for such purpose. The reductions in the Net Rent payments contemplated by this subsection 6.01(b) shall be made by applying such excess amounts as a credit(s) against the next Net Rent payment(s) due after such excess amounts have actually become available in the Interest and Redemption Fund, until such excess amounts are exhausted. The City shall request the Trustee to calculate such reductions and furnish them to the Lessee in a timely manner prior to the date on which Net Rent is payable. In the event the Trustee fails to furnish Lessee with the amount of any such reduction, it shall be the Lessee's obligation to ascertain the correct amount of such reductions or pay as Net Rent the full amount provided in subsection 6.01(a) hereof. After all Net Rent has been paid and no Bonds remain Outstanding within the meaning of the Trust Indenture and no amounts remain due and owing under the Trust Indenture, then, any amounts remaining in the Interest and Redemption Fund which are paid over to the City by the Trustee shall be deemed overpayments of Net Rent and paid over by the City to Lessee within 30 days of their receipt by the City.

Section 6.02: Obligation to Pay Net Rent Unconditional. It is understood and acknowledged by the Lessee that the Bonds will be sold to the purchasers thereof in reliance upon the commitment of Lessee to make the payments of Net Rent provided in Section 6.01 above, subject only to the reductions provided in subsection (b) thereof. Accordingly, the obligations of the Lessee to make the payments of Net Rent thus required shall be absolute and unconditional and so long as the Bonds remain outstanding within the meaning of the Trust Indenture, the Lessee (i) will not suspend or discontinue any payments of Net Rent provided herein or seek any offset against its obligations to pay such amounts or recoupment of any amounts so paid, and (ii) will not terminate this Agreement or otherwise seek to avoid or to reduce the payment of Net Rent for any reason, including without limiting the generality of the foregoing, termination of the Use and Lease Agreement or IAB License Agreement, failure of the Lessee to complete the Projects, failure of the City to acquire the Projects, failure of the Lessee or the City to complete the construction or acquisition of any other Special Facilities, failure of the City to pay or cause to be paid any Costs of the Special Facilities (but without limiting the City's obligations under Section 4.03 hereof) or any acts or circumstances that may constitute failure of consideration, destruction or damage to or condemnation of such facilities, or frustration of purpose, any change in the tax or other laws of the United States of America or the State of Texas, or any political subdivision of either thereof or any failure of the City to perform or observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with this Agreement. It is provided, however, that nothing contained in this Section shall be construed to release the City from the performance of any of the agreements on its part herein contained, and in the event the City should fail to perform such agreement, the Lessee may, without limitation of any other rights that the Lessee may then have, institute such actions against the City as it may deem necessary to compel the performance thereon, to seek damages or other relief or to restrain or enjoin forbidden acts provided that such institution of such actions shall not result in a reduction of the payment of Net Rent hereunder.

Section 6.03: Pledge of Net Rent. It is expressly understood

and agreed that the Net Rent payable hereunder shall be pledged to the payment of the Bonds and amounts due under the Trust Indenture in accordance with the Trust Indenture, and that, so long as any Bonds remain Outstanding, such Net Rent shall be paid in the amounts and manner herein specified. In the Trust Indenture the City shall covenant not to permit any modification of or amendment to Section 6.01 of this Agreement or to any other provision hereof that would have the effect of reducing, altering or modifying the commitments of Lessee contained in Sections 6.01 or 6.02 hereof or would materially minimize, reduce or lessen the rights of the City after an Event of Default in the payment of Net Rent by Lessee or would materially and adversely affect the security provided for the payment of the Bonds, and no such modification or amendment hereto shall be permitted while the Bonds remain Outstanding.

Section 6.04: Operation and Maintenance Expenses; Other Costs. The Net Rent, which is to be pledged to the payment of the Bonds and amounts due under the Trust Indenture, is intended to be a net return to the City. Accordingly, in addition to the payment of all Net Rent hereunder, the Lessee hereby agrees to pay (or cause to be paid pursuant to the Use and Lease Agreement and IAB License Agreement) all operation and maintenance expenses applicable to the Special Facilities, including, without limitation, utility costs, any insurance premiums applicable thereto, any and all ad valorem or other property taxes lawfully levied or assessed against the Special Facilities or Lessee's leasehold estate therein, any and all lawful excise and other types of taxes imposed on or in respect of such properties, the expenses of upkeep thereof of every kind and character, including the repair or ordinary restoration thereof, and every other item of expense imposed on Lessee pursuant to this Agreement, and if the Special Facilities are operated by the City, all direct and allocable indirect Airport System costs of operating and maintaining the Special Facilities (while operated by the Airport System) in a manner consistent with other such allocations equitably applied on an Airport-wide basis.

Section 6.05: Charges for Ground Lease Properties and Easements. All charges for Ground Lease Properties (which constitute part of the Leased Premises under the Use and Lease Agreement and IAB License Agreement) and Easements are or will be included in rents and charges under the Use and Lease Agreement and IAB License Agreement.

ARTICLE VII

USE OF SPECIAL FACILITIES; REPRESENTATIONS AND UNDERTAKINGS BY LESSEE AND CITY

Section 7.01: General. Lessee shall have the rights to use and enjoy the Special Facilities, including the rights of possession and quiet enjoyment of the Special Facilities, for the purpose of (i) constructing, maintaining and operating the Projects in accordance with the terms hereof and (ii) subject to the terms of the Use and Lease Agreement and IAB License Agreement, conducting other authorized activities of Lessee not inconsistent with the terms hereof.

Section 7.02: Rights to Use Lessee's Terminal Improvements Subject to Use and Lease Agreement. (a) The Lessee's rights to design, construct, equip, furnish, repair, maintain, occupy, use and enjoy Lessee's Terminal B Improvements, Lessee's Terminal C Improvements and Lessee's IAB Improvements and any other Special Facilities located in or attached to Terminals B or C or the IAB shall not exist independent of Lessee's right to use, or to obtain a lease for the use of, Terminals B and/or C pursuant to the Use and Lease Agreement or the IAB pursuant to the IAB License Agreement, respectively. Additionally, to the extent that such Special Facilities overlie, adjoin or abut space designated as public space in the Use and Lease Agreement or IAB License Agreement, then such Special Facilities shall not be used or occupied by Lessee in any way that would impede or prevent public access to or enjoyment of such overlaid, adjoining or abutting public space as provided in the Use and Lease Agreement or IAB License Agreement.

(b) Lessee shall have the right to use Special Facilities in Terminals B and C and the IAB for the purpose of maintaining and operating club rooms for its guests, invitees, and passengers and may serve alcoholic beverages and appetizers therein with or without charge and subject to all applicable laws, regulations and ordinances; provided, however, that the City reserves the right to charge Lessee applicable percentages of Lessee's gross revenues from the sale of food and beverages consistent with the percentages charged to its food and beverage concessionaires at the Airport, as shall be provided in the Use and Lease Agreement or IAB License Agreement; provided that no such payment shall be required with respect to items obtained from concessionaires already obligated to make such payments to the City with respect to such obtained items.

Section 7.03: Reservation to City of Special Rights with

A. City's Right to Review Space Utilization in Terminal B and Take Back Space; Sublease of Certain Special Facilities to City.

1. In July 2003, the City will evaluate Lessee's utilization of Terminal B in terms of average number of daily flights per gate for the immediately preceding 6-month period (January 1 through June 30, 2003, referred to hereafter as the "Test Period"). If Lessee's average gate utilization in Terminal B is less than four flights per day during the Test Period (determined by taking the total number of Terminal B scheduled flights during the Test Period by Lessee, its code-share airlines, Continental Express and other scheduled airlines for which Lessee has a ground handling agreement, and dividing by the product of total number of available gates in Terminal B times 181 days) the Director may, at his option and in order to accommodate the needs of other airline users of the Airport, require Lessee to relinquish (as hereinbelow provided) (1) a proportionate number of its gates at Terminal B such that, on a pro-forma basis, excluding such relinquished gates, the remaining gates would have demonstrated an average utilization of at least 4 flights per day during the Test Period and (2) a substantially identical proportionate amount of holdroom, operations, ticket counter, ATO, baggage make-up, and baggage claim space.

2. In the event the Director requires Lessee to relinquish such space and gates, the Director and Lessee will confer to determine which gates and space will be relinquished. Lessee will be required to relinquish contiguous gates, holdrooms and other exclusive leased space. The Director and Lessee shall conduct good faith negotiations in accordance with the foregoing to select the location of the space and gates to be relinquished. If after sixty days of good faith negotiations no agreement has been reached, the Director shall select the gates and space to be relinquished. Lessee will continue to have the nonexclusive right to use the holdrooms and gates it relinquishes as a result of this provision at rates established by the Director for such nonpreferential use.

3. In evaluating gate utilization in Terminal B during the Test Period, the City will adjust the data for Terminal B flights to compensate for any unusual reductions by Lessee in the number of flights operated in Terminal C during the Test Period.

4. In order to accomplish the relinquishment of gates and support space in Terminal B as hereinabove provided, the Lessee agrees that it shall sublease to the City such Special Facilities as may be located in or as may be necessary to support such relinquished gates and space (or an appropriate undivided interest or right of use therein) for the remaining term hereof (or such shorter term as may be provided in the Use and Lease Agreement if Lessee is permitted to reinstate its lease of such relinquished gates and space) for a rental equal to the sum of (i) the allocable expenses of operation and maintenance of such Special Facilities or interest therein, including City charges, if any, for allocable indirect Airport System costs, plus (ii) an amount per annum (or any portion thereof) equal to the annual debt service or any portion thereof that would have been payable on the amount of Bonds and any additional capital expenditures by Lessee not funded with Bonds (documented to the reasonable satisfaction of the Director) required to finance such allocable share of Special Facilities determined as if the Bonds (i) were issued in an original principal amount increased by the amount of any unreimbursed capital expenditure by Lessee, (ii) had a final maturity of December 31, 2017 and (iii) had an amortization schedule such that they had equal debt service from the average weighted date of beneficial occupancy of the Special Facilities until December 31, 2017 (but not less than 18.0 years). The foregoing sublease provisions shall not relieve Lessee from any responsibility with respect to its obligations as Lessee under this Agreement, including particularly its obligation to pay the full amount of Net Rent hereunder and all of its other obligations with respect to the Bonds; provided, however, that such sublease to the City shall provide that the City shall use its best efforts to continually require on Lessee's behalf that any occupant receiving such occupancy rights from the City be obligated to provide insurance and indemnification with respect to such Special Facilities for the benefit of the City and Lessee to the same extent that Lessee is obligated to do so herein and provided further that Lessee shall not be required to indemnify the City for acts of subtenants or their passengers in and about such Special Facilities.

B. City's Right to Reconstruct Terminal B Flight Stations;

1. In the event the City, on or after January 1, 2008, determines that the Terminal B flight stations should be demolished and replaced as recommended in the approved Airport master plan, the Director may, upon giving Lessee 6-months written notice, take back (as hereinbelow provided) portions of Lessee's Terminal B leased premises in order to carry out such reconstruction; provided, however, that in no event will more than 25% of the gates and holdroom space be taken out of service at any one time for such reconstruction; and provided further that the City provides Lessee with reasonably comparable substitute interim space during such reconstruction. Lessee shall have the right of first refusal to lease the reconstructed space at fully compensatory rates.

2. In order to accomplish the foregoing reconstruction of certain Terminal B flight stations, the City shall (A) if Lessee wishes to lease such reconstructed space (which Lessee shall have the first right of refusal to lease), (i) at City expense relocate at the new flight stations those salvageable or reusable Special Facilities (e.g. passenger loading bridges and Ground Support Equipment) and (ii) replace any demolished or non-reusable Special Facilities with replacement facilities of equivalent value and utility to Lessee determined as of the date of such replacement in the reconstructed flight stations leased to Lessee and (B) acquire such demolished or removed Special Facilities for a purchase price equal to the original principal amount of Bonds and any additional capital expenditures by Lessee not funded with Bonds (documented to the reasonable satisfaction of the Director) allocable to such Special Facilities multiplied by a fraction, the numerator of which is the number of days from the date of acquisition to December 31, 2017 and the denominator of which is the number of days (but not less than 18.0 years) from the average weighted date of beneficial occupancy of such Special Facilities to December 31, 2017. Any such acquisition, but not relocation, costs shall be treated by the City as costs of the replacement flight stations, subject to rents and charges as provided in the Use and Lease Agreement. Under no circumstances will the foregoing described demolition and replacement of flight stations in Terminal B, nor the relocation, substitution or acquisition of Special Facilities as aforesaid relieve Lessee of its obligations under this Agreement, particularly with respect to the payment of Net Rent or any of its other obligations with respect to the Bonds.

Section 7.04: Non-Extension of Terminal B Lease. The City may elect not to renew the Use and Lease Agreement with respect to Terminal B beyond December 31, 2007 provided the City shall have (i) exercised certain rights with respect to taking over the Automated People Mover and assumed or refinanced the Series 1997A Bonds issued contemporaneously with the Bonds (and any additional bonds issued on a parity therewith) in accordance with the Series 1997A Special Facilities Lease and (ii) purchased all of Lessee's rights in the Special Facilities located in Terminal B (other than the Ground Support Equipment and, if built, the Baggage Transfer Facility) for a price equal to the original principal amount of Bonds and any additional capital expenditures, by Lessee not funded by Bonds (documented to the reasonable satisfaction of the Director) allocable to such purchased Special Facilities in Terminal B (but excluding any such amounts allocable to the Prior Tenant Improvements) multiplied by a fraction, the numerator of which is the number of days from the date of acquisition to December 31, 2017 and the denominator of which is the number of days (but not less than 18.0 years) from the average weighted date of beneficial occupancy of such Special Facilities to December 31, 2017.

In the event of such non-renewal of the Use and Lease Agreement with respect to Terminal B, the Series 1997B Bonds maturing in 2017 shall become subject to extraordinary required redemption as provided in the Trust Indenture. In such case Lessee shall remain responsible for the payment of Net Rent, as herein provided, in amounts fully sufficient to fund in a timely manner all costs and expenses of paying such Bonds upon such extraordinary required redemption.

Upon any such extraordinary required redemption of such Bonds, the City shall convey to Lessee all of its right, title and interest in and to the Ground Support Equipment.

Section 7.05: Non-Extension of Terminal C Lease. In the event that the City and Lessee have not provided the Trustee with a certified Qualified Terminal C Occupancy Agreement by no later than December 31, 2017 (or by no later than the subsequent scheduled expiration date of a previously delivered Qualified Terminal C Occupancy Agreement), then all then Outstanding Bonds maturing in 2027 and Series 1998B Bonds shall be subject to extraordinary required redemption as provided in the Trust

Indenture on February 28, 2018 or such later date that is 60 days after the expiration date of any Qualified Terminal C Occupancy Agreement and the Lessee shall be responsible for the payment of Net Rent, as herein provided, in amounts fully sufficient to fund in a timely manner all costs and expenses of such extraordinary required redemption, and the City shall have no obligation whatsoever with respect to such Bonds or such Net Rent.

Section 7.06: Non-Extension of IAB License Agreement. In the event the City certifies the Trustee at any time that it has not extended the IAB License Agreement pertaining to the IAB Special Facilities, then \$1,600,000 of the Series 1998B Bonds shall be subject to extraordinary required redemption as provided in the Trust Indenture, and the Lessee shall be responsible for the payment of Net Rent, as herein provided, in amounts fully sufficient to fund in a timely manner all costs and expenses of such extraordinary required redemption, and the City shall have no obligation whatsoever with respect to such Bonds or such Net Rent. However, the City covenants that so long as Lessee has international operations which it schedules in to or out from the IAB and is not in default (beyond any notice and cure period) under the IAB License Agreement, the City shall not terminate or refuse to renew or extend the IAB License Agreement to the extent reasonably required to accommodate such international operations and the 1998B Project.

ARTICLE VIII

LESSEE'S OBLIGATIONS AND CONDITIONS TO LESSEE'S USE OF SPECIAL FACILITIES

Section 8.01: Maintenance of Special Facilities at Lessee's Expense. Subject to the other terms of this Agreement, Lessee shall throughout the term of this Agreement assume the entire responsibility, cost and expense, for the operation and all repair and maintenance whatsoever of the Special Facilities, whether such repair or maintenance be ordinary or extraordinary, structural or otherwise. Additionally, without limiting the generality of the foregoing, Lessee shall:

(a) Maintain at all times the Special Facilities in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair.

(b) Replace or substitute any furnishings, fixtures and equipment constituting a part of the Special Facilities (other than Ground Support Equipment and the Prior Tenant Improvements) which are reasonably considered by the Director to have become inadequate, worn out or unsuitable with furnishings, fixtures and equipment having a value at least as great as the original value of the furnishings, fixtures and equipment replaced or substituted; provided, however, that unencumbered title (free of all liens) to all replacement or substitute furnishings, fixtures and equipment, unless removable by Lessee in accordance with Section 5.06 hereof, shall vest in the City at the expiration hereof.

(c) Keep at all times, in a clean and orderly condition and appearance, the Special Facilities which are open to or visible by the general public.

Section 8.02: Taxes, Charges, Utilities, Liens. (a) Lessee shall pay all taxes that may be levied, assessed or charged upon the Special Facilities or Lessee's leasehold estate therein by the State of Texas or any of its political subdivisions or municipal corporations, and shall obtain and pay for all licenses and permits required by law. However, Lessee shall have the right to contest, in good faith, the validity or application of any such tax, license or permit and shall not be considered in default hereunder as long as such contest is in progress and diligently prosecuted. City agrees to cooperate with Lessee in all reasonable ways in connection with any such contest other than a contest of any tax, permit or license of the City.

(b) Lessee shall pay for all water, heat, electricity, air conditioning, sewer rents and other utilities to the extent that such utilities are furnished to the Special Facilities other than pursuant to the Use and Lease Agreement or IAB License Agreement.

(c) Lessee shall neither cause or permit any laborers, mechanics, builders, carpenters, materialmen, contractors, or other liens or encumbrances (including judgment and tax liens) against the Special Facilities or any City property by virtue of the construction, repair or replacement of the Special Facilities; provided, however, that Lessee may at its own expense in good faith contest the validity of any alleged or asserted lien and may permit any contested lien to remain unsatisfied and undischarged during the period of such contest and any appeal therefrom unless by such action any part of the Special Facilities may be subject to a material risk of loss or forfeiture, in any of which events such lien shall be promptly satisfied or bonded around in accordance with Texas law.

Section 8.03: Compliance with Airport Rules and Regulations and Law; Nondiscrimination. With respect to the Special Facilities, Lessee shall observe and obey Airport rules and regulations promulgated pursuant to the Use and Lease Agreement, shall comply with applicable law as provided in the Use and Lease Agreement, and shall not discriminate against any person or class of persons by reason of race, color, religion, sex, national origin or ancestry, age or physical or mental handicaps as provided in the Use and Lease Agreement.

Section 8.04: Compliance with Tax Law. With respect to the Special Facilities, Lessee hereby covenants and agrees as follows:

(a) Lessee shall comply or cause to be complied with all tax covenants with respect to the Special Facilities and the Bonds contained in the Trust Indenture;

(b) Lessee shall continuously repair, preserve, replace or substitute, as needed, all Special Facilities, at its expense, to the extent necessary to maintain and/or extend the reasonably expected economic life of the Special Facilities to satisfy the tax covenant contained in the Trust Indenture. All property for which replacements or substitutions are made by Lessee as provided herein shall become Lessee's property (and such replacement or substituted property shall become the City's property);

(c) Lessee hereby elects not to claim depreciation or an investment credit for federal income tax purposes with respect to any portion of the Special Facilities; Lessee will take all actions necessary to make this election binding on all its successors in interest under this Agreement; and this election shall be irrevocable.

Section 8.05: Environmental Matters.

A. Lessee shall comply with all federal, state, local statutes, ordinances, regulations, rules, policies, codes or guidelines now or hereafter in effect, as same may be amended from time to time, which govern Hazardous Materials (as hereinbelow defined) or relate to the protection of human health, safety or the environment and which are applicable to the conduct of Lessee's business operations from the Special Facilities, and shall include but not be limited to: the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. Section 136 et seq.; the Safe Drinking Water Act, 42 U.S.C. Section 300(f) et seq.; the Oil Pollution Control Act of 1990, 33 U.S.C. Section 270 et seq.; the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq.; and as amended by the Superfund Amendments and Reauthorization Act of 1986, Pub. Law No. 99-499, 100 Stat. 1613; the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq.; the Clean Air Act as amended, 42 U.S.C. Section 7401 et seq.; the Clean Water Act, 33 U.S.C. Section 1251, et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C., Section 6901 et seq.; and those substances defined as hazardous waste or as hazardous substances under the laws of Texas and/or the United States or in regulations promulgated pursuant to such laws (collectively, "Environmental Laws").

B. Any fines or penalties that may be levied against the City by the Environmental Protection Agency or the Texas Natural Resource Conservation Commission or any other governmental agency for Lessee's failure to comply with the Environmental Laws as required by Section 8.05(A) hereof shall be reimbursed to the City by Lessee within ten (10) days of receipt of an invoice from City for such fines or penalties.

C. Lessee shall prevent the presence, use, generation, release, omission, discharge, storage, disposal or transportation of any Hazardous Materials on, under, in, above, to or from facilities subject to this Agreement by Lessee, other than in strict compliance with all Environmental Laws. For purposes of this Section, "Hazardous Materials" shall be interpreted in the broadest sense to include any and all substances, materials, wastes, pollutants, oils, or governmental regulated substances or contaminants as defined or designated as hazardous, toxic, radioactive, dangerous, or any other similar term in or under any of the Environmental Laws, including but not limited to, asbestos and asbestos containing materials, petroleum products including crude oil or any fraction thereof, gasoline, aviation fuel, jet fuel, diesel fuel, lubricating oils and solvents, urea formaldehyde, flammable explosives, PCBs, radioactive materials or waste, or any other substance that, because of its quantity, concentration, physical, chemical, or infectious characteristics may cause or threaten a present or potential hazard to human health or the environment when improperly generated, used, stored, handled, treated, discharged, distributed, disposed or released. Hazardous Materials shall also mean any and all hazardous materials, hazardous wastes, toxic substances, or regulated

substances under any Environmental Laws.

D. Lessee acknowledges that the Airport is subject to the National Pollution Discharge Elimination System Program ("NPDES") and its regulations relating to stormwater discharges, 40 CFR Part 122, for operations that occur at the Airport. Lessee further acknowledges that it is familiar with these NPDES stormwater regulations, that it will conduct operations at the Special Facilities subject to 40 CFR Part 122 as it may be amended from time to time.

E. City and Lessee both acknowledge that close cooperation is necessary to ensure compliance with any NPDES stormwater discharge permit, as well as to ensure safety and to minimize costs. Lessee acknowledges that it may be necessary to undertake to minimize the exposure of stormwater to significant materials generated, stored, handled or otherwise used by Lessee at the Special Facilities as defined in the federal stormwater regulations, by implementing and maintaining "Best Management Practices" as defined in 40 CFR, Part 122.2, as it may be amended from time to time.

F. Lessee acknowledges that City's NPDES stormwater discharge permit, to the extent affecting the Special Facilities, is incorporated by reference into this Agreement and any subsequent amendments, extensions or renewals. Lessee agrees to be bound by all applicable portions of said permit. City shall promptly notify Lessee of any changes to any portions of said permit applicable to, or that affect, Lessee's operations.

G. City shall provide Lessee with written notice of those NPDES stormwater discharge permit requirements that Lessee shall be obligated to perform from time to time at the Special Facilities, including, but not limited to: certification of non-stormwater discharges; collection of stormwater samples; preparation of stormwater pollution prevention or similar plans; implementation of "good housekeeping" measures or Best Management Practices; and maintenance of necessary records. Such written notice shall include applicable deadlines. Lessee, within 15 days of receipt of such written notice, shall notify City in writing if it disputes any of the NPDES stormwater discharge permit requirements it is being directed to undertake. If Lessee does not provide such timely notice, it is deemed to assent to undertake such requirements. If Lessee provides City with written notice, as required above, that it disputes such NPDES stormwater discharge permit requirements, City and Lessee agree to negotiate a prompt resolution of their differences. Lessee warrants that it will not object to City notices required pursuant to this paragraph unless Lessee has a good faith basis to do so.

H. City and Lessee agree to provide each other upon request, with any non-privileged information collected and submitted to any governmental entity(ies) pursuant to applicable NPDES stormwater regulations applicable to the Special Facilities.

I. Lessee agrees to participate in any reasonable manner requested by the City in any City organized task force or other work group established to coordinate stormwater activities at the Airport.

J. All such remedies of City with regard to environmental requirements as set forth herein shall be deemed cumulative in nature and shall survive termination of this Agreement.

K. LESSEE SHALL PROTECT, DEFEND, INDEMNIFY AND HOLD HARMLESS THE CITY AND ITS OFFICERS, AGENTS AND EMPLOYEES FROM AND AGAINST ANY LOSS, COST, CLAIM, DEMAND, PENALTY, FINE, SETTLEMENT, LIABILITY AND EXPENSE (INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEYS' AND CONSULTANTS' FEES, COURT COSTS AND LITIGATION EXPENSES) RELATED TO

(1) LESSEE'S USE OF HAZARDOUS MATERIALS OF WHATEVER KIND OR NATURE, KNOWN OR UNKNOWN, ON THE SPECIAL FACILITIES;

(2) ANY ACTUAL, THREATENED OR ALLEGED CONTAMINATION BY HAZARDOUS MATERIALS ON THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES BY LESSEE OR ITS AGENTS;

(3) THE DISPOSAL, RELEASE OR THREATENED RELEASE OF HAZARDOUS MATERIALS BY LESSEE OR ITS AGENTS AT THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES THAT IS ON, FROM OR AFFECTS THE SOIL, AIR, WATER, VEGETATION, BUILDINGS, PERSONAL PROPERTY, OR PERSONS;

(4) ANY PERSONAL INJURY, DEATH OR PROPERTY DAMAGE (REAL OR PERSONAL) ARISING OUT OF OR RELATED TO HAZARDOUS MATERIALS USED BY LESSEE AT THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES; OR

(5) ANY VIOLATION BY LESSEE OF ANY ENVIRONMENTAL LAWS AT GROUND LEASE PROPERTIES, EASEMENTS OR THE SPECIAL FACILITIES.

PROVIDED HOWEVER, THAT NONE OF THE FOREGOING INDEMNITY SHALL BE APPLICABLE TO LOSSES, COSTS, EXPENSES, CLAIMS, DEMANDS, PENALTIES, FINES, SETTLEMENTS, LIABILITIES AND EXPENSES WHICH RESULT FROM CONDITIONS EXISTING AS OF THE EFFECTIVE DATE OF THIS AGREEMENT OR WHICH RESULT FROM THE ACTION OF THE CITY OR ITS AGENTS.

Section 8.06: City's Right To Maintain or Repair Special Facilities. In the event Lessee fails (i) to commence within thirty (30) days after written notice from the Director to do any maintenance or repair work to the Special Facilities required to be done under the provisions of this Agreement, other than preventive maintenance; (ii) to commence such work within a period of ninety (90) days if such notice specifies that the work to be accomplished by the Lessee involves preventive maintenance only; or (iii) to diligently continue to completion any such work as required under this Agreement; then, the Director or the City may, at its option, and in addition to any other remedies which may be available to it, enter the Special Facilities, without such entering causing or constituting a cancellation of this Agreement or an interference with the possession of the Special Facilities, and repair, maintain, replace, rebuild or paint all or any part of the Special Facilities and do all things reasonably necessary to accomplish the work required, and the reasonable cost and expense thereof shall be payable to the City by Lessee on written demand; provided, however, if in the reasonable opinion of the Director or the City, the Lessee's failure to perform any such repair or maintenance endangers the safety of the public, the employees or other tenants at the Airport, and the Director or the City so states same in its notice to Lessee, the Director or the City may perform such maintenance at any time after the giving of such notice, and Lessee agrees to pay to City the reasonable cost and expense of such performance on demand. In the event of the exercise by City of any repair work on the Special Facilities, City shall use all reasonable efforts to minimize any interference or interruption with Lessee's business operations.

Section 8.07: Termination Procedures. Upon the expiration or termination of this Agreement pursuant to any terms hereof, Lessee shall surrender the Special Facilities to the City in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair, unless otherwise permitted in Article IX hereof.

ARTICLE IX

LIABILITY, INSURANCE AND CONDEMNATION

Section 9.01: Release and Indemnification of City.

A. THE LESSEE, ITS SUCCESSORS AND ASSIGNS OF THIS AGREEMENT (IN THIS SECTION, THE "AIRLINE") HEREBY RELEASE, RELINQUISH AND DISCHARGE THE CITY, ITS PREDECESSORS, SUCCESSORS, ASSIGNS, LEGAL REPRESENTATIVES AND ITS COLLECTIVE FORMER, PRESENT AND FUTURE AGENTS, EMPLOYEES AND OFFICERS (COLLECTIVELY IN THIS SECTION "CITY") FROM ANY LIABILITY OF THE CITY FOR (i) ANY DAMAGE TO PROPERTY OF AIRLINE OR (ii) FOR CONSEQUENTIAL DAMAGES SUFFERED BY AIRLINE, WHERE ANY SUCH DAMAGE IS SUSTAINED IN CONNECTION WITH OR ARISING OUT OF THE PERFORMANCE OF THIS AGREEMENT.

B. WITH NO INTENT TO AFFECT AIRLINE'S ENVIRONMENTAL INDEMNIFICATION SET FORTH IN SECTION 8.05(L), AIRLINE, EXPRESSLY AGREES TO PROTECT, DEFEND, INDEMNIFY AND HOLD THE CITY COMPLETELY HARMLESS FROM AND AGAINST (BUT SUBJECT TO SECTIONS D, E AND F HEREOF): (I) ANY AND ALL LIABILITIES, LAWSUITS, CAUSES OF ACTION, LOSSES, CLAIMS, JUDGMENTS, DAMAGES, FINES OR DEMANDS ARISING BY REASON OF OR IN CONNECTION WITH THE ACTUAL OR ALLEGED ERRORS, OMISSIONS, OR NEGLIGENT ACTS OF AIRLINE OR OF THE CITY IN CONNECTION WITH OR ARISING OUT OF THE PERFORMANCE OF THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO, BODILY INJURY, ILLNESS, PHYSICAL OR MENTAL IMPAIRMENT, DEATH OF ANY PERSON, OR THE DAMAGE TO OR DESTRUCTION OF ANY REAL OR PERSONAL PROPERTY; AND (II) ALL COSTS FOR THE INVESTIGATION AND DEFENSE OF ANY AND ALL LIABILITIES, LAWSUITS, CAUSES OF ACTION, LOSSES, CLAIMS, JUDGMENTS, DAMAGES, FINES OR DEMANDS REFERRED TO IN THE PRECEDING CLAUSE (I) INCLUDING, BUT NOT LIMITED TO, REASONABLE ATTORNEY FEES, COURT COSTS, DISCOVERY COSTS, AND EXPERT FEES). SUBJECT TO SUBSECTIONS D, E AND F HEREOF, AIRLINE'S AGREEMENT TO PROTECT, DEFEND, INDEMNIFY AND HOLD HARMLESS THE CITY EXPRESSLY EXTENDS TO THE ACTUAL OR ALLEGED JOINT OR CONCURRENT NEGLIGENCE OF CITY AND AIRLINE.

C. UPON THE FILING BY ANYONE OF ANY TYPE OF CLAIM, CAUSE OF ACTION, OR LAWSUIT AGAINST THE CITY FOR ANY TYPE OF DAMAGES ARISING OUT OF INCIDENTS FOR WHICH CITY IS TO BE INDEMNIFIED BY AIRLINE PURSUANT TO THIS SECTION 9.01, THE CITY SHALL, WITHIN 45 DAYS OF CITY BECOMING AWARE THEREOF, NOTIFY AIRLINE OF SUCH CLAIM, CAUSE OF ACTION OR LAWSUIT. IN THE EVENT THAT AIRLINE DOES NOT SETTLE OR COMPROMISE SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT AT ITS OWN COST, TO THE EXTENT AIRLINE IS REQUIRED TO INDEMNIFY CITY PURSUANT TO THIS SECTION 9.01, THEN AIRLINE SHALL UNDERTAKE THE LEGAL DEFENSE OF SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT AT ITS OWN COST THROUGH

COUNSEL OF RECOGNIZED CAPACITY OR OTHERWISE NOT REASONABLY DISAPPROVED BY THE CITY BOTH ON BEHALF OF ITSELF AND ON BEHALF OF CITY UNTIL FINAL DISPOSITION, INCLUDING ALL APPEALS. THE CITY MAY, AT ITS SOLE COST AND EXPENSE, PARTICIPATE IN THE LEGAL DEFENSE OF ANY SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT BY AIRLINE TO DEFEND AGAINST SUCH CLAIM, CAUSE OF ACTION OR LAWSUIT. ANY FINAL JUDGMENT RENDERED AGAINST CITY FOR ANY CAUSE FOR WHICH CITY IS TO BE INDEMNIFIED AGAINST PURSUANT TO THIS SECTION 9.01 SHALL BE CONCLUSIVE AGAINST AIRLINE AS TO LIABILITY AND AMOUNT UPON THE EXPIRATION OF THE TIME FOR ALL APPEALS.

D. THE PROVISIONS OF SECTION 9.01B AND C HEREOF SHALL NOT APPLY TO ANY CLAIM OR DEMAND (I) ARISING AT ANY TIME WHEN THE CITY IS OPERATING THE PROJECT (OR IS RESPONSIBLE FOR THE OPERATION THEREOF PURSUANT TO ANY SUBLEASE OR OTHER AGREEMENT), (II) ARISING SOLELY FROM THE NEGLIGENCE OF THE CITY OR SOLELY FROM THE BREACH OF THE CITY'S EXPRESS OBLIGATIONS HEREUNDER, OR WHEN THE CITY IS MORE THAN 50% LIABLE, (III) IF SUCH CLAIM OR DEMAND RELATES TO ANY ACT OR OMISSION OCCURRING OUTSIDE THE PREMISES LEASED EXCLUSIVELY OR PREFERENTIALLY TO AIRLINE UNDER THIS AGREEMENT, UNLESS AIRLINE IS MORE LIABLE FOR (I.E., IS MORE AT FAULT FOR) SUCH CLAIM OR DEMAND THAN EACH OTHER PARTY TO SUCH CLAIM OR DEMAND, OR (IV) TO THE EXTENT THE CLAIM OR DEMAND IS COVERED UNDER THE INSURANCE CARRIED PURSUANT TO SECTIONS 9.02 AND 9.03 HEREOF; PROVIDED, THAT, IF (a) A CLAIM OR DEMAND IS MADE AGAINST AIRLINE BY A THIRD PARTY FOR WHICH AIRLINE HAS INSURANCE COVERAGE PURSUANT TO SECTIONS 9.02 AND 9.03 HEREOF, AND (b) THERE IS A DEDUCTIBLE CARRIED BY AIRLINE APPLICABLE TO SUCH CLAIM OR DEMAND (OR AIRLINE, THROUGH SELF-INSURANCE OR OTHER SELF-FUNDED INSURANCE PROGRAM, BEARS THE FINANCIAL RISK OF ANY PORTION OF SUCH CLAIM OR DEMAND AS TO THE DEDUCTIBLE ONLY), THEN THE PROVISIONS OF SECTION 9.01B AND C (AND BY REFERENCE, SUBSECTIONS D AND E HEREOF) SHALL APPLY TO SUCH PORTION OF THE CLAIM OR DEMAND THAT IS SUBJECT TO SUCH DEDUCTIBLE OR SELF-INSURANCE OF THE DEDUCTIBLE OR OTHER SELF-FUNDED INSURANCE PROGRAM AS TO THE DEDUCTIBLE (AND TO ANY OTHER PORTION OF THE CLAIM OR DEMAND AS TO THE CITY THAT IS NOT SATISFIED WITH INSURANCE PROCEEDS). FOR PURPOSES OF THIS SECTION, LESSEE STIPULATES THAT AS TO EACH CLAIM OR DEMAND THAT MAY BE SUBJECT TO THE PROVISIONS HEREOF, THE DEDUCTIBLE AMOUNT SHALL NEVER BE DEEMED TO BE GREATER THAN \$1,000,000.

E. NOTWITHSTANDING ANYTHING IN THIS SECTION TO THE CONTRARY, THE LIABILITY OF THE AIRLINE UNDER SECTION 9.01.B AND C SHALL NOT EXCEED \$1,000,000 PER OCCURRENCE.

F. THE PROVISIONS OF THIS SECTION 9.01.B, C, D AND E SHALL BE INDEPENDENT OF ANY INDEMNITIES TO WHICH THE CITY MAY BE ENTITLED UNDER THE PROVISIONS OF THE USE AND LEASE AGREEMENT.

Section 9.02: General Insurance Requirements. With no intent to limit Lessee's liability or the indemnification provisions herein, Lessee shall provide and maintain certain insurance in full force and effect at all times during the term of this Agreement and all extensions thereto, as set forth in Section 9.03 below. If any of the insurance is written as "claims made" coverage, then Lessee agrees to keep such claims made insurance in full force and effect by purchasing policy period extensions for at least three years after the expiration or termination of this Agreement.

Section 9.03: Risks and Minimum Limits of Coverage.

Worker's Compensation: Statutory

Employer's Liability: Bodily injury by accident - \$1,000,000 (each accident)
Bodily injury by disease - \$1,000,000 (policy limit)
Bodily injury by disease - \$1,000,000 (each employee)

Commercial General Liability:
(including broad form coverage, contractual liability, personal injury, and products and completed operations)
Combined single limit of: \$100,000,000 per occurrence/aggregate
Products and Completed Operations \$10,000,000 aggregate

All Risk:
(Covering Special Facilities including fire, lightning, vandalism, and extended coverage perils)
Replacement value of the Special Facilities, but not less than the principal amount of Bonds Outstanding
and extended coverage perils) Bonds Outstanding

Automobile Liability Insurance:
(For automobiles used by Lessee in the course of its performance under this Agreement, including Lessee's non-owned and

hired autos)

In connection with the design, construction, procurement and installation of the Special Facilities, Lessee shall contractually require its principal construction contractors and architects/engineers contracting with Lessee (as the case may be) to carry the following additional coverages and limits of liability, unless Lessee carries policies of insurance covering such risk; provided, however, if reasonable under the circumstances, Lessee may, with the concurrence of the Director, require lower limits of liability:

Professional Liability \$2,000,000 per occurrence/aggregate
(in the case of architects
and engineers)

Builders Risk: Replacement value of the Special
(in the case of Facilities, but not less than the
contractors) principal amount of Bonds
 Outstanding

(Aggregate limits are per 12-month period unless otherwise indicated.)

Section 9.04. Other Provisions.

A. Form of Policies. The insurance carried by Lessee may be in one or more policies of insurance, the form of which shall be reasonably satisfactory to the Director. Nothing the Director does or fails to do shall relieve Lessee from its duties to provide the required coverage hereunder (unless specifically provided otherwise in such action), and the Director's actions or inactions shall not be construed as waiving the City's rights hereunder.

B. Issuers of Policies. The issuer of any policy carried by Lessee shall have a Certificate of Authority to transact insurance business in the State of Texas and have a Best's rating of at least B+ and a Best's Financial Size Category of Class VI or better, according to the most current edition of Best's Key Rating Guide, Property-Casualty United States. Each issuer must be responsible and reputable, must have financial capability consistent with the risks covered, and shall be subject to approval by the Director.

C. Insured Parties. Each policy carried by Lessee, except those for Workers Compensation, Professional Liability and Employer's Liability, shall name the City (and its officers, agents, and employees) as Additional Insured parties on the original policy and all renewals or replacements during the term of this Agreement. The City, the Trustee and Lessee shall be named joint Loss Payees on All Risk and Builders Risk coverages, subject to distribution of proceeds as provided elsewhere herein.

D. Deductibles. Subject to Section 9.01(D) herein, Lessee shall assume and bear any claims or losses to the extent of any deductible amounts (or deductible amounts that are self-insured by Lessee) and waives any claim it may ever have for the same against the City, its officers, agent, or employees.

E. Cancellation. Each policy carried by Lessee shall expressly state that it may not be canceled, materially modified or not renewed unless the insurance company gives thirty (30) days' advance written notice in writing to the Director.

F. Aggregates. Lessee shall give written notice to the Director within five (5) days of the date upon which total claims by any party against Lessee reduce the aggregate amount of coverage below the amounts required by this Agreement. In the alternative, the policy may contain an endorsement establishing a policy aggregate for the particular project or location subject to this Agreement.

G. Subrogation. Each policy carried by Lessee shall contain an endorsement to the effect that the issuer waives any claim or right in the nature of subrogation to recover against the City, its officers, agents, or employees.

H. Endorsement of Primary Insurance. Each policy hereunder except Worker's Compensation and Professional Liability shall be primary insurance to any other insurance available to the Additional Insured and Loss Payee with respect to claims arising hereunder.

I. Liability for Premium. Lessee shall be solely responsible for payment of all insurance premiums required hereunder, and the City shall not be obligated to pay any premiums.

J. Contractors and Subcontractors. Lessee shall contractually require all its contractors, and all its contractors to require its subcontractors, to carry insurance naming the City and the Trustee as an additional insured; however, contractual liability shall be limited to the extent of such contractor's or

subcontractor's indemnification obligations under the applicable contract. Such insurance shall meet all of the above requirements as Lessee can successfully require such contractors or subcontractors to meet, except amount. The amount shall be commensurate with the amount of the contract. Lessee shall provide copies of such insurance certificates to the Director.

K. Proof of Insurance. Within five (5) days of the effective date of this Agreement and at any time during the term of this Agreement, Lessee shall furnish the Director with certificates of insurance, along with an affidavit from Lessee confirming that the certificates accurately reflect the insurance coverage that will be available during the term. If requested in writing by the Director, Lessee shall furnish the City with certified copies of Lessee's insurance policies.

Notwithstanding the proof of insurance required to be carried by Lessee as set forth above, it is the intention of the parties hereto that Lessee, continuously and without interruption, maintain in force the required insurance as set forth above. Lessee agrees that the City shall never be argued to have waived or be estopped from asserting its right to terminate this Agreement hereunder because of any acts or omissions by the City regarding its review of insurance documents provided by Lessee, its agents, employees, or assigns.

Section 9.05: Disposition of Insurance Proceeds. In the event all of the Special Facilities or any part thereof is damaged or destroyed by an insured casualty and any Bonds remain Outstanding, then, notwithstanding any provision to the contrary in the Use and Lease Agreement or IAB License Agreement, the following provisions shall be applicable to the expenditure of any insurance proceeds relating to such Special Facilities:

(i) If either (A) the insurance proceeds (less the cost of removing the debris resulting from such casualty) together with any moneys in the Interest and Redemption Fund (including any Reserve Account) are sufficient to pay all of the interest, principal and other obligations accrued and to accrue on said Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee requests that the Special Facilities not be repaired or rebuilt, or (B) the insurance proceeds (less the cost of removing the debris resulting from such casualty) together with any moneys available in the Interest and Redemption Fund (including the Reserve Account) are insufficient and the Lessee agrees to pay the deficiency and requests that the Special Facilities not be repaired or rebuilt, then in either case the Lessee may, if the casualty loss is substantial, elect to terminate this Agreement and be released from all unaccrued obligations hereunder; provided that the insurance proceeds (less the cost of removing the debris resulting from such casualty) and the deficiency payments, if any, paid by the Lessee shall be deposited into the Interest and Redemption Fund for the Bonds and the moneys therein shall be applied to pay the obligations with respect to the Outstanding Bonds and other amounts due under the Trust Indenture. If the said proceeds and funds are in excess of the amount then necessary to pay the obligations with respect to the Outstanding Bonds and other amounts due under the Trust Indenture, any such excess after payment or provision for the payment of the Bonds within the meaning of the Trust Indenture and other amounts due under the Trust Indenture has been made shall be divided between the City and the Lessee as their respective interests appear at the time of such damage or destruction; or

(ii) If all Bonds are not repaid as provided in clause (i) above, Lessee agrees to cause such insurance proceeds to be deposited in the Acquisition Fund under the Trust Indenture and to promptly repair and rebuild the Special Facilities with the insurance proceeds, and if such proceeds are insufficient for such purposes, the Lessee shall pay the deficiency. If such proceeds are in excess of the amount necessary for such purposes, any such excess shall be transferred by the Trustee to the Interest and Redemption Fund as a credit to the next due payments of Net Rent, with such credit to continue until the amount thereof is exhausted and if the Net Rent is paid in full, thereafter, any excess proceeds paid to Lessee. The repair or restoration of the Special Facilities shall either be in accordance with the original plans and specifications, together with alterations or modifications made or agreed upon prior to the casualty, or in accordance with new or modified plans and specifications, the alternative to be determined by the mutual agreement of the City and Lessee. Before any reconstruction or repair under this paragraph, Lessee shall submit plans and specifications to the Director for

approval and such reconstruction or repair shall be substantially in accordance therewith subject to such changes as may be reasonably requested by Lessee and approved by the City.

Section 9.06: Condemnation. In the event that the Special Facilities or any part thereof shall be taken or condemned in any eminent domain, condemnation, compulsory acquisition or like proceeding by any competent authority or conveyed under threat thereof for any public or quasipublic use or purpose and at such time Bonds remain Outstanding within the meaning of the Trust Indenture or any other amounts remain due under the Trust Indenture, then, notwithstanding any provision to the contrary in the Use and Lease Agreement and IAB License Agreement, the condemnation proceeds shall be applied as follows:

(i) If all or a substantial part of the Special Facilities is taken and either (A) the condemnation proceeds attributable to the Special Facilities together with any moneys in the Interest and Redemption Fund are sufficient to pay all of the interest, principal and other obligations accrued and to accrue on the Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee requests that the Special Facilities not be rebuilt elsewhere, or (B) the condemnation proceeds attributable to the Special Facilities and moneys available in the Interest and Redemption Fund are insufficient to pay all of the interest, principal and other obligations accrued and to accrue on the Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee agrees to pay the deficiency and requests that the Special Facilities not be rebuilt elsewhere or terminal facilities suitable for such purpose are not available elsewhere, the City will terminate this Agreement and release the Lessee from all unaccrued obligations hereunder, provided that the condemnation proceeds attributable to the Special Facilities and deficiency, if any, paid by Lessee shall be deposited into the Interest and Redemption Fund for the Bonds and moneys therein shall be applied to pay the obligations with respect to the outstanding Bonds and all other amounts due under the Trust Indenture. If the said proceeds and funds are in excess of the amount then necessary to pay the obligations with respect to the Outstanding Bonds and all other amounts due under the Trust Indenture, any such excess after payment or provision for the payment of the Bonds and all other amounts due under the Trust Indenture within the meaning of the Trust Indenture has been made shall be divided between the City and the Lessee as their respective interests appear at the time of the taking.

(ii) If all or a substantial part of the Special Facilities is taken and the Lessee requests that the Special Facilities be rebuilt elsewhere, the Special Facilities shall be rebuilt elsewhere and paid for with the condemnation proceeds attributable to the Special Facilities, and if such proceeds are insufficient for such purposes the Lessee shall pay the deficiency. If such proceeds attributable to the Special Facilities are in excess of the amount necessary for such purpose, any such excess shall be paid to the City and deposited by it to the Interest and Redemption Fund for said Bonds as a credit to the next due payments of Net Rent, with such credit to continue until the amount thereof is exhausted and, thereafter, any excess proceeds paid to Lessee.

(iii) In the event that title to or use of less than a substantial part of the Special Facilities is taken by the power of eminent domain (that is, if the primary use of the Special Facilities is not substantially impaired by deletion of the part taken) the Lessee shall determine whether any rebuilding is necessary. Any condemnation proceeds attributable to the Special Facilities that are not used for the purposes of rebuilding shall be assigned to the City and deposited into the Interest and Redemption Fund and applied to redeem as many Bonds as may be redeemed at the next available redemption date.

Section 9.07: Reconstruction or Repair. The rebuilding of the Special Facilities under Sections 9.05 or 9.06 shall be either in accordance with the original plans and specifications, together with alterations or modifications made or agreed upon prior to the taking, or in accordance with new or modified plans and specifications, the alternative to be determined by the mutual agreement of the Lessee and the Director.

Section 10.01: Events of Default. The following shall be Events of Default as to the Lessee under this Agreement:

(a) Failure by the Lessee to pay the Net Rent required to be paid under Article VI hereof.

(b) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement other than as referred to in subsection (a) above, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Lessee by the City (except (i) if any insurance required to be maintained by Lessee is to be canceled or not renewed, such notice and the period for remedy by Lessee shall be limited to the period ending on the date on which such cancellation or nonrenewal is scheduled to occur and (ii) where fulfillment of another obligation requires activity over a period of time, and the Lessee shall commence to perform whatever may be required for fulfillment within thirty (30) days after the receipt of notice and shall diligently continue such performance without interruption, except for causes beyond its control).

(c) Any material lien shall be filed against the Special Facilities or Ground Lease Properties or Lessee's interest therein or any part thereof in violation of this Agreement by a party other than the City and shall remain unreleased for a period of sixty (60) days from the date of such filing unless within said period the Lessee is contesting in good faith the validity of such lien in accordance with Section 8.02(c) hereof.

(d) Whenever an involuntary petition shall be filed against Lessee under any bankruptcy or insolvency law or under the reorganization provisions of any law of like import or a receiver of Lessee for all or substantially all of the property of Lessee shall be appointed without acquiescence and such petition or appointment is not discharged within ninety (90) days after its filing.

(e) The dissolution or liquidation of the Lessee or the filing by the Lessee of a voluntary petition in bankruptcy, or failure by the Lessee within ninety (90) days to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry on its operations at the Special Facilities, or general assignment by the Lessee for the benefit of its creditors, or the entry by the Lessee into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceeding for its reorganization or liquidation instituted under the provisions of the federal bankruptcy laws, or under any similar laws which may hereafter be enacted. The term "dissolution or liquidation of the Lessee," as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Lessee resulting either from a merger or consolidation of the Lessee into or with another corporation or a dissolution or liquidation of the Lessee following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 12.01 hereof.

(f) Whenever Lessee shall fail to provide adequate assurance (i) that Lessee will promptly cure all defaults hereunder, if any; (ii) that Lessee will compensate, or provide adequate assurance that Lessee will promptly compensate, the City for any actual pecuniary loss to the City resulting from any Event of Default hereunder; and (iii) of future performance by Lessee of the terms and conditions of this Agreement, each within thirty (30) days after (1) the granting of an Order for Relief with respect to Lessee pursuant to Title XI of the United States Code; (2) the initiation of a proceeding under any bankruptcy or insolvency law or the reorganization provisions of any law of like import; or (3) the granting of the relief sought in an involuntary proceeding against the Lessee under any bankruptcy or insolvency law. As used in this Agreement, adequate assurance of future performance of this Agreement shall include, but shall not be limited to, adequate assurance (1) of the source of Net Rent and other consideration due hereunder and (2) that the assumption or assignment of this Agreement will not breach any provision, such as a use, management, or ownership provision, in this Agreement, any other material lease, any financing agreement, or master agreement relating to the Leased Premises under the Use and Lease Agreement and/or Special Facilities.

Section 10.02: Remedies on Default. Whenever any Event of Default referred to in Section 10.01 hereof shall have happened and continue to exist, then the City may take any one or more of the following remedial steps as against the Lessee:

(a) The City may, and upon a payment default shall, re-enter and take possession of the Special Facilities and the Ground Lease

Properties without terminating this Agreement and use its best efforts to (i) complete construction and equipping of the Special Facilities (and apply proceeds of the Bonds for such purpose) and (ii) either (x) operate the Special Facilities and impose rates and charges on airline tenants in Terminals B and/or C and/or the IAB, as appropriate, for their availability, operation and maintenance in accordance with the Use and Lease Agreement or IAB License Agreement, as applicable or (y) sublease the Special Facilities and Ground Lease Properties on a net rent lease basis, provided further that in either event the City shall use its best efforts to impose and collect rates and charges or rental rates sufficient to provide for operating and maintenance expenses and Ground Rentals to the same extent as Lessee is obligated to do so (it being understood that for the IAB "Ground Rentals" shall be the rental amount then charged for the IAB Leased Premises without consideration of any Special Facilities located therein) and to provide additional amounts equal to the Net Rent set forth in Section 6.01, all for the account of the Lessee, holding the Lessee liable for the difference between the rents and other amounts payable by the Lessee hereunder and the charges received from airline tenants and/or the rents and other amounts received from any sublessee with respect to the Special Facilities. All gross proceeds derived by the City from any charges and/or rents (net of operating and maintenance expenses and any Ground Rent payable or remaining unpaid hereunder, and up to the amount of all Net Rent payable hereunder) shall be remitted to the Trustee for deposit in the Interest and Redemption Fund to support repayment of the Bonds.

(b) The City may terminate this Agreement, exclude the Lessee from possession of the Special Facilities and the Ground Lease Properties and use its best efforts to (i) complete construction and equipping of the Special Facilities (and apply proceeds of the Bonds for such purpose) and (ii) either (x) operate the Special Facilities and impose rates and charges on airline tenants in Terminals B and/or C and/or the IAB for their availability, operation and maintenance in accordance with the Use and Lease Agreement and IAB License Agreement; or (y) lease the same on a net rent lease basis, provided further that in either event the City shall use its best efforts to impose and collect rates and charges or rental rates sufficient to provide for operating and maintenance expenses and Ground Rentals to the same extent as Lessee is obligated to do so and to pay the Net Rent set forth in Section 6.01, all for the account of the Lessee, holding the Lessee liable for all rents and other amounts due under this Agreement and not received by the City from charges or rents with respect to the Special Facilities. All gross proceeds derived by the City from any charges and/or rents (net of operating and maintenance expenses and any allocable Ground Rentals payable or remaining unpaid hereunder, and up to the amount of all Net Rent payable hereunder) shall be remitted to the Trustee for deposit in the Interest and Redemption Fund to support repayment of the Bonds.

(c) The City may take whatever other action at law or in equity as may appear necessary or desirable to collect the rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Lessee under this Agreement. The City shall use its best efforts to cause the Special Facilities to be either operated or leased on a net rent lease basis for the account of Lessee as provided in clauses (a) and (b) above after an Event of Default by Lessee, whether or not City retakes possession of the Special Facilities or terminates this Agreement.

(d) In connection with any reletting of the Special Facilities and Ground Lease Properties associated with Terminal B or C or the IAB, the City agrees to use its best efforts to relet such Special Facilities to the same tenant(s) who use and occupy Terminal B or C or the IAB. It is recognized that such tenant(s) will also be required to pay the City Ground Rentals and certain other rentals in connection with the use and occupancy of such Terminals. In connection with a reletting of such Terminals, the City agrees not to charge such tenant(s) ground rentals in excess of those charged (or that would be charged) to Lessee for the areas in such Terminals.

(e) In connection with any reletting by the City during the original term of this Agreement, Lessee shall be subrogated to the right of the Trustee to receive payments hereunder to support repayment of the Bonds to the extent that Lessee has made payments on the Bonds under the Guaranty.

Section 10.03: Additional Remedy. In addition to the other remedies herein provided, the City may, in the case of an Event of Default under Section 10.01(b), enter the Special Facilities and Ground Lease Properties (without such entering causing or constituting a termination of this Agreement or an interference with the possession of the Special Facilities and Ground Lease Properties by Lessee) and do all things reasonably necessary to cure such Event of Default, charging to Lessee the reasonable cost and expense thereof and Lessee agrees to pay to City upon demand such charge in addition to all other amounts payable by Lessee

hereunder.

Section 10.04: No Remedy Exclusive. No remedy herein conferred upon or reserved to the City is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or hereafter existing under law or in equity (to the extent not inconsistent with the terms hereof). No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, unless such notice is herein expressly required or is required by law.

Section 10.05: Agreement to Pay Attorneys' Fees and Expenses. In the event there should be an Event of Default under any of the provisions of this Agreement and the City should determine that the services of an attorney are required or the City incurs other expenses for the collection of rent or the enforcement of performance or observance of any obligation or agreement on the part of Lessee, the Lessee agrees that it will on demand therefor pay to the City the reasonable, just and necessary fee of such attorneys and other reasonable expenses so incurred.

Section 10.06: No Additional Waiver Implied by One Waiver. In the event any covenant contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. Failure of either party hereto to insist on the strict performance of any of the agreements herein or to exercise any rights or remedies accruing hereunder upon an Event of Default or failure of performance shall not be considered a waiver of the right to insist on, and to enforce by any appropriate remedy, strict compliance with any other obligation hereunder or to exercise any right or remedy occurring as a result of any future default or failure of performance.

Section 10.07: Enforcement by City Attorney. The City Attorney or his or her designee shall have the right to enforce all legal rights and obligations under this Agreement without further authorization. Lessee covenants to provide to the City Attorney all documents and records within Lessee's possession that the City Attorney reasonably deems necessary to assist in determining Lessee's compliance with this Agreement, with the exception of those documents made confidential by federal or state law or regulation and provided that the provision of such documents and records by Lessee shall further be limited in any respect that the provision of any documents or records by the City pertaining to this Agreement would be limited pursuant to Chapter 552, Texas Government Code, as amended, or otherwise.

ARTICLE XI

ASSIGNMENTS, SUBLETTING AND TERMINATION BY LESSEE

Section 11.01: Assignments and Subletting by Lessee. (a) This Agreement may not be assigned or otherwise transferred in whole or in part by Lessee (except pursuant to Section 12.01 hereof) without the prior written consent of the Director; provided, however, that, unless permitted by Section 7.6(b) of the Trust Indenture or Section 12.01 hereof, the City will not consent to any assignment by Lessee of its rights hereunder without first obtaining a written agreement from the Lessee that Lessee shall remain primarily liable for Net Rent hereunder. Lessee may sublet the Special Facilities or any part thereof to any party to whom Lessee has the right to sublease all or any portion of the Leased Premises under the Use and Lease Agreement and/or IAB License Agreement as applicable. Lessee may also sublet the Special Facilities or any part thereof to any other party, subject to the condition that in either instance Lessee first obtains the written consent of the Director to such subletting and all the terms thereof, unless such subletting is expressly authorized herein.

(b) If Lessee sublets all or any part of the Special Facilities or if all or any part of the Special Facilities are occupied (pursuant to a written consent from the Director) by anyone other than Lessee (including any subsidiary of Lessee or a code-share affiliate of Lessee), the City may, if an Event of Default shall have occurred hereunder and be continuing, collect rent or Net Rent from such sublessee or occupant and the City shall apply the amount collected to the extent possible to satisfy the obligations of Lessee hereunder, but no such collection shall be deemed a waiver by the City of the covenants contained herein or an acceptance by the City of any such sublessee, claimant or occupant as a successor Lessee, nor a release of Lessee by the City from the further performance by the Lessee of the covenants imposed upon Lessee herein.

(c) NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, SO LONG AS ANY BONDS REMAIN OUTSTANDING NO SUCH SUBLEASE OR ASSIGNMENT SHALL BE AUTHORIZED IF IN ANY WAY IT RELEASES LESSEE FROM ITS PRIMARY OBLIGATIONS HEREUNDER, INCLUDING ITS OBLIGATION TO PAY NET RENT.

Section 11.02: Termination of Agreement by Lessee. Lessee shall not terminate this Agreement for any reason whatsoever as long as any of the Bonds remain Outstanding within the meaning of the Trust Indenture or any other amounts are due and owing under the Trust Indenture.

ARTICLE XII

MISCELLANEOUS

Section 12.01: Lessee to Maintain Its Corporate Existence. The Lessee shall throughout the term hereof maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided, that the Lessee may, without violating the agreement contained in this Section, consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise dispose of all or substantially all of its assets as an entirety and thereafter dissolve, provided, if Lessee is not the surviving corporation, the surviving, resulting or transferee corporation, as the case may be, (i) assumes in writing all of the obligations of the Lessee herein and (ii) qualifies or is qualified to do business in Texas.

Section 12.02: Exempt Facilities. In order to assure that interest on the Bonds shall be exempt from federal income taxation, the Lessee covenants and agrees that it shall not, and it shall not permit or allow any other person to, construct, acquire, use, employ, modify, rebuild or repair the Project or any Special Facilities in any manner that would cause or allow it or them to be or become facilities which are not included within those set forth and described in Sections 142(a)(1) and (c) of the Internal Revenue Code of 1986, as amended, and the regulations prescribed thereunder, and the City covenants and agrees that it will not permit or allow any of the foregoing to occur. The Lessee hereby makes an irrevocable election, which it shall cause to be binding on all successors in interest under this Agreement, not to claim for federal income tax purposes depreciation or investment credit with respect to the Special Facilities or any component thereof. It is further agreed and acknowledged by Lessee that the City shall never be required or requested hereunder to issue any Bonds or expend any proceeds thereof to pay any Costs of the Special Facilities that would have the effect of causing interest on any of the Bonds not to be exempt from federal income taxation.

Section 12.03: Notices. (a) Any and all notices required or permitted to be given hereunder shall be deemed sufficiently given when delivered or when mailed by registered or certified mail, return receipt requested, postage prepaid, or when given by telephone immediately confirmed in writing by telecopier or other communication device to any party hereto as follows or at such other address, telephone number or telecopier number as any party may from time to time designate in writing to the other parties hereto:

City:

Director, Department of Aviation
City of Houston
P. O. Box 60106
Houston, Texas 77205
Attention: Director
Telephone: (281) 233-3000
Telecopier: (281) 230-1864

and

City Legal Department
P. O. Box 1582
Houston, Texas 77001
Attention: City Attorney
Telephone: (713) 247-2000
Telecopier: (713) 247-1017

Lessee:

Continental Airlines, Inc.
1600 Smith Street
Dept. HQS-EO
Houston, Texas 77002
Attention: General Counsel
Telephone: (713) 324-2948

Telecopier: (713) 324-2687

and

Continental Airlines, Inc.
1600 Smith Street
Dept. HQS-PF
Houston, Texas 77022
Attention: Vice President, Corporate Real Estate
and Environmental Affairs
Telephone: (713) 324-2245
Telecopier: (713) 324-6954

and

Continental Airlines, Inc.
1600 Smith Street
Dept. HQS-FN
Houston, Texas 77022
Attention: Vice President, Corporate Finance
Telephone: (713) 324-2544
Telecopier: (713) 324-2447

Trustee:

Chase Bank of Texas, National Association
Attention: Global Trust Service
600 Travis Street, Suite 1150
Houston, Texas 77002
Attention: Corporate Trust Department
Telephone: (713) 216-4808
Telecopier: (713) 216-5476

(b) All computations for the expiration of time periods required by this Agreement shall be computed from the date such notice is deposited in the United States mail, as set forth above; provided, however, that should the last day of the period fall on a Saturday, Sunday or legal holiday, the period shall run until the end of the next day which is neither a Saturday, Sunday nor legal holiday.

Section 12.04: Consents and Approvals. (a) With respect to the approvals herein required of the Lessee, Lessee shall from time to time furnish to the City a certificate signed by its Secretary or an Assistant Secretary, and such certificate shall set forth the officers or representatives of Lessee who are authorized to grant such approvals and to bind the Lessee thereto; and the City and all third parties affected by any such approvals, including the holders of Bonds, may rely upon any writing purporting to grant such approvals signed by any officer or representative thus certified as being conclusively binding upon Lessee, and any such writing shall itself constitute conclusive evidence that any and all corporate actions necessary to be taken with respect to the matter thus approved by such officer or representative to have been so taken by the corporation, and that the approval therein given has been authorized by the corporation.

(b) Any consent or approval herein required of the City may be given by the City's Director of the Department of Aviation unless otherwise provided.

(c) All consents or approvals of the City, or any department thereof, or Lessee when required herein shall not be unreasonably withheld or delayed.

(d) All consents and approvals required or permitted herein by either party shall be given in writing.

(e) An approval by the Director, or by any other instrumentality of the City, of any part of Lessee's performance shall not be construed to waive compliance with this Agreement except as expressly set forth in such approval or to establish a standard of performance other than required by this Agreement or by law.

Section 12.05: Rights Reserved to City. Nothing contained herein shall unlawfully impair the right of City to exercise its governmental or legislative functions. This Agreement is made subject to the Constitution and laws of the State of Texas and to the provisions of the Airport Improvement Program Grant Agreements applicable to the Airport and its operation, and the provisions of such agreements, insofar as they are applicable to the terms and provisions of this Agreement, shall be considered a part hereof to the same extent as though copied herein at length to the extent, but only to the extent, that the provisions of any such agreements are required generally by the United States at other civil airports receiving federal funds. To the best of City's knowledge, nothing contained in such laws or agreements conflicts with the express provisions of this Agreement.

Section 12.06: Force Majeure. Neither the City nor Lessee

shall be deemed in violation of this Agreement if it is prevented from performing any of the obligations hereunder by reason of strikes, boycotts, labor disputes, embargoes, shortage of material, acts of God, acts of the public enemy, acts of superior governmental authority, weather conditions, floods, riots, rebellion, sabotage, war, or any other circumstances for which it is not responsible or which is not in its control, and the time for performance shall be automatically extended by the period the party is prevented from performing its obligations hereunder; provided, however, that these provisions shall not apply to any failure by the Lessee to pay the rentals and other charges pursuant to Article VI hereof, expressly including the Net Rent payable thereunder.

Section 12.07: Severability Clause. If any word, phrase, clause, paragraph, section or other part of this Agreement shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Agreement and the application of such word, phrase, clause, sentence, paragraph, section or other part of this Agreement to any other person or circumstance shall not be affected thereby and it is expressly agreed and understood that the obligation of Lessee to make the rental payments to City required under the provisions of Article VI hereof shall continue to remain in full force and effect.

Section 12.08: Place of Performance; Laws Governing. This Agreement shall be performable and enforceable in Harris County, Texas, and shall be construed in accordance with the laws of the State of Texas, the City Charter and Ordinances of the City of Houston, Federal law and all applicable State and Federal regulations. Lessee acknowledges that, to the extent the City's Charter or Texas law requires any expenditure of funds that may be contemplated to be made by the City herein to be prefunded to be valid, then such expenditure shall be subject to City Council approval; provided, that, the City agrees to use its best efforts to obtain such approval.

Section 12.09: Brokerage. The Lessee and the City each to the other represents and warrants that no brokers have been concerned on their behalf in the negotiation of this Agreement and that there are no such brokers who are or may be entitled to be paid commissions in connection therewith. The Lessee and the City shall indemnify and save harmless each other of and from any claim for commission or brokerage made by any such brokers when such claims are based in whole or in part upon any acts or omissions of the Lessee or the City as applicable.

Section 12.10: Individuals Not Liable. No director, officer, agent or employee of the City or Lessee shall be charged personally or held contractually liable by or to the other party under any term or provision of this Agreement or of any supplement or amendment hereto because of any breach thereof or because of his or their execution of same.

Section 12.11: Binding Nature of Agreement; Benefits of Agreement. This Agreement shall inure to the benefit of, and be binding upon, the City and Lessee, and their respective legal representatives, successors and assigns. This Agreement is not made for the benefit of, nor may it be relied upon by, any third party other than the holders of the Bonds and any bond insurer, unless expressly herein provided.

Section 12.12: Ambiguities. In the event of any ambiguity in any of the terms of this Agreement, it shall not be construed for or against any party hereto on the basis that such party did or did not author the same.

Section 12.13: Survival. Lessee and the City shall remain obligated to the other party hereto under all clauses of this Agreement that expressly or by their nature extend beyond the expiration or termination of this Agreement, including but not limited to the indemnity provisions hereof.

Section 12.14: No Merger of Title. There shall be no merger of this Agreement (or of the leasehold estate created by this Agreement) with the ownership of any portion of or interest in the Special Facilities or Ground Lease Properties by reason of the fact that the same person or entity may acquire, own or hold, directly or indirectly, this Agreement (or the rights and interests created by this Agreement) together with an ownership, leasehold or other right or interest in the Special Facilities or Ground Lease Properties; and no such merger shall occur unless and until the City and all persons and entities holding (a) the rights and interest created by this Agreement and (b) the ownership, leasehold or other rights or interest in the Special Facilities and Ground Lease Properties or any part thereof shall join in a written instrument expressly effecting such merger. Without limiting the generality of the foregoing, it is agreed that no merger of title shall arise if the City becomes a sublessee hereunder.

Section 12.15: Entire Agreement. This Agreement, together with the Trust Indenture, constitutes the entire agreement between

the City and Lessee pertaining to the subject matter hereof.

IN WITNESS WHEREOF, this Agreement has been entered into and effective as of the date first above written, and executed in multiple counterparts by the respective officers of the parties hereto.

ATTEST: CITY OF HOUSTON

City Secretary By _____
Mayor

APPROVED AS TO FORM COUNTERSIGNED BY

Senior Assistant City Attorney City Controller

APPROVED

Director, Department of Aviation

CONTINENTAL AIRLINES, INC.

ATTEST: By: _____
Title: _____

Title: _____

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, a Notary Public in and for Harris County, Texas, on this day personally appeared LEE BROWN, Mayor of the CITY OF HOUSTON, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, as the act and deed of the CITY OF HOUSTON, the said municipal corporation, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, 199__.

Notary Public in and for
Harris County, Texas

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared _____, _____ of Continental Airlines, Inc., a corporation, known to me to be the person and officer whose name is to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, 199__.

Notary Public in and for
Harris County, Texas

EXHIBITS TO BE ATTACHED

Exhibit "A"	Description of 1997B Project
Exhibit "A-1"	Description of 1998B Project
Exhibit "B"	Description of Easements
Exhibit "C"	Description of Location of Special Facilities
Exhibit "D-1"	Description of Additional Locations of Special Facilities
Exhibit "E"	Deed and Bill of Sale for Project

EXHIBIT "A"

(Series 1997B Bonds)

DESCRIPTION OF 1997B PROJECT

All properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances to be acquired, constructed, fabricated and/or installed in, on, as a part of or around the Ground Lease Properties and the Easements that are financed with proceeds of the Series 1997B Bonds and leased to the Lessee pursuant to the Special Facilities Lease Agreement, including without limitation the following:

1. Lessee's Terminal B Improvements: Terminal B elements of the Project include the renovation and upgrading of Terminal B's four flight stations, including new finishes, floor coverings, millwork, gate and hold room furniture and telecommunications, elevators, flight information display systems and signage; the acquisition and installation of passenger loading bridges throughout the four flight stations; the renovation of Continental's exclusive use areas in the terminal's ticketing lobby, including upgrading ticketing, check-in and baggage make-up facilities; and the addition of a new airline club facility.
2. Lessee's Terminal C Improvements: Terminal C elements of the Project include the construction and installation of a new baggage make-up and sortation system for Terminal C; the expansion of the existing baggage claim area for Terminal C to include baggage service offices and package processing areas; installation of a moving conveyor connecting such a system to the IAB baggage system; the installation of new flight arrival and departure monitors and displays; the construction of a new airline club facility comprised of approximately 8,000 square feet to be located in the southern portion of Terminal C; and any expansion of Continental Express's passenger hold room areas. Also included in Terminal C element are the expansion and furnishing of the operations center; and the expansion and furnishing of additional administrative support areas.
3. Prior Tenant Improvements: Prior tenant improvements in the Project include acquisition of the tenant improvements and equipment installed and owned or leased by prior tenants in Terminal B.
4. Bus Stations: Bus station elements of the Project include the construction and furnishing of bussing stations at Terminals B and C to facilitate the transfer of passengers between the terminals pending completion of the APM system linking such terminals. Bussing stations include elevator, escalators, furnishings, and finishes.
5. Ground Support Equipment: Ground support element of the Project include the purchase of belt loaders, push trailers, ground power units, tow bars, rugs, bag carts, freight carts, tail carts, A/C maintenance vehicles, bob tails, motor stairs, connect vans food service vehicles, air start units, GSE shop vehicles and equipment essential to supporting the expanded operations.
6. Baggage Transfer Facility: A high speed automatic baggage transfer system to facilitate the transfer of passenger baggage between Terminal B and Terminal C.

However, there is expressly excluded from the Project any and all properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances provided to the Lessee by the City pursuant to the Use and Lease Agreement.

EXHIBIT "A-1"

(Series 1998B Bonds)

DESCRIPTION OF THE 1998B PROJECT

All properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances to be acquired, constructed, fabricated and/or installed in, on, as a part of or around the Ground Lease Properties and the Easements that are financed with proceeds of the Series 1998B Bonds and leased to the Lessee pursuant to the Special Facilities Lease Agreement, including without limitation the following:

1. Lessee's Terminal B Improvements: The Terminal B elements of the 1998B Project include the installation of Ramp Information Displays systems at the gate areas; the renovation of Continental's employee restroom facilities; and improvements for a training center for Continental Express flight crews and other personnel.
2. Lessee's Terminal C Improvements: The Terminal C elements of the 1998B Project include renovation and upgrading of the Terminal C lobby; the construction of two new gates; the construction of administrative areas for pilots and other in-flight crew; the construction of two ramp towers to provide improved traffic control of aircraft on the ground in the vicinity of the terminal; installation of Ramp Information Display systems at the gate; replacement of 5 loading bridges; the improvement and upgrading of the passenger service centers; buildout of additional employee training facilities; renovation of Continental's employee restroom facilities; and renovations to the weather briefing room.
3. Lessee's IAB Improvements: The IAB elements of the 1998B Project consist of the construction and furnishing of a new approximately 4,500 square foot President's Club on the departures level of that terminal; and enhancement of facilities used to assist Continental's international passengers checking-in at the IAB.

EXHIBIT "B"

(Series B)

DESCRIPTION OF EASEMENTS

The Easements shall consist of the following:

Baggage Transfer Facility

- (1) An aerial easement for an aerial Baggage Transfer Facility running between Terminals B and C to be suspended from the Automated People Mover or APM (as more fully described in that certain Special Facilities Lease Agreement (Automated People Mover Project) between the City and Lessee dated of even date with the Agreement) as depicted in the diagrams attached as Exhibit B-1 as a "High Speed Baggage Connect" and located in the corridor between Terminals B and C with minimum clearance below the Baggage Transfer Facility of at least 20 feet, 0 inches above the roadway or ground below or such other clearance and/or height as shall be approved by the Director.

EXHIBIT "C"

(Series 1997B)

DESCRIPTION OF LOCATION OF SPECIAL FACILITIES

Lessee's Terminal B Improvements and Bus Station in Terminal B shall be located in the shaded areas in Terminal B as depicted in the diagrams attached as Exhibit C-1 (sheets 1 of 6 through 5 of 6), together with the area depicted in the diagram attached as Exhibit C-1 (sheet 6 of 6) as Bus Terminal "B" and Lessee's Terminal C Improvements and Bus Station in Terminal C shall be located in the shaded areas in Terminal C as depicted in the diagrams attached as Exhibits C-2 through C-7, or such other areas as shall be approved in writing by the Director.

EXHIBIT "D-1"

(Series 1998B Bonds)

DESCRIPTION OF ADDITIONAL LOCATIONS OF SPECIAL FACILITIES

The Special Facilities related to the Series 1998B Bonds will be located in some of the areas described on Exhibit "C" to which this Exhibit "D-1" is attached and also in the shaded areas in the IAB Terminal as depicted in the diagram attached as Exhibit D-1 (one sheet) hereto.

EXHIBIT "E"

DEED AND BILL OF SALE

THE STATE OF TEXAS

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF HARRIS

THAT CONTINENTAL AIRLINES, INC., a corporation (hereinafter called "Grantor"), for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) cash and other good and valuable considerations to it in hand paid by the CITY OF HOUSTON, TEXAS, a municipal corporation and home-rule City situated principally in Harris County, Texas (hereinafter called "Grantee"), the receipt and sufficiency of which are here acknowledged and confessed, has GRANTED, BARGAINED, SOLD AND CONVEYED and by these presents does GRANT, BARGAIN, SELL AND CONVEY unto the Grantee that certain airport Special Facilities more fully described in Exhibit "A" attached hereto located in and at George Bush Intercontinental Airport in leased space and/or in the easements leased or granted to Grantee by Grantor which leased space and/or easements are more fully described in Exhibit "B" attached hereto.

TO HAVE AND TO HOLD the aforesaid Special Facilities, together with all and singular the rights and appurtenances thereto in any way belonging unto Grantee, its successors and assigns forever; and it is hereby agreed that Grantor, its successors and legal representatives are hereby bound to WARRANT AND FOREVER DEFEND, all and singular, said property unto Grantee, its successors and assigns against every person whosoever lawfully claiming or to claim the same, or any part thereof, by, through or under Grantor, but not otherwise.

THE EXECUTION, delivery and acceptance of this conveyance is made pursuant to the terms of that certain Special Facilities Lease Agreement dated as of _____, 1997, as amended by and between Grantor and Grantee.

EXECUTED as of the _____ day of _____, 199_.

CONTINENTAL AIRLINES, INC.

By _____
Title: _____

ATTEST:

Assistant Secretary

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared _____, _____ of the CONTINENTAL AIRLINES, INC., a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 199_.

Notary Public in and for
Harris County, Texas

(SEAL)

"NON-TERMINAL LEASE"
OR
"C" LEASE

FIRST AMENDED AND RESTATED
SPECIAL FACILITIES
LEASE AGREEMENT
(CONTINENTAL AIRLINES, INC. AIRPORT IMPROVEMENT PROJECTS)

by and between

CITY OF HOUSTON, TEXAS
as Lessor
and
CONTINENTAL AIRLINES, INC.
as Lessee

Dated as of March 1, 1997

Amended and Restated as of December 1, 1998

SPECIAL FACILITIES
LEASE AGREEMENT
(CONTINENTAL AIRLINES, INC. AIRPORT IMPROVEMENT PROJECTS)

I N D E X

Page No.

ARTICLE I
DEFINITIONS AND INTERPRETATIONS

Section 1.01: Definitions2
Section 1.02: Interpretations6

ARTICLE II
REPRESENTATIONS

Section 2.01: Representations by the City6
Section 2.02: Representations by Lessee7

ARTICLE III
LEASE AND TERM; GRANT OF EASEMENTS AND GROUND LEASES

Section 3.01: Lease of Special Facilities7
Section 3.02: Term of Lease of Special Facilities and
Ground Leases8
Section 3.03: Easements and Ground Leases8
Section 3.04: Condition of Special Facilities and
Ground Lease Properties9
Section 3.05: City Right of Entry9

ARTICLE IV
ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECTS

Section 4.01: Issuance of Series 1997C Bonds and
Series 1998C Bonds.9
Section 4.02: Issuance of Additional Bonds.9
Section 4.03: Application of Proceeds; Insufficiencies. . . . 10
Section 4.04: Refunding Bonds10
Section 4.05: Optional Redemption of Bonds.11

ARTICLE V
DESIGN, CONSTRUCTION AND ACQUISITION OF THE SPECIAL FACILITIES

Section 5.01: General11
Section 5.02: [Omitted]12
Section 5.03: Inventory of Special Facilities; Replacements . 12
Section 5.04: Title to Projects, Plans and Contracts. . . . 13
Section 5.05: Design, Construction and Acquisition of
Additional Special Facilities13
Section 5.06: Personal Property Not Constituting
Special Facilities.14

ARTICLE VI
NET RENT AND GROUND RENT

Section 6.01: Net Rent While Bonds Outstanding.14

Section 6.02: Obligation to Pay Net Rent Unconditional. . . . 15
Section 6.03: Pledge of Net Rent. 16
Section 6.04: Operation and Maintenance Expenses; Other Costs 16
Section 6.05: Ground Rentals. 17

ARTICLE VII
USE OF SPECIAL FACILITIES

Section 7.01: Use 18

ARTICLE VIII
LESSEE'S OBLIGATIONS AND CONDITIONS TO
LESSEE'S USE OF SPECIAL FACILITIES

Section 8.01: Maintenance of Special Facilities at
Lessee's Expense. 20
Section 8.02: Taxes, Charges, Utilities, Liens. 22
Section 8.03: Compliance with Airport Rules and Regulations
and Law; Nondiscrimination. 22
Section 8.04: Compliance with Tax Law 23
Section 8.05: Environmental Matters 23
Section 8.06: City's Right To Maintain or Repair Special
Facilities. 26
Section 8.07: Termination Procedures. 26
Section 8.08: Annual Inspections. 26
Section 8.09: Restoration of Airport Property 27
Section 8.10: Airport Rules 27
Section 8.11: Certain Federal Requirements. 27
Section 8.12: Other Rules, Regulations and Requirements . . . 28

ARTICLE IX
LIABILITY, INSURANCE AND CONDEMNATION

Section 9.01: Release and Indemnification of City 29
Section 9.02: General Insurance Requirements. 30
Section 9.03: Risks and Minimum Limits of Coverage. 31
Section 9.04: Other Provisions. 32
Section 9.05: Disposition of Insurance Proceeds 33
Section 9.06: Condemnation. 34
Section 9.07: Reconstruction or Repair. 35

ARTICLE X
EVENTS OF DEFAULT AND REMEDIES

Section 10.01: Events of Default. 36
Section 10.02: Remedies on Default. 37
Section 10.03: Additional Remedy. 38
Section 10.04: No Remedy Exclusive. 38
Section 10.05: Agreement to Pay Attorneys' Fees and Expenses. 39
Section 10.06: No Additional Waiver Implied by One Waiver . . 39
Section 10.07: Enforcement by City Attorney 39

ARTICLE XI
ASSIGNMENTS, SUBLETTING AND TERMINATION BY LESSEE

Section 11.01: Assignments and Subletting by Lessee 39
Section 11.02: Termination of Agreement by Lessee 40

ARTICLE XII
MISCELLANEOUS

Section 12.01: Lessee to Maintain Its Corporate Existence . . 40
Section 12.02: Exempt Facilities. 40
Section 12.03: Notices. 41
Section 12.04: Consents and Approvals 42
Section 12.05: Rights Reserved to City. 43
Section 12.06: Force Majeure. 43
Section 12.07: Severability Clause. 43
Section 12.08: Place of Performance; Laws Governing 43
Section 12.09: Brokerage. 44
Section 12.10: Individuals Not Liable 44
Section 12.11: Binding Nature of Agreement; Benefits of
Agreement. 44
Section 12.12: Ambiguities. 44
Section 12.13: Survival 44
Section 12.14: No Merger of Title 44
Section 12.15: Entire Agreement 45

Description of Project Exhibit "A"
Description of Easements Exhibit "B"
Description of Ground Lease Properties Exhibit "C"
Deed and Bill of Sale for Project Exhibit "D"

FIRST AMENDED AND RESTATED
SPECIAL FACILITIES
LEASE AGREEMENT
(Continental Airlines, Inc. Airport Improvement Projects)

THE STATE OF TEXAS

COUNTY OF HARRIS

THIS SPECIAL FACILITIES LEASE AGREEMENT (hereinafter called "Agreement") dated as of the 1st day of March, 1997 (Amended and Restated as of December 1, 1998), is made and entered into between the CITY OF HOUSTON, TEXAS, a municipal corporation and Home Rule City, situated principally in Harris County, Texas (hereinafter called "City"), and CONTINENTAL AIRLINES, INC., a corporation organized and existing under the laws of the State of Delaware, duly authorized to do business in the State of Texas (hereinafter called "Lessee").

W I T N E S S E T H :

WHEREAS, City is the owner of land and certain improvements known as the George Bush Intercontinental Airport/Houston, located in the City of Houston, Harris County, Texas (hereinafter called "Airport"), which is operated as a public airport, as a part of the City's Airport System (as hereinafter defined), and City has the power and authority to lease premises and facilities thereon and to grant rights and privileges with respect thereto, including those set forth herein; and

WHEREAS, Lessee is engaged in the business of commercial air transportation as a scheduled air carrier and is certificated or otherwise authorized by the United States Government to engage in such business at the Airport (hereinafter referred to as "authorized business"); and

WHEREAS, Lessee has heretofore requested the City to undertake the financing of the 1997C Project (as hereinafter defined), and the City has done so through the issuance of its Series 1997C Bonds (as hereinafter defined); and

WHEREAS, Lessee has heretofore requested the City to undertake the financing of the 1998C Project (as hereinafter defined); and

WHEREAS, the City has found and determined that it is in the public interest and a public purpose for the City to finance the costs of the Projects (as hereinafter defined) through the issuance of certain special facilities revenue bonds payable from certain net rentals of the Projects; and

WHEREAS, all ordinances heretofore adopted by the City authorizing the issuance of its Airport System Revenue Bonds payable from any or all gross revenues, tolls, rents, lease moneys, returns, and charges derived by the City from the operation of its Airport System, which includes the Airport, provide for the exclusion from the pledge of such revenues "any rentals (except ground rentals) from net rent leases which may be executed in the future wherein the lease consideration is pledged or otherwise utilized to finance the construction of buildings or facilities for lessee-tenants of the City, but only for such time and to such extent in each case as the rentals reserved in the lease or any extension or renewal thereof (other than ground rent) are required to be deposited in a separate interest and redemption fund in order to meet the City's obligation for interest payments and principal repayment on the bonds or other instruments of indebtedness issued or sold to finance the improvement which is the subject matter of the lease"; and

WHEREAS, the City and Lessee desire to enter into this Agreement (i) to constitute a "net rent lease", to provide for the construction and acquisition of certain Special Facilities initially consisting of the Projects, to provide for the issuance of revenue bonds to finance certain costs of such Special Facilities, and to provide for the payment by Lessee of certain Net Rent at times and in amounts sufficient to meet the City's obligation for interest payments and principal repayment on all revenue bonds sold to finance the costs of such Special Facilities and (ii) to set forth certain other agreements of the parties with respect to the Special Facilities and Ground Lease Properties;

NOW, THEREFORE, for and in consideration of the premises and of the mutual covenants and agreements herein contained and in consideration of the rentals and other amounts to be paid as herein provided, the City and Lessee do hereby covenant and agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01: Definitions. In this Agreement, the following terms shall have the following meanings, respectively, unless the context clearly indicates otherwise:

"Additional Bonds" shall mean all additional bonds which may be issued by the City payable from the same source as the Series 1997C Bonds and the Series 1998C Bonds (including Net Rent payable under this Agreement) for the purposes and in the general manner specified in Section 4.02 hereof.

"Airport" shall mean George Bush Intercontinental Airport/Houston, Houston, Texas, as it now exists or may be modified or expanded from time to time in the future.

"Airport System" shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as "George Bush Intercontinental Airport/Houston," "William P. Hobby Airport" and "Ellington Field" and the "CBD Heliport."

"Bonds" shall mean collectively the Series 1997C Bonds, the Series 1998C Bonds, and any Additional Bonds and Refunding Bonds from time to time hereafter issued.

"Business Day" shall mean any day other than a Saturday, Sunday, or legal holiday or the equivalent (other than a moratorium) on which banking institutions generally in Houston, Texas or New York, New York are authorized or required by law or executive order to close.

"City" shall mean the City of Houston, Texas, or such other agency, board, authority, or private entity which may succeed to the jurisdiction of the City over the Airport.

"Costs of the Project" or "Costs of the Special Facilities" shall mean all costs of financing the construction and acquisition of the Projects or Special Facilities, as the case may be, and the issuance of Bonds for such purpose, including without limitation the following:

(i) all amounts paid by the Lessee, or authorized by the Lessee and paid by or on behalf of Lessee, to design, construct, acquire, fabricate, equip and install the Projects or Special Facilities, including without limitation, all costs of utility extensions and connections and all amounts paid under all contracts for goods, services and facilities related thereto;

(ii) all amounts necessary to provide for work performed, material purchased or expenditures incurred, pertaining to or in connection with the Projects or any other Special Facilities approved by City and Lessee including, without limitation, the charges of any architects or engineers for plans, specifications, drawings, supervision and inspection for the Projects or Special Facilities;

(iii) all expenses incurred by the Lessee and the City for the review of plans, specifications and contracts for the Projects or the Special Facilities and for the inspection in connection with the construction and acquisition thereof;

(iv) the cost of any and all permits, licenses, fees, performance and payment bonds, appraisals and insurance policies procured in connection with the acquisition and construction of the Projects or Special Facilities;

(v) legal, accounting and bond advisory, underwriting and consultant fees and expenses, including any fees and expenses of any bond insurer and the provider of any reserve fund surety, and all costs and expenses incident to the authorization, issuance, delivery and sale of the Bonds, including without limitation the preparation, execution, delivery and recording of this Agreement, the Trust Indenture, any preliminary and the final offering documents pertaining to the Bonds, and any printing fees for such documents, any purchase agreements pursuant to which the Bonds will be sold, all credit agreements and other documents providing security for the Bonds or the Lessee's obligations and all other agreements and documents involved and contemplated hereby, the costs and fees, including legal fees, incident to the qualification of

the Bonds for offer and sale under securities laws and the preparation of any memorandum as to the eligibility of the Bonds for offer and sale and for investment under state laws if required or if applicable;

(vi) interest accruing on the Bonds during the period of construction of the Projects or Special Facilities financed with the proceeds thereof, the term of which period shall be determined in the Trust Indenture;

(vii) such other and additional fees, costs, expenses and expenditures of whatever nature incidental or pertaining to the design, acquisition, construction, fabrication, equipping and installation of the Projects or the Special Facilities, including funding of the Reserve Account, and all other costs and expenses that may properly be capitalized as costs of the Projects or the Special Facilities; and

(viii) any costs of a prior Project for which insufficient funds are available from the proceeds of the Series of Bonds issued for such prior Project.

"Director" shall mean the Director of the Department of Aviation of the City or his designee.

"Easements" shall mean all of the easement or easements described in Exhibit "B" attached hereto.

"Event of Default" shall mean those events so defined in Section 10.01 hereof.

"Ground Lease" shall mean the lease of the Ground Lease Properties by the City to Lessee pursuant to Section 3.03(b) hereof.

"Ground Lease Properties" shall mean the properties described in Exhibit "C" attached hereto. The Ground Lease Properties shall consist of (i) the Maintenance Site (as described in Exhibit C), (ii) the Mail Sort Site (as described in Exhibit C), (iii) the Inflight Training Site (as described in Exhibit C), (iv) the JFK Blvd. Site (as described in Exhibit C), and (v) the Warehouse Site (as described in Exhibit C). The Ground Lease Properties shall include all improvements located thereon, excepting the Special Facilities.

"Ground Rentals" shall mean the rentals to be paid by Lessee directly to the City pursuant to Section 6.05 as consideration for the Ground Lease Properties and Easements.

"Guaranty" shall mean the guaranty agreement dated as of March 1, 1997, from the Lessee to the Trustee with respect to the Series 1997C Bonds and the guaranty agreement dated as of December 1, 1998, from the Lessee to the Trustee with respect to the Series 1998C Bonds.

"Hangar Maintenance Facility" shall mean that facility more fully described in Exhibits "A" and "A-1" to this Agreement.

"Inflight Training Facility" shall mean that facility as more fully described in Exhibit "A-1" to this Agreement.

"Interest and Redemption Fund" shall mean the fund so defined in the Trust Indenture for the collection of Net Rent and payment of the Bonds.

"JFK Blvd. Facility" shall mean that facility as more fully described in Exhibit "A-1" to this Agreement.

"Lessee" shall mean Continental Airlines, Inc., a Delaware corporation, and its successors and assigns as lessee hereunder.

"Mail Sort Facility" shall mean that facility as more fully described in Exhibit "A" to this Agreement.

"Net Rent" shall mean the net rentals payable by Lessee to the Trustee on behalf of the City pursuant to Section 6.01(a) (i) and (ii) hereof for the purpose of being applied to the payment of the Bonds and making required deposits to the Interest and Redemption Fund.

"1997C Project" shall mean the Hangar Maintenance Facility and the Mail Sort Facility all as more fully described in Exhibit "A" attached hereto and by this reference made a part hereof, together with any modifications or additions thereto approved by the Director and Lessee. The 1997C Project shall constitute the initial Special Facilities.

"1998C Project" shall mean the Hangar Maintenance Facility, the Inflight Training Facility, the JFK Blvd. Facility and the

Warehouse Facility all as more fully described in Exhibit "A-1" attached hereto and by this reference made a part hereof, together with any modifications or additions thereto approved by the Director and Lessee.

"Outstanding" shall have the meaning assigned in the Trust Indenture.

"Project" or "Projects" means, either individually or collectively, the 1997C Project and the 1998C Project.

"Refunding Bonds" shall mean all refunding bonds which may be issued by the City for the purposes set forth in Sections 4.04 hereof, and which shall be payable from the same sources as the Series 1997C Bonds and the Series 1998C Bonds (including Net Rent payable under this Agreement).

"Series 1997C Bonds" shall mean the first series of Bonds to be issued pursuant to this Agreement, which shall be entitled the "City of Houston, Texas, Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Airport Improvements Project), Series 1997C."

"Series 1998C Bonds" shall mean the second series of Bonds to be issued pursuant to this Agreement, which shall be entitled the "City of Houston, Texas, Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Airport Improvements Project), Series 1998C."

"Special Facilities" shall mean the Projects, all extensions, additions, modifications and improvements thereto and all other improvements, fixtures, equipment and facilities that, pursuant to this Agreement or any supplement hereto or amendment hereof, are financed with any proceeds of the Series 1997C Bonds, the Series 1998C Bonds or any Additional Bonds.

"Trust Indenture" shall mean the Trust Indenture, dated as of March 1, 1997, as supplemented by the First Supplemental Trust Indenture dated as of December 1, 1998, together with all supplements and amendments thereto, entered into by and between the City and the Trustee to provide for the issuance of and security for the Series 1997C Bonds and the Series 1998C Bonds.

"Trustee" shall mean the bank designated as Trustee under the Trust Indenture, or any successor trustee thereunder.

"Warehouse Facility" shall mean that facility as more fully described in Exhibit "A-1" to this Agreement.

Section 1.02: Interpretations. All terms defined herein and all pronouns used in this Agreement shall be deemed to apply equally to singular and plural and to all genders. The table of contents, titles and headings of the articles and sections of this Agreement have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Agreement and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and, to provide for the full and timely payment of all Bonds from time to time hereafter issued by the City, which Bonds shall be secured by a pledge of the Net Rent payable under this Agreement. In the event of any ambiguity contained herein, it shall not be construed for or against any party hereto on the basis that such party did or did not author same.

ARTICLE II

REPRESENTATIONS

Section 2.01: Representations by the City. The City makes the following representations as the basis for its undertakings in this Agreement:

(a) The City, as the owner of the Airport, is authorized to enter into this Agreement;

(b) The City has the power and authority to grant the Easements and the Ground Lease Properties to the Lessee for the purposes of constructing, installing, equipping, maintaining and operating the Projects;

(c) The City has the power and authority to acquire the Projects constructed, installed and equipped by Lessee on the Ground Lease Properties and the Easements, to acquire the other Special Facilities, and to lease same to Lessee pursuant to the terms and conditions contained herein;

(d) The City has the power and authority to issue the Bonds for the purpose of paying the Costs of the Special Facilities and to pledge to the payment of the Bonds the Net Rent payable under this Agreement and by proper municipal action it has been

authorized to execute and deliver this Agreement; and

(e) All representations relating to the City contained in the recitals to this Agreement are true and correct in all material respects.

Section 2.02: Representations by Lessee. The Lessee makes the following representations as the basis for its undertakings in this Agreement:

(a) Lessee is a corporation validly existing under the laws of the State of Delaware; it is in good standing under its certificate of incorporation and the laws of the State of Delaware; it is duly authorized to do business in the State of Texas; it has the power to enter into this Agreement without violating the terms of any other agreement to which it is a party; and by proper corporate action it has been duly authorized to execute and deliver this Agreement;

(b) Lessee will occupy and possess the Easements and Ground Lease Properties for the purposes and upon the terms and conditions set forth herein; it will, subject to the City's issuance and sale of the Series 1997C Bonds and the Series 1998C Bonds, construct, install and equip the Projects substantially in the manner herein provided; it will convey the Projects to, or cause title to the Projects to vest in, the City in the manner herein provided; and it will occupy, possess, operate and maintain the Projects and any other Special Facilities for the purposes and in the manner provided herein, all subject to the terms and conditions of this Agreement; and

(c) All representations relating to Lessee contained in the recitals to this Agreement are true and correct in all material respects.

ARTICLE III

LEASE AND TERM; GRANT OF EASEMENTS AND GROUND LEASES

Section 3.01: Lease of Special Facilities. (a) Subject to the terms and conditions of this Agreement, the City hereby leases, lets and demises unto Lessee, and Lessee hereby leases and rents from the City, the Special Facilities, which shall consist initially of the Projects.

(b) The City's lease to Lessee of the Inflight Training Site and the JFK Blvd. Site shall be deemed to be a renewal and extension, and an amendment and restatement, of the previously entered into leases between the City and Continental for such sites. It is the intent of the parties that such previous leases be considered for all purposes to have been renewed and extended, and amended and restated in their entirety rather than terminated and recommenced, by this Agreement, such that the terms of this Agreement shall govern the rights and duties of the parties hereto with respect to such sites. City and Lessee acknowledge that the JFK Blvd. Site that is continuing to be leased under this Agreement is only a part of the parcel of land leased by the City to the Lessee pursuant to another agreement (or agreements) and agree that such other agreement (or agreements) shall continue in full force and effect as to the parcel or parcels of land not leased hereunder and such other agreement or agreements are not affected hereby for the purpose of leasing such other parcel or parcels.

Section 3.02: Term of Lease of Special Facilities and Ground Leases. (a) The term of this Agreement and the leasehold estate hereby created in the Special Facilities shall commence on April 17, 1997, for the 1997C Project, and January 20, 1999, for the 1998C Project (being the respective dates of delivery by both the City and Lessee of the original form of this Agreement and the first amended and restated form of this Agreement) and shall continue, unless sooner terminated in accordance with this Agreement, until the 31st day of December, 2027; except with respect to Lessee's Warehouse Facility, such term shall continue until December 31, 2004 and, shall thereafter automatically renew on a year to year basis for up to five additional one year terms, unless Lessee notifies the City in writing at least 60 days prior to the expiration date (as such expiration date may be extended), that Lessee does not wish to extend the term for another year and provided that no Event of Default by Lessee shall have occurred and be continuing at the beginning of such renewal period; provided further, however, that if City has in writing at least 60 days prior to the then relevant expiration date advised Lessee that it intends to use the land upon which the Warehouse Facility is located during the next one-year period for Airport expansion purposes, then Lessee may not exercise any such, or any further, extension option.

Section 3.03: Easements and Ground Leases. (a) Subject to the terms and conditions of this Agreement, the City hereby grants and conveys to Lessee the Easements for a term corresponding to the term of Lessee's leasehold estate in the Special Facilities

including any extensions or renewals thereof. The Easements shall be used solely for the purpose of permitting extension, use and maintenance of utilities to the Special Facilities.

(b) Subject to the terms and conditions contained herein, the City hereby leases and demises to Lessee the Ground Lease Properties for a term corresponding to the term of Lessee's leasehold estate in the Special Facilities, including any extensions or renewals thereof. The Ground Lease Properties may be used for the purpose of constructing, equipping, acquiring, operating and maintaining the Special Facilities. On the commencement date of this Agreement, the City and Lessee mutually agree that all existing leases between the City and Lessee (as successor or assignee of the original lessees) with respect to the Ground Lease Properties shall be superseded by this Agreement and shall be of no further force and effect, except that any unearned portion of rentals paid for the month during which such leases are superseded shall be applied to compensate the City for the demise of the Ground Lease Properties under this Agreement for the period from the effective date of this Agreement to the first Ground Rental payment date hereunder.

(c) Subject to the terms hereof, Lessee shall have the right of reasonable ingress to and egress from the Special Facilities over the portions of the Airport necessary for the construction, operation and maintenance of the Special Facilities in accordance with the terms hereof but subject to reasonable regulations promulgated by the Director.

(d) In the event the City and Lessee determine it is necessary or desirable to amend, correct, further define or delineate, delete from or add to any descriptions of the Easements or the Ground Lease Properties, they may do so by a supplement or addendum hereto duly executed by the respective parties.

(e) During the term of this Agreement, and subject to the rules and regulations from time to time adopted by the City and the Director as provided herein which are generally applicable to other airlines or lessees of the City at the Airport, and subject to the other terms and provisions hereof, Lessee is hereby granted the non-exclusive right and privilege to use and operate its vehicles on such service roads, aircraft aprons and other non-public areas of the Airport as shall be reasonably necessary to carry out its authorized business on the Special Facilities.

Section 3.04: Condition of Special Facilities and Ground Lease Properties. The Lessee has full and exclusive responsibility for ascertaining the suitability of the Special Facilities, Easements and Ground Lease Properties for their intended use. The City makes no representations or warranties, either express or implied, as to the condition of the Special Facilities, Easements and Ground Lease Properties for the use intended by the Lessee. The Lessee takes the Special Facilities, Easements and Ground Lease Properties in their "as-is" condition. The City acknowledges that Lessee does not assume any responsibility, except to the extent caused by Lessee, or for which Lessee would be liable prior to the date hereof by operation of law or contractual agreement for any Hazardous Materials (as defined in Section 8.05C below) that existed on the Easements or the Ground Lease Properties as of the respective dates of commencement of the term.

Section 3.05: City Right of Entry The City may enter upon the Easements, Ground Lease Properties and Special Facilities (i) at any reasonable time for any purpose necessary, incidental to or connected with the performance of Lessee's obligations hereunder, or in the exercise of the City's governmental functions, and (ii) upon the termination or cancellation of this Agreement in accordance with the provisions of Article X hereof, and such entry or reentry shall not constitute a trespass nor give Lessee a cause of action for damages against the City; provided, however, the City shall use all reasonable efforts to minimize any interference or interruption with Lessee's business operations.

ARTICLE IV

ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECTS

Section 4.01: Issuance of Series 1997C Bonds and Series 1998C Bonds. Subject to the terms and conditions of this Agreement, the City has heretofore issued the Series 1997C Bonds in amounts estimated to be sufficient to pay costs of the 1997C Project, and the City shall diligently use its best efforts to issue, sell and deliver the Series 1998C Bonds in amounts sufficient to pay the Costs of the 1998C Project and unfunded 1997C Project Costs, which amounts shall be established in the Trust Indenture. The City shall have no obligations to issue, sell, or deliver the Series 1998C Bonds if (i) there exists an Event of Default under this Agreement by Lessee, or (ii) Lessee has not given written approval of the Trust Indenture. The City shall not authorize the sale of the Series 1998C Bonds or enter into any related supplement to the Trust Indenture until the terms of such Bonds and the form of such

Trust Indenture have been approved in writing by Lessee in the manner provided in Section 12.04 hereof, which written approval shall be conclusively binding upon Lessee.

Section 4.02: Issuance of Additional Bonds. The City, at the direction of Lessee, may issue Additional Bonds in amounts sufficient to pay (i) any part of the Costs of the Projects not fully funded or provided for out of the proceeds of the Series 1997C Bonds or Series 1998C Bonds, or (ii) the Costs of the Special Facilities for any additional Special Facilities approved pursuant to Section 5.05 hereof. The City agrees to use its best efforts to issue any Additional Bonds required under Clause (i) above, and the Director shall cooperate in a reasonable manner with Lessee to request the City to issue Additional Bonds under Clause (ii) above; however, no representation is made or assurance given or implied by the City that it will be able to issue, sell and deliver Additional Bonds on terms and conditions satisfactory to Lessee or that it will agree to issue Additional Bonds for any other purpose than as set forth above. Moreover, the issuance of Additional Bonds is made subject to the same conditions enumerated in Section 4.01 and the additional condition that there shall have been executed a supplement to this Agreement to provide for the manner of construction, acquisition and payment for any additional Special Facilities to be financed with such Additional Bonds and to provide for any other matters reasonably deemed necessary by the City in connection with such financing. All Additional Bonds shall be secured and payable as provided in the Trust Indenture. Upon the issuance of any Additional Bonds, the Net Rent payable hereunder shall automatically be increased in the amounts required to provide for the full and timely payment of all principal, interest, redemption premiums, Trustee charges and other related costs and expenses on all Bonds then outstanding, including the Additional Bonds to be issued. However, the City shall not authorize the issuance of Additional Bonds until the terms thereof and of the supplement to the Trust Indenture relating thereto have been approved in writing by Lessee, which written approval shall be conclusively binding upon Lessee.

Section 4.03: Application of Proceeds; Insufficiencies. Subject to the other terms and provisions hereof, the City hereby agrees to apply the proceeds of the Series 1997C Bonds and the Series 1998C Bonds (by depositing the proceeds into the "Acquisition Fund" and other Funds as established, defined and provided in the Trust Indenture) and any Additional Bonds to pay (but only to the extent of such proceeds) the Costs of the Special Facilities financed therewith. In the event that the proceeds of the Series 1997C Bonds and the Series 1998C Bonds or any Additional Bonds shall be insufficient to pay all Costs of the Special Facilities for which such Bonds were issued, then Lessee shall deposit into the Acquisition Fund amounts which, together with other amounts therein, shall be sufficient to pay all Costs of the Projects or Special Facilities as the case may be. Proceeds of such Bonds and deposits, if any, shall be applied first to make any deposits required by the Trust Indenture authorizing the issuance of such Bonds, second to pay all Costs of the Special Facilities incurred on behalf of the City by the Lessee (and which are reasonably approved by Lessee), including the cost of issuance of such Bonds, and last to pay any Costs of the Special Facilities incurred by or on behalf of Lessee. Any proceeds of the Bonds remaining after paying all Costs of the Special Facilities shall be deposited into the Interest and Redemption Fund as provided under the Trust Indenture.

Section 4.04: Refunding Bonds. Lessee reserves the right to request the City from time to time to issue Refunding Bonds in any manner permitted by law for the purpose of refunding any of the Bonds from time to time outstanding. Although, no representation is made or assurance given or implied by the City that it will be able to issue, sell and deliver such Refunding Bonds on terms and conditions satisfactory to the Lessee, the City agrees to use its best efforts to issue Refunding Bonds at Lessee's request provided they have a similar maturity pattern, similar redemption features and similar security. All Refunding Bonds, if any, shall be secured and payable as provided in the Trust Indenture, and the Net Rent payable hereunder shall automatically be adjusted to provide for the full and timely payment of all principal, interest, redemption premiums, Trustee charges and other related costs and expenses on all Bonds to be outstanding following the issuance of the Refunding Bonds. Notwithstanding the foregoing, the City shall not authorize the sale of any Refunding Bonds or authorize any supplement to the Trust Indenture for such purpose until the terms of such Refunding Bonds and the supplement to the Trust Indenture are approved in writing by Lessee in the manner provided in Section 12.04 hereof, and it is provided further that the City's receipt of such approval shall be conclusively binding upon Lessee.

Section 4.05: Optional Redemption of Bonds. The City agrees that at the written request of Lessee, the City will exercise any reserved right of optional redemption for any of the Bonds, provided that Lessee makes such request in sufficient time as specifically set forth in the Trust Indenture to permit the City to

give any notice required by the Trust Indenture and provided further that Lessee gives the City adequate assurances that it will pay all additional Net Rent required to provide for the payment of the applicable redemption price for such Bonds, together with any related costs and expenses in connection with such redemption.

ARTICLE V

DESIGN, CONSTRUCTION AND ACQUISITION OF THE SPECIAL FACILITIES

Section 5.01: General. Lessee shall cause the Special Facilities to be designed, procured, constructed and installed in accordance with the following provisions.

(a) All plans and specifications for the design, procurement, construction and installation of any discrete element of the Special Facilities, including any alteration or addition thereto, shall be submitted to and receive the written approval of the Director prior to the commencement of any such discrete element of procurement, construction, alteration or installation. The City acknowledges that time is of the essence in reviewing such plans and specifications and shall use diligence to review and respond to all submissions of plans and specifications in a prompt and timely manner; provided that the City will continue its review to the extent practical, as determined by the City, while awaiting additional information from the Lessee. The City's review and response shall be conducted to avoid material, adverse impacts to the most recently published construction schedule approved by the City and the Lessee. The Lessee acknowledges that the City cannot review and respond in such a timely manner unless the Lessee assures that complete and thorough submissions are made to the City for review. Further, the Lessee acknowledges timely review and response by the City requires reasonable response by the Lessee to requests of the City for additional information necessary to complete the City's review.

(b) All such procurement, construction, alteration or installation may be made only after obtaining any required building or construction licenses and permits, which the City agrees to use reasonable efforts to expedite or to assist in obtaining, and, in addition to usual City inspection, shall be subject to inspection by the Director to see that the approved plans and specifications are being followed; provided, however, that the City shall use reasonable efforts to eliminate or avoid any interference or interruption with the construction of the Project.

(c) All such procurement, construction, alteration and installation shall be designed and carried out in accordance with the Department of Aviation's Tenant Improvement Manual, except to the extent inconsistent herewith, which is incorporated herein by reference and a copy of which has been provided to Lessee or as otherwise agreed by the City and Lessee. All such procurement, construction, alteration or installation shall be carried out and completed substantially in accordance with the most recently published construction schedule approved by Director and Lessee. Upon completion of construction, Lessee shall provide the Director with as-built drawings of improvements all on CADD diskette.

(d) Lessee shall make good faith efforts to ensure that its Special Facilities contractors meet the City's overall MWBE participation goals of 24% for design, 17% for construction and 11% for procurement. Lessee shall provide periodic reports as may be reasonably required by the Director or the City's Director of Affirmative Action. The City shall have the right to audit Lessee's efforts under this subsection throughout the term of this Agreement in the same manner as it audits other City contractors.

(e) Lessee shall make good faith efforts to ensure that its Special Facilities contractors that supply services and/or labor comply with the City's drug free work place policy, as set forth in City of Houston Executive Order 1-31, as amended.

(f) Upon completion of each Project, Lessee shall (i) submit to the City an affidavit executed by any officer authorized to bind Lessee of Lessee certifying that the Project has been constructed in substantial accordance with the plans and specifications approved by the Director as provided in Section 5.01; all contractors, subcontractors, laborers, materialmen, architects, engineers, and all other parties who have performed work on or furnished materials for the construction, landscaping, fixturing and equipping the Project has been paid in full together with, when appropriate, executed and delivered releases of lien; the Project is fully equipped, furnished, and supplied and are ready for operation; and Lessee has obtained all necessary licenses, permits, and other authorization required as of such date from all governmental authorities having jurisdiction, and (ii) cause the architect of the Project to execute and deliver to the City an affidavit stating that the Project has been constructed and equipped substantially in accordance with the plans and specifications referred to in Section 5.01.

(g) In the event of default of any contractor or subcontractor under any contract made by it in connection with the Projects or in the event of breach of warranty with respect to any materials, workmanship, or performance guarantee, the Lessee will promptly proceed, either separately or in conjunction with the City, to exhaust the remedies of the Lessee against the contractor, subcontractor or supplier so in default and against the surety for the performance of such contract, to the extent of commercial practicability. The Lessee agrees to advise the City of the steps it intends to take in connection with any such default.

Section 5.02: [Omitted]

Section 5.03: Inventory of Special Facilities; Replacements. Upon completion of the Projects, and upon the construction and acquisition of any additional Special Facilities, Lessee shall provide the Director with a detailed written inventory of all furnishings, fixtures and equipment constituting a material part of such Special Facilities, certified by any officer authorized to bind Lessee, which inventory shall include a complete description of each such item or class of items of such furnishings, fixtures and equipment including make, model and serial numbers, if any. Lessee shall from time to time, upon the reasonable request by Director, amend and revise such inventory to reflect all replacements and substitutes of any such items; provided, however, that Lessee may substitute for or replace commercially fungible items in such inventory with substantially comparable items and take the other actions permitted in Sections 8.01 and 8.04 hereof without notice.

Section 5.04: Title to Projects, Plans and Contracts. (a) In consideration for the City's issuance of Bonds to finance the Costs of the Projects as provided herein, the City shall acquire title to the Projects at the time of construction, acquisition or installation and from time to time during construction, subject to the terms and provisions of this Agreement and the leasehold estate of Lessee herein created and such title shall automatically vest in the City immediately upon such construction, acquisition or installation without further notice or action. In this regard, Lessee hereby agrees to execute and deliver to the City the Deed and Bill of Sale for Projects, after completion thereof, as set forth in Exhibit "D" and such further documentation as shall be reasonably requested by the City to evidence the City's acquisition of title to the Projects in accordance with the terms of this Agreement.

(b) As further consideration for the City's issuance of Bonds to finance the Costs of the Projects, the City shall acquire an interest (on a par with Lessee's interest therein) in all plans, specifications, drawings, contracts, warranties, bonds and other documents and contractual rights relating to the Special Facilities on the Maintenance Site only, the cost of which constitutes a Cost of the Projects (collectively, the "Projects Plans and Contracts"). Moreover, Lessee agrees and shall cause the City to be authorized, as owner of an interest in the Projects Plans and Contracts, to have the authority, right and power to use, enjoy and exercise all rights under the Projects Plans and Contracts available to Lessee in order to be able to cause the design, construction, acquisition, completion and operation of the Projects. The City agrees that it will not exercise any such authority, rights or powers under this subsection so long as no Event of Default by Lessee has occurred and is continuing hereunder.

Section 5.05: Design, Construction and Acquisition of Additional Special Facilities.

(a) From time to time hereafter, Lessee may request the City to undertake to issue Additional Bonds to finance additional Special Facilities. The Director shall cooperate in a reasonable manner with Lessee to request the City to provide such financing, and if consummated, then this Agreement shall be supplemented to provide for the design, construction and acquisition of such Special Facilities, for payment of the Costs of the Special Facilities and any other matters deemed appropriate by the City and Lessee. The Net Rent payable hereunder shall automatically be increased to provide for the payment of the Additional Bonds, in the amount and manner set forth in Section 4.02 hereof.

(b) It is expressly acknowledged and understood by Lessee that this Agreement shall impose no obligation of any kind upon the City to issue or undertake to issue any Additional Bonds to finance additional Special Facilities except for the best efforts obligations set forth in Section 4.02. If the City elects not to issue Additional Bonds for such purpose, Lessee may construct such improvements at its sole cost.

Section 5.06: Personal Property Not Constituting Special Facilities. Lessee's equipment, trade fixtures and personal property not constituting Special Facilities (i.e. not financed with Bonds and not constituting a replacement, repair or substitution for Special Facilities under Section 8.04(b)) may be

located on the Easements or Ground Lease Property without becoming Special Facilities and, so long as no Event of Default by Lessee has occurred and is continuing hereunder, may be removed by Lessee provided that such removal will not damage or impair the Special Facilities or that Lessee at its expense restores the Special Facilities to the same or better condition than existed prior to such removal. Any and all such equipment, trade fixtures and personal property not removed by Lessee prior to the expiration of this Agreement, or if this Agreement ends by early termination, within 60 days after receipt by Lessee of a written notice issued by the Director to remove such property, shall thereupon become a part of the land upon which it is located and title thereto shall thereupon vest in the City, and City reserves the right to remove such property not so removed by Lessee, and if such removal is accomplished within the 30 day period after the expiration of this Agreement or the 60 day period referred to above (after the early termination of the Agreement), such removal by the City shall be at Lessee's expense.

ARTICLE VI

NET RENT AND GROUND RENT

Section 6.01: Net Rent While Bonds Outstanding. (a) Lessee shall pay to the City, by depositing directly with the Trustee for the account of the Interest and Redemption Fund, Net Rent for so long as any Bonds remain Outstanding within the meaning of the Trust Indenture at such times and in such amounts as follows, which obligation shall survive the termination of this Agreement:

(i) on or before each interest and/or principal payment date on the Bonds,

(A) all interest payable on all Bonds on such date; plus

(B) all principal (if any) payable on all Bonds on such date, whether payable at maturity or earlier redemption (regardless of whether such redemption is optional, extraordinary or mandatory); plus

(C) all redemption premiums (if any) payable on all Bonds on such date.

(ii) immediately upon receipt of written notice from the Trustee for the Bonds advising it that such amounts are due and payable:

(A) all unpaid principal, accrued interest and redemption premiums and/or indemnifications on all Bonds which are declared due and payable under any extraordinary redemption or acceleration provision in the Trust Indenture;

provided, however, that if the Trust Indenture allows payments of such amounts on a later date or in installments, they shall be payable as required by the Trust Indenture without further notice by the Trustee.

In addition to the above described Net Rent, Lessee shall pay (x) directly to the Trustee, all Trustee charges and any other related costs and expenses in connection with the payment of principal, interest or redemption premiums on the Bonds in accordance with the Trust Indenture, (y) directly to the Trustee at such times and in such amounts, together with amounts available therefor under the Trust Indenture so as to ensure compliance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, and (z) directly to any bond insurer or provider of a reserve fund surety, all fees, charges, reimbursements, expenses and interest charges due in connection therewith.

(b) The Net Rent payable under subsection 6.01(a) of this Agreement shall be reduced by the total of any amounts then on deposit in the Interest and Redemption Fund in excess of the amount then needed for the purpose of paying previously matured interest, principal, matured or redeemed Bonds, and redemption premiums, if any, whether such excess amounts become available by reason of (i) amounts deposited in the Interest and Redemption Fund from the proceeds of the Bonds, (ii) previous overpayments of Net Rent, (iii) surplus funds from proceeds of the Bonds deposited to the credit of such Interest and Redemption Fund at the end of the construction and acquisition of the Project, (iv) interest earnings from the investment or deposit of any amounts from time to time credited to the Interest and Redemption Fund, or (v) any other circumstance which results in excess funds being properly deposited in the Interest and Redemption Fund that are available for such purpose. The reductions in the Net Rent payments contemplated by this subsection 6.01(b) shall be made by applying such excess amounts as a credit(s) against the next Net Rent payment(s) due

after such excess amounts have actually become available in the Interest and Redemption Fund, until such excess amounts are exhausted. The City shall request the Trustee to calculate such reductions and furnish them to the Lessee in a timely manner prior to the date on which Net Rent is payable. In the event the Trustee fails to furnish Lessee with the amount of any such reduction, it shall be the Lessee's obligation to ascertain the correct amount of such reductions or pay as Net Rent the full amount provided in subsection 6.01(a) hereof. After all Net Rent has been paid and no Bonds remain Outstanding within the meaning of the Trust Indenture and no amounts remain due and owing under the Trust Indenture, then, any amounts remaining in the Interest and Redemption Fund which are paid over to the City by the Trustee shall be deemed overpayments of Net Rent and paid over by the City to Lessee within 30 days of their receipt by the City.

Section 6.02: Obligation to Pay Net Rent Unconditional. It is understood and acknowledged by the Lessee that the Bonds will be sold to the purchasers thereof in reliance upon the commitment of Lessee to make the payments of Net Rent provided in Section 6.01 above, subject only to the reductions provided in subsection (b) thereof. Accordingly, the obligations of the Lessee to make the payments of Net Rent thus required shall be absolute and unconditional and so long as the Bonds remain outstanding within the meaning of the Trust Indenture, the Lessee (i) will not suspend or discontinue any payments of Net Rent provided herein or seek any offset against its obligations to pay such amounts or recoupment of any amounts so paid, and (ii) will not terminate this Agreement or otherwise seek to avoid or to reduce the payment of Net Rent for any reason, including without limiting the generality of the foregoing, failure of the Lessee to complete the Projects, failure of the City to acquire the Projects, failure of the Lessee or the City to complete the construction or acquisition of any other Special Facilities, failure of the City to pay or cause to be paid any Costs of the Special Facilities (but without limiting the City's obligations under Section 4.03 hereof) or any acts or circumstances that may constitute failure of consideration, destruction or damage to or condemnation of such facilities, or frustration of purpose, any change in the tax or other laws of the United States of America or the State of Texas, or any political subdivision of either thereof or any failure of the City to perform or observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with this Agreement. It is provided, however, that nothing contained in this Section shall be construed to release the City from the performance of any of the agreements on its part herein contained, and in the event the City should fail to perform such agreement, the Lessee may, without limitation of any other rights that the Lessee may then have, institute such actions against the City as it may deem necessary to compel the performance thereon, to seek damages or other relief or to restrain or enjoin forbidden acts provided that such institution of such actions shall not result in a reduction of the payment of Net Rent hereunder.

Section 6.03: Pledge of Net Rent. It is expressly understood and agreed that the Net Rent payable hereunder shall be pledged to the payment of the Bonds and amounts due under the Trust Indenture in accordance with the Trust Indenture, and that, so long as any Bonds remain Outstanding, such Net Rent shall be paid in the amounts and manner herein specified. In the Trust Indenture the City shall covenant not to permit any modification of or amendment to Section 6.01 of this Agreement or to any other provision hereof that would have the effect of reducing, altering or modifying the commitments of Lessee contained in Sections 6.01 or 6.02 hereof or would materially minimize, reduce or lessen the rights of the City after an Event of Default in the payment of Net Rent by Lessee or would materially and adversely affect the security provided for the payment of the Bonds, and no such modification or amendment hereto shall be permitted while the Bonds remain Outstanding.

Section 6.04: Operation and Maintenance Expenses; Other Costs. The Net Rent, which is to be pledged to the payment of the Bonds and amounts due under the Trust Indenture, is intended to be a net return to the City. Accordingly, in addition to the payment of all Net Rent hereunder, the Lessee hereby agrees to pay, all Ground Rentals directly to the City and to pay (or cause to be paid), all operation and maintenance expenses applicable to the Special Facilities and Ground Lease Properties, including, without limitation, utility costs, any insurance premiums applicable thereto, any and all ad valorem or other property taxes lawfully levied or assessed against the Special Facilities and Ground Lease Properties or Lessee's leasehold estate therein, any and all lawful excise and other types of taxes imposed on or in respect of such properties, the expenses of upkeep thereof of every kind and character, including the repair or ordinary restoration thereof, and every other item of expense imposed on Lessee pursuant to this Agreement.

Section 6.05: Ground Rentals.

(a) In addition to Net Rent, Lessee shall pay to the City, as

Ground Rentals for the Ground Lease Properties, the following monthly rental amounts, payable in advance on the first business day of each month beginning on the first day of the first payment period shown below:

Mail Sort Site

Land/Ramp Rental

Period	Fixed	Annual Rate P.S.F.	No. of Sq. Ft.	Monthly
	Monthly Payment			Subtotal
5/1/97-12/31/98	\$3,316.20	\$0.25	13,742	\$ 286.29
1/1/99-12/31/99	n/a	\$0.25	676,982	14,103.79
1/1/00-12/31/03	n/a	\$0.25	676,982	14,103.79

Improvements Rental

Period	Annual	No. of Sq. Ft.	Monthly	Monthly
	Rate P.S.F.		Subtotal	Rent Total
5/1/97-12/31/98	n/a	n/a	n/a	\$3,602.49
1/1/99-12/31/99	\$3.10	18,488	\$4,776.07	18,879.86
1/1/00-12/31/03	\$4.72	18,488	7,271.95	21,375.74
1/1/04 and thereafter	15% escalation every fifth year beginning January 1, 2004			

Maintenance Site

Land/Ramp Rental

Period	Fixed	Annual Rate P.S.F.	No. of Sq. Ft.	Monthly
	Monthly Payment			Subtotal
5/1/97-12/31/99	\$4,180.00	\$0.25	145,515	\$ 3,031.56
1/1/00-12/31/04	n/a	\$0.25	981,515	20,448.23

Improvements Rental

Period	Annual	No. of Sq. Ft.	Monthly	Monthly
	Rate P.S.F.		Subtotal	Rent Total
5/1/97-12/31/99	n/a	n/a	n/a	\$7,211.56
1/1/00-12/31/04	\$4.71	47,345	\$18,582.91	39,031.14
1/1/05 and thereafter	15% escalation every fifth year beginning January 1, 2005			

Inflight Training Site

Land/Ramp Rental

Period	Fixed	Annual Rate P.S.F.	No. of Sq. Ft.	Monthly
	Monthly Payment			Subtotal
1/1/99-10/31/99	\$ _____	\$0.06	627,000	\$3,135.00
11/1/99 and thereafter	-- See Section 6.05(d)			

Improvements Rental

Period	Annual	No. of Sq. Ft.	Monthly	Monthly
	Rate P.S.F.		Subtotal	Rent Total
1/1/99-6/30/00	_____	_____	_____	\$ _____

JFK Blvd. Site

Land/Ramp Rental

Period	Fixed	Annual Rate P.S.F.	No. of Sq. Ft.	Monthly Subtotal
	Monthly Payment			
1/1/99-6/30/00	\$ _____	\$0.06	485,717	\$2,964.38
7/1/00-6/30/05		\$0.28	485,717	\$13,833.75
7/1/05-6/30/10		\$0.30	485,717	\$14,821.00
1/1/11 and thereafter -- See Section 6.05(d)				

Improvements Rental

Period	Annual	No. of Sq. Ft.	Monthly Subtotal	Monthly Rent Total
	Rate P.S.F.			
1/1/99-6/30/00	_____	_____	_____	\$ _____

Warehouse Site

Land/Ramp Rental

Period	Fixed	Annual Rate P.S.F.	No. of Sq. Ft.	Monthly Subtotal
	Monthly Payment			
1/1/99-12/31/04	\$ _____	\$0.28	97,500	\$2,275.00
_____ and thereafter -- See Section 6.05(d)				

Improvements Rental

Period	Annual	No. of Sq. Ft.	Monthly Subtotal	Monthly Rent Total
	Rate P.S.F.			
1/1/99-12/31/04	_____	_____	_____	\$ _____

(b) All Ground Rentals payments to the City shall be made at the Office of the Director or such other place as shall be designated in writing by the City. All Ground Rentals not paid to the City on or before the due date, as established herein, may, at the discretion of the Director, bear interest at the rate of fifteen percent (15%) per annum until paid.

(c) Lessee shall provide to the City and maintain during the term of this Agreement rent security for Ground Rentals in the amount of \$350,000 by means of a letter of credit in favor of the City from a bank and in a form reasonably acceptable to the Director, or a bond in a form reasonably acceptable to and approved by the Director. Such rent security shall cease to be required after the later of January 1, 1999 or the substantial completion of the Project if Lessee has a corporate credit rating from Standard & Poor's of "B" or better (or comparable rating from another nationally recognized rating agency if Standard & Poor's no longer rates Lessee's credit); provided, that if such rating ever falls below "B," such rent security shall be required again and shall continue until Lessee achieves such a rating of "B" or better again.

(d) For the Inflight Training Facility, JFK Blvd. Site and Warehouse Facility, after the expiration of periods for which scheduled Ground Rentals have been determined, Ground Rentals shall be based upon appraisals of such properties (without taking into account Special Facilities for which Lessee is responsible for paying Net Rent) conducted by the City in accordance with the City's Home-Rule Charter to be performed prior to the expiration of the respective scheduled Ground Rental periods. To the extent permitted by law, Director will allow Lessee to submit appraisal data regarding each facility's fair market value to be considered during the appraisal process. Immediately following the appraisal process the Director and the Lessee shall enter into a memorandum memorializing the Ground Rentals established in the appraisal process. Such memorandum shall be deemed to be incorporated into this Agreement.

ARTICLE VII

USE OF SPECIAL FACILITIES

Section 7.01: Use. (a) Lessee shall have the rights to use and enjoy the Special Facilities and Ground Lease Properties, including the rights of possession and quiet enjoyment of the Special Facilities and Ground Lease Properties, for the purpose of (i) constructing and maintaining the Special Facilities and Ground Lease Properties in accordance with the terms hereof and (ii) subject to all the terms and provisions hereof, conducting, as a part of Lessee's (or its subsidiaries') air transport business, the following authorized activities in or upon the Special Facilities and Ground Lease Properties on a non-exclusive basis on the Airport, in connection with the Lessee's (i) operation of a Mail Sort Facility, (ii) Hangar Maintenance Facility, (iii) operation of Inflight Training Facility, (iv) operation of JFK Blvd. Facility, and (v) operation of Warehouse Facility (except where otherwise noted, references in this Section to Lessee's subsidiaries shall mean only those subsidiaries engaged in the air transport business where Lessee is the owner of a majority interest in such subsidiary):

- (1) as to the Mail Sort Facility and Hangar Maintenance Facility, the repairing, modifying, overhauling, testing, maintaining, conditioning, washing, servicing, parking, basing and storage of aircraft and other equipment of Lessee and its subsidiaries operated or used in its air transport business;
- (2) as to all Special Facilities and Ground Lease Properties, the giving of instruction in the operating and maintenance of aircraft of all types and the conduct of ground training courses for pilots, including but not limited to cockpit simulator for pilots and cabin simulator for flight attendants and crew training for the Lessee's and its subsidiaries' employees;
- (3) subject to subsection b(8) below, the sale, purchase, storage, rental, disposal and exchange of aircraft, aircraft engines, electronic equipment, accessories, and other aircraft parts, equipment and supplies;
- (4) as to the Special Facilities and the Ground Lease Properties, the storage of food, dry goods, bonded products and materials, and for the preparation and sale of food and beverages to employees of Lessee and its subsidiaries and employees of contractors on the Special Facilities and Ground Lease Properties and to others to whom Lessee can sell such items under agreement (including amendments thereto) between the Lessee and the

City;

- (5) as to all Special Facilities and Ground Lease Properties, the installation of signs advertising the business of Lessee and Continental Express (including any of their operating divisions); provided, however, the type, size, design, number, location and elevation of such signs shall be subject to and in accordance with the prior written approval of the Director;
- (6) as to all Special Facilities and Ground Lease Properties, subject to the prior written approval of the Director, the installation, maintenance and operation of antennas and of such electronic, communications, meteorological and aerial navigational equipment and facilities as may be necessary or convenient for the operation of Lessee's business, provided (i) the location, elevation, installation, maintenance or operation of such antennas, equipment or facilities does not interfere with operations conducted or equipment operated by the Federal Aviation Administration, (ii) they meet any and all requirements of all governmental authorities, and (iii) they are used solely in connection with Lessee's, its subsidiaries', or its code share affiliates' operation of its or their air transport business (and for which Lessee or such other parties receive no commercial value from third parties);
- (7) as to all Special Facilities and Ground Lease Properties, any other use authorized by reasonable implication herein directly relating to the servicing, storage, operating, repair, and maintenance of aircraft directly and primarily for the Lessee's and its subsidiaries' operation of its air transport business;
- (8) on the Mail Sort Site only, processing, storage and handling of mail and related incidental cargo; and
- (9) subject to subsection (b) (7) below as to the Mail Sort Facility and Hangar Maintenance Facility, the processing, storage and handling of air cargo.

(b) Should any Lessee engage in a prohibited activity under this subsection (b) or in an activity not authorized by subsection (a) above unless the prior written approval of the Director is obtained, then such event shall constitute a breach of this Agreement. The Lessee does not have the right to engage in and shall not engage in or permit the conduct of any of the following prohibited activities upon the Special Facilities and Ground Lease Properties:

- (1) sale of aviation fuels to others, except to Lessee's subsidiaries, code share affiliates or to other airlines of the type described in subsection (c) below;
- (2) sale of food/beverages or other food products to others except as specifically provided herein;
- (3) loading and unloading of passengers except in connection with the delivery, acceptance or maintenance of aircraft operated by Lessee, its subsidiaries or its code share affiliates, or in (i) connection with promotional flights of such parties (but not to include the loading or unloading of revenue passengers) and (ii) emergency circumstances;
- (4) automobile parking for other than the employees of Lessee or its subsidiaries, vendors, or service providers;
- (5) automobile rental business;
- (6) ticket sales or ticket office;
- (7) cargo operations that involve the loading or unloading of aircraft not owned or operated by Lessee or its subsidiaries or code share affiliates, except for mail-related incidental cargo as described in subsection (a) (8) above;
- (8) offering to others the services, limited or otherwise, of a fixed base operator, except to other airlines of the type described in subsection (c) below.

(c) Lessee shall have the right, subject to the prior written approval of the Director, and subject to all of the terms and provisions hereof, to cause or permit the conduct upon the Special Facilities and Ground Lease Properties of any one or more of the activities permitted to be performed by Lessee pursuant to the provisions of subsection (a) hereof by or through an independent contractor, sublessee, or other third parties, provided that Lessee shall not thereby be relieved of any of its obligations or

liabilities hereunder. Further activities listed in subsection (a) may also be performed for, or in cooperation with, airlines certificated under 14 CFR 121 and 129.

ARTICLE VIII

LESSEE'S OBLIGATIONS AND CONDITIONS TO LESSEE'S USE OF SPECIAL FACILITIES

Section 8.01: Maintenance of Special Facilities at Lessee's Expense. Subject to the other terms of this Agreement, Lessee shall throughout the term of this Agreement assume the entire responsibility, cost and expense, for the operation and all repair and maintenance whatsoever of Ground Lease Properties and the Special Facilities, whether such repair or maintenance be ordinary or extraordinary, structural or otherwise. Additionally, without limiting the generality of the foregoing, Lessee shall:

(a) Maintain at all times the Special Facilities in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair.

(b) [Omitted]

(c) Keep at all times, in a clean and orderly condition and appearance, the Ground Lease Properties and Special Facilities which are open to or visible by the general public.

(d) Provide and maintain all obstruction lights and similar devices, fire protection and safety equipment and all other equipment of every kind and nature required by laws, rule, order, ordinance, resolution or regulation of any competent authority, including the City and Director.

(e) Repair any damage caused by Lessee to paving or other surfaces of the Special Facilities or Ground Lease Properties caused by any oil, gasoline, grease, lubricants or other flammable liquids and substances having a corrosive or detrimental effect thereon.

(f) Take reasonable measures to prevent erosion, including but not limited to, the planting and replanting of grass with respect to all portions of the premises not paved or built upon, and in particular, plant, maintain and replant any landscaped areas; and in designing and constructing improvements, preserve as many trees as possible consistent with Lessee's construction and operations on the Ground Lease Properties.

(g) Be responsible for the maintenance and repair of all utility services lines placed on the Ground Lease Properties or Easements and used by Lessee exclusively, including, but not limited to, water lines, gas lines, electrical power and telephone conduits and lines, sanitary sewers and storm sewers.

(h) Take all reasonable measures (i) to reduce to a minimum vibrations tending to damage any equipment, structure, building or portion of building which is located elsewhere on the Airport; (ii) to keep the sound level of its operations as low as possible; and (iii) not to produce on the Airport through the operation of machinery or equipment any electrical, electronic or other disturbance that interferes with the operation by the City, the Federal Aviation Administration or the scheduled airlines, of air navigational, communication or flight equipment on the Airport or on aircraft using the Airport, or with ground transportation communications.

(i) Within reason, control the conduct, demeanor and appearance of its officers, agents, employees, invitees and of those doing business with it; and, upon reasonable objection from Director concerning the conduct, demeanor or appearance of any such person, immediately take all reasonable steps necessary to remove the cause of the objection.

(j) Commit no nuisances, waste or injury, and not do, or permit to be done, anything which may result in the creation, commission or maintenance of such nuisance, waste or injury on the Ground Lease Properties or the Special Facilities.

(k) Not cause nor create, nor permit to be caused or created, upon the Ground Lease Properties, any noxious odor, smoke, noxious gas or vapor. Odors emitted in the operation of Lessee's authorized activities pursuant to Section 7.01 shall comply with the requirements of all generally applicable air pollution and nuisance statutes and ordinances.

(l) Subject to the Lessee's rights to use City services on the same basis as other customers of the City, not do, nor permit to be done, anything which may interfere with the effectiveness or accessibility of the drainage system, sewerage system, fire protection system, sprinkler system, alarm system and fire hydrants and hoses, if any, installed or located on the Ground Lease

Properties or the Special Facilities.

(m) Collect all garbage, debris and waste material (whether solid or liquid) arising out of its occupancy of the Ground Lease Properties, store same pending disposal in covered metal or other rigidly and sturdily constructed receptacles and dispose of same off the Airport at regular intervals, except for sewage which may be disposed of in the City's sewer system, all at Lessee's expense, in the manner reasonably required by the Director.

Section 8.02: Taxes, Charges, Utilities, Liens. (a) Lessee shall pay all taxes that may be levied, assessed or charged upon the Ground Lease Properties and the Special Facilities or Lessee's leasehold estate therein by the State of Texas or any of its political subdivisions or municipal corporations, and shall obtain and pay for all licenses and permits required by law. However, Lessee shall have the right to contest, in good faith, the validity or application of any such tax, license or permit and shall not be considered in default hereunder as long as such contest is in progress and diligently prosecuted. City agrees to cooperate with Lessee in all reasonable ways in connection with any such contest other than a contest of any tax, permit or license of the City.

(b) Lessee shall pay for all water, heat, electricity, air conditioning, sewer rents and other utilities to the extent that such utilities are furnished to the Ground Lease Properties or the Special Facilities.

(c) Lessee shall neither cause or permit any laborers, mechanics, builders, carpenters, materialmen, contractors, or other liens or encumbrances (including judgment and tax liens) against Ground Lease Properties or the Special Facilities or any City property by virtue of the construction, repair or replacement of the Ground Lease Properties or the Special Facilities; provided, however, that Lessee may at its own expense in good faith contest the validity of any alleged or asserted lien and may permit any contested lien to remain unsatisfied and undischarged during the period of such contest and any appeal therefrom unless by such action any part of the Ground Lease Properties or the Special Facilities may be subject to a material risk of loss or forfeiture, in any of which events such lien shall be promptly satisfied or bonded around in accordance with Texas law.

Section 8.03: Compliance with Airport Rules and Regulations and Law; Nondiscrimination. With respect to the Special Facilities, Lessee shall observe and obey all applicable Airport rules and regulations, and shall not discriminate against any person or class of persons by reason of race, color, religion, sex, national origin or ancestry, age or physical or mental handicaps.

Section 8.04: Compliance with Tax Law. With respect to the Special Facilities, Lessee hereby covenants and agrees as follows:

(a) Lessee shall comply or cause to be complied with all tax covenants with respect to the Special Facilities and the Bonds contained in Section 5.4 of the Trust Indenture;

(b) Lessee shall continuously repair, preserve, replace or substitute, as needed, all Special Facilities, at its expense, to the extent necessary to maintain and/or extend the reasonably expected economic life of the Special Facilities to satisfy the tax covenant contained in Section 5.4(c) of the Trust Indenture. All property for which replacements or substitutions are made by Lessee as provided herein shall become Lessee's property (and such replacement or substituted property shall become the City's property);

(c) Lessee hereby elects not to claim depreciation or an investment credit for federal income tax purposes with respect to any portion of the Special Facilities; Lessee will take all actions necessary to make this election binding on all its successors in interest under this Agreement; and this election shall be irrevocable.

Section 8.05: Environmental Matters.

A. Lessee shall comply with all federal, state, local statutes, ordinances, regulations, rules, policies, codes or guidelines now or hereafter in effect, as same may be amended from time to time, which govern Hazardous Materials (as hereinbelow defined) or relate to the protection of human health, safety or the environment and which are applicable to the conduct of Lessee's business operations from the Special Facilities, and shall include but not be limited to: the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. Section 136 et seq.; the Safe Drinking Water Act, 42 U.S.C. Section 300(f) et seq.; the Oil Pollution Control Act of 1990, 33 U.S.C. Section 270 et seq.; the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq.; and as amended by the Superfund Amendments and Reauthorization Act of 1986, Pub. Law No.99-499, 100 Stat. 1613; the Toxic Substances

Control Act, 15 U.S.C. Section 2601 et seq.; the Clean Air Act as amended, 42 U.S.C. Section 7401 et seq.; the Clean Water Act, 33 U.S.C. Section 1251, et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C., Section 6901 et seq.; and those substances defined as hazardous waste or as hazardous substances under the laws of Texas and/or the United States or in regulations promulgated pursuant to such laws (collectively, "Environmental Laws").

B. Any fines or penalties that may be levied against the City by the Environmental Protection Agency or the Texas Natural Resource Conservation Commission or any other governmental agency for Lessee's failure to comply with the Environmental Laws as required by Section 8.05(A) hereof shall be reimbursed to the City by Lessee within ten (10) days of receipt of an invoice from City for such fines or penalties.

C. Lessee shall prevent the presence, use, generation, release, omission, discharge, storage, disposal or transportation of any Hazardous Materials on, under, in, above, to or from facilities subject to this Agreement by Lessee, other than in strict compliance with all Environmental Laws. For purposes of this Section, "Hazardous Materials" shall be interpreted in the broadest sense to include any and all substances, materials, wastes, pollutants, oils, or governmental regulated substances or contaminants as defined or designated as hazardous, toxic, radioactive, dangerous, or any other similar term in or under any of the Environmental Laws, including but not limited to, asbestos and asbestos containing materials, petroleum products including crude oil or any fraction thereof, gasoline, aviation fuel, jet fuel, diesel fuel, lubricating oils and solvents, urea formaldehyde, flammable explosives, PCBs, radioactive materials or waste, or any other substance that, because of its quantity, concentration, physical, chemical, or infectious characteristics may cause or threaten a present or potential hazard to human health or the environment when improperly generated, used, stored, handled, treated, discharged, distributed, disposed or released. Hazardous Materials shall also mean any and all hazardous materials, hazardous wastes, toxic substances, or regulated substances under any Environmental Laws.

D. Lessee acknowledges that the Airport is subject to the National Pollution Discharge Elimination System Program ("NPDES") and its regulations relating to stormwater discharges, 40 CFR Part 122, for operations that occur at the Airport. Lessee further acknowledges that it is familiar with these NPDES stormwater regulations, that it will conduct operations at the Special Facilities subject to 40 CFR Part 122 as it may be amended from time to time.

E. City and Lessee both acknowledge that close cooperation is necessary to ensure compliance with any NPDES stormwater discharge permit, as well as to ensure safety and to minimize costs. Lessee acknowledges that it may be necessary to undertake to minimize the exposure of stormwater to significant materials generated, stored, handled or otherwise used by Lessee at the Special Facilities as defined in the federal stormwater regulations, by implementing and maintaining "Best Management Practices" as defined in 40 CFR, Part 122.2, as it may be amended from time to time.

F. Lessee acknowledges that City's NPDES stormwater discharge permit, to the extent affecting the Special Facilities, is incorporated by reference into this Agreement and any subsequent amendments, extensions or renewals. Lessee agrees to be bound by all applicable portions of said permit. City shall promptly notify Lessee of any changes to any portions of said permit applicable to, or that affect, Lessee's operations.

G. City shall provide Lessee with written notice of those NPDES stormwater discharge permit requirements that Lessee shall be obligated to perform from time to time at the Special Facilities, including, but not limited to: certification of non-stormwater discharges; collection of stormwater samples; preparation of stormwater pollution prevention or similar plans; implementation of "good housekeeping" measures or Best Management Practices; and maintenance of necessary records. Such written notice shall include applicable deadlines. Lessee, within 15 days of receipt of such written notice, shall notify City in writing if it disputes any of the NPDES stormwater discharge permit requirements it is being directed to undertake. If Lessee does not provide such timely notice, it is deemed to assent to undertake such requirements. If Lessee provides City with written notice, as required above, that it disputes such NPDES stormwater discharge permit requirements, City and Lessee agree to negotiate a prompt resolution of their differences. Lessee warrants that it will not object to City notices required pursuant to this paragraph unless Lessee has a good faith basis to do so.

H. City and Lessee agree to provide each other upon request,

with any non-privileged information collected and submitted to any governmental entity(ies) pursuant to applicable NPDES stormwater regulations applicable to the Special Facilities.

I. Lessee agrees to participate in any reasonable manner requested by the City in any City organized task force or other work group established to coordinate stormwater activities at the Airport.

J. All such remedies of City with regard to environmental requirements as set forth herein shall be deemed cumulative in nature and shall survive termination of this Agreement.

K. LESSEE SHALL PROTECT, DEFEND, INDEMNIFY AND HOLD HARMLESS THE CITY AND ITS OFFICERS, AGENTS AND EMPLOYEES FROM AND AGAINST ANY LOSS, COST, CLAIM, DEMAND, PENALTY, FINE, SETTLEMENT, LIABILITY AND EXPENSE (INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEYS' AND CONSULTANTS' FEES, COURT COSTS AND LITIGATION EXPENSES) RELATED TO

(1) LESSEE'S USE OF HAZARDOUS MATERIALS OF WHATEVER KIND OR NATURE, KNOWN OR UNKNOWN, ON THE SPECIAL FACILITIES;

(2) ANY ACTUAL, THREATENED OR ALLEGED CONTAMINATION BY HAZARDOUS MATERIALS ON THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES BY LESSEE OR ITS AGENTS;

(3) THE DISPOSAL, RELEASE OR THREATENED RELEASE OF HAZARDOUS MATERIALS BY LESSEE OR ITS AGENTS AT THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES THAT IS ON, FROM OR AFFECTS THE SOIL, AIR, WATER, VEGETATION, BUILDINGS, PERSONAL PROPERTY, OR PERSONS;

(4) ANY PERSONAL INJURY, DEATH OR PROPERTY DAMAGE (REAL OR PERSONAL) ARISING OUT OF OR RELATED TO HAZARDOUS MATERIALS USED BY LESSEE AT THE GROUND LEASE PROPERTIES, EASEMENTS OR SPECIAL FACILITIES; OR

(5) ANY VIOLATION BY LESSEE OF ANY ENVIRONMENTAL LAWS AT GROUND LEASE PROPERTIES, EASEMENTS OR THE SPECIAL FACILITIES.

PROVIDED HOWEVER, THAT NONE OF THE FOREGOING INDEMNITY SHALL BE APPLICABLE TO LOSSES, COSTS, EXPENSES, CLAIMS, DEMANDS, PENALTIES, FINES, SETTLEMENTS, LIABILITIES AND EXPENSES WHICH RESULT FROM CONDITIONS EXISTING AS OF THE EFFECTIVE DATE OF THIS AGREEMENT OR WHICH RESULT FROM THE ACTION OF THE CITY OR ITS AGENTS.

Section 8.06: City's Right To Maintain or Repair Special Facilities. In the event Lessee fails (i) to commence within thirty (30) days after written notice from the Director to do any maintenance or repair work to the Special Facilities required to be done under the provisions of this Agreement, other than preventive maintenance; (ii) to commence such work within a period of ninety (90) days if such notice specifies that the work to be accomplished by the Lessee involves preventive maintenance only; or (iii) to diligently continue to completion any such work as required under this Agreement; then, the Director or the City may, at its option, and in addition to any other remedies which may be available to it, enter the Special Facilities, without such entering causing or constituting a cancellation of this Agreement or an interference with the possession of the Special Facilities, and repair, maintain, replace, rebuild or paint all or any part of the Special Facilities and do all things reasonably necessary to accomplish the work required, and the reasonable cost and expense thereof shall be payable to the City by Lessee on written demand; provided, however, if in the reasonable opinion of the Director or the City, the Lessee's failure to perform any such repair or maintenance endangers the safety of the public, the employees or other tenants at the Airport, and the Director or the City so states same in its notice to Lessee, the Director or the City may perform such maintenance at any time after the giving of such notice, and Lessee agrees to pay to City the reasonable cost and expense of such performance on demand, plus an administrative fee of 15% of such cost and expense promptly on demand. Furthermore, should the Director, the City, its officers, employees, agents, or contractors undertake any work hereunder, Lessee hereby waives any claim for damages, consequential or otherwise, as a result therefrom. The foregoing shall in no way affect or alter the primary obligations of Lessee as set forth in this Agreement, and shall not impose or be construed to impose upon the Director or the City any obligation to maintain the Ground Lease Properties or the Special Facilities, unless specifically stated otherwise herein. In the event of the exercise by City of any repair work on the Special Facilities, City shall use all reasonable efforts to minimize any interference or interruption with Lessee's business operations.

Section 8.07: Termination Procedures. Upon the expiration or termination of this Agreement pursuant to any terms hereof, Lessee shall surrender the Special Facilities to the City in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair, unless otherwise permitted in

Section 8.08: Annual Inspections. Lessee agrees that upon written request by the Director not more often than annually, Lessee will cause an annual inspection of the Ground Lease Properties and Special Facilities to be made by an architect or engineer selected by Lessee, and at Lessee's expense, in the presence of a representative of the City designated by the Director and that it will file with the Director immediately following each such inspection a certificate signed by two (2) of its representatives, one of whom shall be a vice president, certifying that the Ground Lease Properties and Special Facilities have been maintained, repaired and preserved and are being operated in conformity with this Article. In the event that Lessee fails to file such certificate with the City or is unable to make such certification within 30 days following request by the City, the City may cause an inspection of the Ground Lease Properties and Special Facilities to be made by an architect or engineer of its choosing at the expense of Lessee. In the event that the report of any such inspection made by such architect or engineer shall show that the Ground Lease Properties and Special Facilities have not been so maintained, repaired or preserved or are not being operated in conformity with this Article, Lessee shall within fifteen (15) days from receipt of such notice from the City make such repairs that shall in the opinion of said architect or engineer be necessary to correct such defect, and if Lessee refuses, neglects or fails to commence and diligently pursue to completion such corrective action, the City or its designee may do so and Lessee shall pay to City the cost thereof plus an administrative fee equal to 15% of such cost promptly upon demand.

Section 8.09: Restoration of Airport Property. In the event it shall be necessary for Lessee to disturb any paved area or any other property on the Ground Lease Properties or at any other place on the Airport by excavation or otherwise for the purpose of making repairs, replacements or alterations to the Ground Lease Properties, Lessee shall obtain from City all required permits, and Lessee shall restore all such properties and paved areas excavated or otherwise disturbed to a condition at least as good as that in which they were prior to such work, and Lessee shall post any bonds required by general ordinance of City to guarantee that such property will be restored in the manner and to the condition required. Lessee shall guarantee its repairs, replacements and alterations for a period of one year.

Section 8.10: Airport Rules. From time to time City will adopt and enforce generally applicable rules and regulations with respect to the occupancy and use of the Airport, its services and facilities, by persons, vehicles, aircraft and equipment that in its opinion will reasonably insure the safe, efficient and economically practicable operation thereof, provide for the safety and convenience of those using the Airport and to protect the Airport and its facilities and the public from damage or injury resulting from operations on, into and from the Airport. Lessee agrees to observe and obey such rules and regulations and to require its officers, agents, employees, contractors and suppliers, to observe and obey the same, and City reserves the right to deny access to the Airport and/or its facilities to any person, firm or corporation that fails or refuses to obey and comply with such rules and regulations. Such rules and regulations will not be inconsistent with the terms of this Agreement, valid rules, regulations, orders and procedures of the Federal Aviation Administration, or any other governmental agency, duly authorized to make and enforce rules and regulations for the operation of the Airport and the operation of aircraft at the Airport. A current copy of City's rules and regulations and any amendments thereto shall be made available to Lessee upon request.

Section 8.11: Certain Federal Requirements. (a) Lessee, for itself, its legal representatives, successors in interest, and assigns, as a part of the consideration hereof does hereby covenant and agree as a covenant running with the land that in the event facilities are constructed, maintained, or otherwise operated on the said property described in this Agreement for a purpose for which a Department of Transportation program or activity is extended or for another purpose involving the provisions of similar services or benefits, the Lessee shall maintain and operate such facilities and services in compliance with all requirements imposed pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Non-discrimination in federally-assisted programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, and as said Regulations may be amended.

(b) Lessee, for itself, its legal representatives, successors in interest and assigns, as a part of the consideration hereof, does hereby covenant and agree as a covenant running with the land that (1) no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or be otherwise subjected to discrimination in the use of said facilities, (2) in the construction of any improvements on, over,

or under such land and the furnishing of services thereon, no person on the grounds of race, color or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination, and (3) the Lessee shall use the premises in compliance with all requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Non-discrimination in federally assisted programs of the Department of Transportation Effectuation of Title VI of the Civil Rights Act of 1964, and as said Regulations may be amended.

(c) Lessee acknowledges and agrees that its rights hereunder are and shall be subject to the provisions of all existing and future agreements between the City and the United States of America relative to the operation or maintenance of the Airport, the execution of which has been or may be, required as a condition precedent to the obtaining or expediting of Federal funds for the expansion or development of the Airport pursuant to the Airport and Airway Development Act of 1970, as amended, or any other federal program.

(d) Nothing herein shall be deemed to grant Lessee any exclusive right for the use of any landing area or air navigation facility upon which Federal funds have been expended within the meaning of Section 308 of the Federal Aviation Act of 1958, as amended.

Section 8.12: Other Rules, Regulations and Requirements. (a) Lessee shall construct, maintain and operate the Ground Lease Properties and Special Facilities and conduct its operations thereon in compliance with all of the following: (i) all health and safety laws and requirements of all federal, state and local governmental authorities, including the City, having jurisdiction over the Airport and the Ground Lease Properties and Special Facilities, (ii) all police, fire, sanitary and other laws and requirements of the City and all other governmental authorities having jurisdiction over operations at the Airport, (iii) all requirements of insurers of the Ground Lease Properties and Special Facilities concerning the use and condition thereof for the purpose of reducing fires, hazards and other casualties, and (iv) all applicable laws and requirements of all governmental authorities from which Lessee has obtained licenses, franchises, certificates, permits or other authorization which may be necessary to the conduct of Lessee's operations at the Airport. In addition, Lessee shall not do, nor knowingly permit to be done, any act or thing upon the Ground Lease Properties and Special Facilities that would invalidate or conflict with any fire insurance policies covering the Ground Lease Properties and Special Facilities of any part thereof, or that would create or constitute an extra hazardous condition so as to increase the risks normally attendant upon the operations permitted by this Agreement.

(b) Lessee understands and acknowledges that fines and/or penalties may be assessed by the Federal Aviation Administration for the Lessee's non-compliance with the provisions of 14 CFR Paragraph 107 and 108 (1988) entitled "Airport Security." Any fines or penalties assessed against the City because of the Lessee's non-compliance with 14 CFR Paragraph 107, as amended from time to time, shall be promptly reimbursed to the City by the Lessee.

ARTICLE IX

LIABILITY, INSURANCE AND CONDEMNATION

Section 9.01: Release and Indemnification of City.

A. THE LESSEE, ITS SUCCESSORS AND ASSIGNS OF THIS AGREEMENT (IN THIS SECTION, THE "AIRLINE") HEREBY RELEASE, RELINQUISH AND DISCHARGE THE CITY, ITS PREDECESSORS, SUCCESSORS, ASSIGNS, LEGAL REPRESENTATIVES AND ITS COLLECTIVE FORMER, PRESENT AND FUTURE AGENTS, EMPLOYEES AND OFFICERS (COLLECTIVELY IN THIS SECTION "CITY") FROM ANY LIABILITY OF THE CITY FOR (i) ANY DAMAGE TO PROPERTY OF AIRLINE OR (ii) FOR CONSEQUENTIAL DAMAGES SUFFERED BY AIRLINE, WHERE ANY SUCH DAMAGE IS SUSTAINED IN CONNECTION WITH OR ARISING OUT OF THE PERFORMANCE OF THIS AGREEMENT.

B. WITH NO INTENT TO AFFECT AIRLINE'S ENVIRONMENTAL INDEMNIFICATION SET FORTH IN SECTION 8.05(L), AIRLINE, EXPRESSLY AGREES TO PROTECT, DEFEND, INDEMNIFY AND HOLD THE CITY COMPLETELY HARMLESS FROM AND AGAINST (BUT SUBJECT TO SECTIONS D, E AND F HEREOF): (I) ANY AND ALL LIABILITIES, LAWSUITS, CAUSES OF ACTION, LOSSES, CLAIMS, JUDGMENTS, DAMAGES, FINES OR DEMANDS ARISING BY REASON OF OR IN CONNECTION WITH THE ACTUAL OR ALLEGED ERRORS, OMISSIONS, OR NEGLIGENT ACTS OF AIRLINE OR OF THE CITY IN CONNECTION WITH OR ARISING OUT OF THE PERFORMANCE OF THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO, BODILY INJURY, ILLNESS, PHYSICAL OR MENTAL IMPAIRMENT, DEATH OF ANY PERSON, OR THE DAMAGE TO OR DESTRUCTION OF ANY REAL OR PERSONAL PROPERTY; AND (II) ALL COSTS FOR THE INVESTIGATION AND DEFENSE OF ANY AND ALL LIABILITIES, LAWSUITS, CAUSES OF ACTION, LOSSES, CLAIMS, JUDGMENTS, DAMAGES,

FINES OR DEMANDS REFERRED TO IN THE PRECEDING CLAUSE (I) INCLUDING, BUT NOT LIMITED TO, REASONABLE ATTORNEY FEES, COURT COSTS, DISCOVERY COSTS, AND EXPERT FEES). SUBJECT TO SUBSECTIONS D, E AND F HEREOF, AIRLINE'S AGREEMENT TO PROTECT, DEFEND, INDEMNIFY AND HOLD HARMLESS THE CITY EXPRESSLY EXTENDS TO THE ACTUAL OR ALLEGED JOINT OR CONCURRENT NEGLIGENCE OF CITY AND AIRLINE.

C. UPON THE FILING BY ANYONE OF ANY TYPE OF CLAIM, CAUSE OF ACTION, OR LAWSUIT AGAINST THE CITY FOR ANY TYPE OF DAMAGES ARISING OUT OF INCIDENTS FOR WHICH CITY IS TO BE INDEMNIFIED BY AIRLINE PURSUANT TO THIS SECTION 9.01, THE CITY SHALL, WITHIN 45 DAYS OF CITY BECOMING AWARE THEREOF, NOTIFY AIRLINE OF SUCH CLAIM, CAUSE OF ACTION OR LAWSUIT. IN THE EVENT THAT AIRLINE DOES NOT SETTLE OR COMPROMISE SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT AT ITS OWN COST, TO THE EXTENT AIRLINE IS REQUIRED TO INDEMNIFY CITY PURSUANT TO THIS SECTION 9.01, THEN AIRLINE SHALL UNDERTAKE THE LEGAL DEFENSE OF SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT AT ITS OWN COST THROUGH COUNSEL OF RECOGNIZED CAPACITY OR OTHERWISE NOT REASONABLY DISAPPROVED BY THE CITY BOTH ON BEHALF OF ITSELF AND ON BEHALF OF CITY UNTIL FINAL DISPOSITION, INCLUDING ALL APPEALS. THE CITY MAY, AT ITS SOLE COST AND EXPENSE, PARTICIPATE IN THE LEGAL DEFENSE OF ANY SUCH CLAIM, CAUSE OF ACTION, OR LAWSUIT BY AIRLINE TO DEFEND AGAINST SUCH CLAIM, CAUSE OF ACTION OR LAWSUIT. ANY FINAL JUDGMENT RENDERED AGAINST CITY FOR ANY CAUSE FOR WHICH CITY IS TO BE INDEMNIFIED AGAINST PURSUANT TO THIS SECTION 9.01 SHALL BE CONCLUSIVE AGAINST AIRLINE AS TO LIABILITY AND AMOUNT UPON THE EXPIRATION OF THE TIME FOR ALL APPEALS.

D. THE PROVISIONS OF SECTION 9.01B AND C HEREOF SHALL NOT APPLY TO ANY CLAIM OR DEMAND (I) ARISING AT ANY TIME WHEN THE CITY IS OPERATING THE PROJECT (OR IS RESPONSIBLE FOR THE OPERATION THEREOF PURSUANT TO ANY SUBLEASE OR OTHER AGREEMENT), (II) ARISING SOLELY FROM THE NEGLIGENCE OF THE CITY OR SOLELY FROM THE BREACH OF THE CITY'S EXPRESS OBLIGATIONS HEREUNDER, OR WHEN THE CITY IS MORE THAN 50% LIABLE, (III) IF SUCH CLAIM OR DEMAND RELATES TO ANY ACT OR OMISSION OCCURRING OUTSIDE THE PREMISES LEASED EXCLUSIVELY OR PREFERENTIALLY TO AIRLINE UNDER THIS AGREEMENT, UNLESS AIRLINE IS MORE LIABLE FOR (I.E., IS MORE AT FAULT FOR) SUCH CLAIM OR DEMAND THAN EACH OTHER PARTY TO SUCH CLAIM OR DEMAND, OR (IV) TO THE EXTENT THE CLAIM OR DEMAND IS COVERED UNDER THE INSURANCE CARRIED PURSUANT TO SECTIONS 9.02 AND 9.03 HEREOF; PROVIDED, THAT, IF (a) A CLAIM OR DEMAND IS MADE AGAINST AIRLINE BY A THIRD PARTY FOR WHICH AIRLINE HAS INSURANCE COVERAGE PURSUANT TO SECTIONS 9.02 AND 9.03 HEREOF, AND (b) THERE IS A DEDUCTIBLE CARRIED BY AIRLINE APPLICABLE TO SUCH CLAIM OR DEMAND (OR AIRLINE, THROUGH SELF-INSURANCE OR OTHER SELF-FUNDED INSURANCE PROGRAM, BEARS THE FINANCIAL RISK OF ANY PORTION OF SUCH CLAIM OR DEMAND AS TO THE DEDUCTIBLE ONLY), THEN THE PROVISIONS OF SECTION 9.01B AND C (AND BY REFERENCE, SUBSECTIONS D AND E HEREOF) SHALL APPLY TO SUCH PORTION OF THE CLAIM OR DEMAND THAT IS SUBJECT TO SUCH DEDUCTIBLE OR SELF-INSURANCE OF THE DEDUCTIBLE OR OTHER SELF-FUNDED INSURANCE PROGRAM AS TO THE DEDUCTIBLE (AND TO ANY OTHER PORTION OF THE CLAIM OR DEMAND AS TO THE CITY THAT IS NOT SATISFIED WITH INSURANCE PROCEEDS). FOR PURPOSES OF THIS SECTION, LESSEE STIPULATES THAT AS TO EACH CLAIM OR DEMAND THAT MAY BE SUBJECT TO THE PROVISIONS HEREOF, THE DEDUCTIBLE AMOUNT SHALL NEVER BE DEEMED TO BE GREATER THAN \$1,000,000.

E. NOTWITHSTANDING ANYTHING IN THIS SECTION TO THE CONTRARY, THE LIABILITY OF THE AIRLINE UNDER SECTION 9.01.B AND C SHALL NOT EXCEED \$1,000,000 PER OCCURRENCE.

Section 9.02: General Insurance Requirements. With no intent to limit Lessee's liability or the indemnification provisions herein, Lessee shall provide and maintain certain insurance in full force and effect at all times during the term of this Agreement and all extensions thereto, as set forth in Section 9.03 below. If any of the insurance is written as "claims made" coverage, then Lessee agrees to keep such claims made insurance in full force and effect by purchasing policy period extensions for at least three years after the expiration or termination of this Agreement.

Section 9.03: Risks and Minimum Limits of Coverage.

Worker's Compensation:	Statutory
Employer's Liability:	Bodily injury by accident-\$1,000,000 (each accident) Bodily injury by disease-\$1,000,000 (policy limit) Bodily injury by disease-\$1,000,000 (each employee)
Commercial General Liability: (including broad form coverage, contractual liability, bodily and personal injury, and products and completed operations)	Combined single limit of: \$100,000,000 per occurrence/aggregate Products and Completed operations \$10,000,000 aggregate

All Risk:
(Covering Special Facilities including fire, lightning, vandalism, and extended coverage perils) Replacement value of the Special Facilities, but not less than the principal amount of Bonds Outstanding

Automobile Liability Insurance:
(For automobiles used by Lessee in the course of its performance under this Agreement, including Lessee's non-owned and hired autos) \$5,000,000 combined single limit per occurrence

In connection with the design, construction, procurement and installation of the Special Facilities, Lessee shall contractually require its principal construction contractors and architects/engineers contracting with Lessee (as the case may be) to carry the following additional coverages and limits of liability, unless Lessee carries policies of insurance covering such risk; provided, however, if reasonable under the circumstances, Lessee may, with the concurrence of the Director, require lower limits of liability:

Professional Liability (in the case of architects and engineers) \$2,000,000 per occurrence/aggregate

Builders Risk:
(in the case of contractors) Replacement value of the Special Facilities, but not less than the principal amount of Bonds Outstanding

(Aggregate limits are per 12-month period unless otherwise indicated.)

Section 9.04. Other Provisions.

A. Form of Policies. The insurance carried by Lessee may be in one or more policies of insurance, the form of which shall be reasonably satisfactory to the Director. Nothing the Director does or fails to do shall relieve Lessee from its duties to provide the required coverage hereunder (unless specifically provided otherwise in such action), and the Director's actions or inactions shall not be construed as waiving the City's rights hereunder.

B. Issuers of Policies. The issuer of any policy carried by Lessee shall have a Certificate of Authority to transact insurance business in the State of Texas and have a Best's rating of at least B+ and a Best's Financial Size Category of Class VI or better, according to the most current edition of Best's Key Rating Guide, Property-Casualty United States. Each issuer must be responsible and reputable, must have financial capability consistent with the risks covered, and shall be subject to approval by the Director.

C. Insured Parties. Each policy carried by Lessee, except those for Workers Compensation, Professional Liability and Employer's Liability, shall name the City (and its officers, agents, and employees) and the Trustee as Additional Insured parties on the original policy and all renewals or replacements during the term of this Agreement. The City, the Trustee and Lessee shall be named joint Loss Payees on All Risk and Builders Risk coverages, subject to distribution of proceeds as provided elsewhere herein.

D. Deductibles. Subject to Section 9.01(D) herein, Lessee shall assume and bear any claims or losses to the extent of any deductible amounts (or deductible amounts that are self-insured by Lessee) or covered under any self-funded insurance program of Lessee and waives any claim it may ever have for the same against the City, its officers, agent, or employees.

E. Cancellation. Each policy carried by Lessee shall expressly state that it may not be canceled, materially modified or not renewed unless the insurance company gives thirty (30) days' advance written notice in writing to the Director.

F. Aggregates. Lessee shall give written notice to the Director within five (5) days of the date upon which total claims by any party against Lessee reduce the aggregate amount of coverage below the amounts required by this Agreement. In the alternative, the policy may contain an endorsement establishing a policy aggregate for the particular project or location subject to this Agreement.

G. Subrogation. Each policy carried by Lessee shall contain an endorsement to the effect that the issuer waives any claim or right in the nature of subrogation to recover against the City, its officers, agents, or employees.

H. Endorsement of Primary Insurance. Each policy hereunder except Worker's Compensation and Professional Liability shall be primary insurance to any other insurance available to the

Additional Insured and Loss Payee with respect to claims arising hereunder.

I. Liability for Premium. Lessee shall be solely responsible for payment of all insurance premiums on Lessee's policies required hereunder, and the City shall not be obligated to pay any premiums.

J. Contractors and Subcontractors. Lessee shall contractually require all its contractors, and all its contractors to require its subcontractors, to carry insurance naming the City and the Trustee as an additional insured; however, contractual liability shall be limited to the extent of such contractor's or subcontractor's indemnification obligations under the applicable contract. Such insurance shall meet all of the above requirements as Lessee can successfully require such contractors or subcontractors to meet, except amount. The amount shall be commensurate with the amount of the contract. Lessee shall provide copies of such insurance certificates to the Director.

K. Proof of Insurance. Within five (5) days of the effective date of this Agreement and at any time during the term of this Agreement, Lessee shall furnish the Director with certificates of insurance, along with an affidavit from Lessee confirming that the certificates accurately reflect the insurance coverage that will be available during the term. If requested in writing by the Director, Lessee shall furnish the City with certified copies of Lessee's insurance policies.

Notwithstanding the proof of insurance required to be carried by Lessee as set forth above, it is the intention of the parties hereto that Lessee, continuously and without interruption, maintain in force the required insurance as set forth above. Lessee agrees that the City shall never be argued to have waived or be stopped from asserting its right to terminate this Agreement hereunder because of any acts or omissions by the City regarding its review of insurance documents provided by Lessee, its agents, employees, or assigns.

Section 9.05: Disposition of Insurance Proceeds. In the event all of the Special Facilities or any part thereof is damaged or destroyed by an insured casualty and any Bonds remain Outstanding, then, the following provisions shall be applicable to the expenditure of any insurance proceeds relating to such Special Facilities:

(i) If either (A) the insurance proceeds (less the cost of removing the debris resulting from such casualty) together with any moneys in the Interest and Redemption Fund (including the Reserve Account) are sufficient to pay all of the interest, principal and other obligations accrued and to accrue on said Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee requests that the Special Facilities not be repaired or rebuilt, or (B) the insurance proceeds (less the cost of removing the debris resulting from such casualty) together with any moneys available in the Interest and Redemption Fund (including the Reserve Account) are insufficient and the Lessee agrees to pay the deficiency and requests that the Special Facilities not be repaired or rebuilt, then in either case the Lessee may elect to terminate this Agreement and be released from all unaccrued obligations hereunder; provided that the insurance proceeds (less the cost of removing the debris resulting from such casualty) and the deficiency payments, if any, paid by the Lessee shall be deposited into the Interest and Redemption Fund for the Bonds and the moneys therein shall be applied to pay the obligations with respect to the Outstanding Bonds and other amounts due under the Trust Indenture. If the said proceeds and funds are in excess of the amount then necessary to pay the obligations with respect to the Outstanding Bonds and other amounts due under the Trust Indenture, any such excess after payment or provision for the payment of the Bonds within the meaning of the Trust Indenture and other amounts due under the Trust Indenture has been made shall be divided between the City and the Lessee as their respective interests appear at the time of such damage or destruction; or

(ii) If all Bonds are not repaid as provided in clause (i) above, Lessee agrees to cause such insurance proceeds to be deposited in the Acquisition Fund under the Trust Indenture and to promptly repair and rebuild the Special Facilities with the insurance proceeds, and if such proceeds are insufficient for such purposes, the Lessee shall pay the deficiency. If such proceeds are in excess of the amount necessary for such purposes, any such excess shall be transferred by the Trustee to the Interest and Redemption Fund as a credit to the next due

payments of Net Rent, with such credit to continue until the amount thereof is exhausted and if the Net Rent is paid in full, thereafter, any excess proceeds paid to Lessee. The repair or restoration of the Special Facilities shall either be in accordance with the original plans and specifications, together with alterations or modifications made or agreed upon prior to the casualty, or in accordance with new or modified plans and specifications, the alternative to be determined by the mutual agreement of the City and Lessee. Before any reconstruction or repair under this paragraph, Lessee shall submit plans and specifications to the Director for approval and such reconstruction or repair shall be substantially in accordance therewith subject to such changes as may be reasonably requested by Lessee and approved by the City.

Section 9.06: Condemnation. In the event that the Special Facilities or any part thereof shall be taken or condemned in any eminent domain, condemnation, compulsory acquisition or like proceeding by any competent authority or conveyed under threat thereof for any public or quasipublic use or purpose and at such time Bonds remain Outstanding within the meaning of the Trust Indenture or any other amounts remain due under the Trust Indenture, then the condemnation proceeds shall be applied as follows:

(i) If all or a substantial part of the Special Facilities is taken and either (A) the condemnation proceeds attributable to the Special Facilities together with any moneys in the Interest and Redemption Fund are sufficient to pay all of the interest, principal and other obligations accrued and to accrue on the Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee requests that the Special Facilities not be rebuilt elsewhere, or (B) the condemnation proceeds attributable to the Special Facilities and moneys available in the Interest and Redemption Fund are insufficient to pay all of the interest, principal and other obligations accrued and to accrue on the Bonds until they are fully and finally paid and all other amounts due under the Trust Indenture and the Lessee agrees to pay the deficiency and requests that the Special Facilities not be rebuilt elsewhere, the City will terminate this Agreement and release the Lessee from all unaccrued obligations hereunder, provided that the condemnation proceeds attributable to the Special Facilities and deficiency, if any, paid by Lessee shall be deposited into the Interest and Redemption Fund for the Bonds and moneys therein shall be applied to pay the obligations with respect to the outstanding Bonds and all other amounts due under the Trust Indenture. If the said proceeds and funds are in excess of the amount then necessary to pay the obligations with respect to the Outstanding Bonds and all other amounts due under the Trust Indenture, any such excess after payment or provision for the payment of the Bonds and all other amounts due under the Trust Indenture within the meaning of the Trust Indenture has been made shall be divided between the City and the Lessee as their respective interests appear at the time of the taking.

(ii) If all or a substantial part of the Special Facilities is taken and the Lessee requests that the Special Facilities be rebuilt elsewhere, the Special Facilities shall be rebuilt elsewhere and paid for with the condemnation proceeds attributable to the Special Facilities, and if such proceeds are insufficient for such purposes the Lessee shall pay the deficiency. If such proceeds attributable to the Special Facilities are in excess of the amount necessary for such purpose, any such excess shall be paid to the City and deposited by it to the Interest and Redemption Fund for said Bonds as a credit to the next due payments of Net Rent, with such credit to continue until the amount thereof is exhausted and, thereafter, any excess proceeds paid to Lessee.

(iii) In the event that title to or use of less than a substantial part of the Special Facilities is taken by the power of eminent domain (that is, if the primary use of the Special Facilities is not substantially impaired by deletion of the part taken) the Lessee shall determine whether any rebuilding is necessary. Any condemnation proceeds attributable to the Special Facilities that are not used for the purposes of rebuilding shall be assigned to the City and deposited into the Interest and Redemption Fund and applied to redeem as many Bonds as may be redeemed at the next available redemption date.

Section 9.07: Reconstruction or Repair. The rebuilding of

the Special Facilities under Sections 9.05 or 9.06 shall be either in accordance with the original plans and specifications, together with alterations or modifications made or agreed upon prior to the taking, or in accordance with new or modified plans and specifications, the alternative to be determined by the mutual agreement of the Lessee and the Director.

ARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section 10.01: Events of Default. The following shall be Events of Default as to the Lessee under this Agreement:

(a) Failure by the Lessee to pay the Net Rent required to be paid under Article VI hereof.

(b) Failure by the Lessee to pay any Ground Rentals due within fifteen (15) Business Days after being notified in writing by the City of such failure.

(c) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement other than as referred to in subsection (a) or (b) next above, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Lessee by the City (except (i) if any insurance required to be maintained by Lessee is to be canceled or not renewed, such notice and the period for remedy by Lessee shall be limited to the period ending on the date on which such cancellation or nonrenewal is scheduled to occur and (ii) where fulfillment of another obligation requires activity over a period of time, and the Lessee shall commence to perform whatever may be required for fulfillment within thirty (30) days after the receipt of notice and shall diligently continue such performance without interruption, except for causes beyond its control).

(d) Any material lien shall be filed against the Special Facilities or Lessee's interest therein or any part thereof in violation of this Agreement by a party other than the City and shall remain unreleased for a period of sixty (60) days from the date of such filing unless within said period the Lessee is contesting in good faith the validity of such lien in accordance with Section 8.02(c) hereof.

(e) Whenever an involuntary petition shall be filed against Lessee under any bankruptcy or insolvency law or under the reorganization provisions of any law of like import or a receiver of Lessee for all or substantially all of the property of Lessee shall be appointed without acquiescence and such petition or appointment is not discharged within ninety (90) days after its filing.

(f) The dissolution or liquidation of the Lessee or the filing by the Lessee of a voluntary petition in bankruptcy, or failure by the Lessee within ninety (90) days to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry on its operations at the Special Facilities, or general assignment by the Lessee for the benefit of its creditors, or the entry by the Lessee into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceeding for its reorganization or liquidation instituted under the provisions of the federal bankruptcy laws, or under any similar laws which may hereafter be enacted. The term "dissolution or liquidation of the Lessee," as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Lessee resulting either from a merger or consolidation of the Lessee into or with another corporation or a dissolution or liquidation of the Lessee following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 12.01 hereof.

(g) Whenever Lessee shall fail to provide adequate assurance (i) that Lessee will promptly cure all defaults hereunder, if any; (ii) that Lessee will compensate, or provide adequate assurance that Lessee will promptly compensate, the City for any actual pecuniary loss to the City resulting from any Event of Default hereunder; and (iii) of future performance by Lessee of the terms and conditions of this Agreement, each within thirty (30) days after (1) the granting of an Order for Relief with respect to Lessee pursuant to Title XI of the United States Code; (2) the initiation of a proceeding under any bankruptcy or insolvency law or the reorganization provisions of any law of like import; or (3) the granting of the relief sought in an involuntary proceeding against the Lessee under any bankruptcy or insolvency law. As used in this Agreement, adequate assurance of future performance of this Agreement shall include, but shall not be limited to, adequate assurance (1) of the source of Net Rent and other consideration due hereunder and (2) that the assumption or assignment of this

Agreement will not breach any provision, such as a use, management, or ownership provision, in this Agreement, any other material lease, any financing agreement, or master agreement relating to the Special Facilities.

Section 10.02: Remedies on Default. Whenever any Event of Default referred to in Section 10.01 hereof shall have happened and continue to exist, then the City may take any one or more of the following remedial steps as against the Lessee:

(a) The City may, and upon a payment default shall, re-enter and take possession of the Special Facilities and Ground Lease Properties without terminating this Agreement and use its best efforts to (i) complete construction and equipping of the Special Facilities (and apply proceeds of the Bonds for such purpose) and (ii) sublease the Special Facilities and Ground Lease Properties on a net rent lease basis, provided further that the City shall use its best efforts to impose and collect rental rates sufficient to provide for operating and maintenance expenses and Ground Rentals to the same extent as Lessee is obligated to do so and to provide additional amounts equal to the Net Rent set forth in Section 6.01, all for the account of the Lessee, holding the Lessee liable for the difference between the rents and other amounts payable by the Lessee hereunder and the charges received from rents and other amounts received from any sublessee with respect to the Special Facilities and Ground Lease Properties. All proceeds derived by the City from any rents (net of operating and maintenance expenses and any allocable Ground Rentals payable or remaining unpaid hereunder, and up to the amount of all Net Rent payable hereunder) shall be remitted to the Trustee for deposit in the Interest and Redemption Fund to support repayment of the Bonds.

(b) The City may terminate this Agreement, exclude the Lessee from possession of the Special Facilities and Ground Lease Properties and use its best efforts to (i) complete construction and equipping of the Special Facilities (and apply proceeds of the Bonds for such purpose) and (ii) lease the same on a net rent lease basis, provided further that the City shall use its best efforts to impose and collect rental rates sufficient to provide for operating and maintenance expenses and Ground Rentals to the same extent as Lessee is obligated to do so and to pay the Net Rent set forth in Section 6.01, all for the account of the Lessee, holding the Lessee liable for all rents and other amounts due under this Agreement and not received by the City from rents with respect to the Special Facilities and Ground Lease Properties. All gross proceeds derived by the City from any rents (net of operating and maintenance expenses and any allocable Ground Rentals payable or remaining unpaid hereunder, and up to the amount of all Net Rent payable hereunder) shall be remitted to the Trustee for deposit in the Interest and Redemption Fund to support repayment of the Bonds.

(c) The City may take whatever other action at law or in equity as may appear necessary or desirable to collect the rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Lessee under this Agreement. The City shall use its best efforts to lease the Special Facilities on a net rent lease basis for the account of Lessee as provided in clauses (a) and (b) above after an Event of Default by Lessee, whether or not City retakes possession of the Special Facilities and Ground Lease Properties or terminates this Agreement.

(d) Notwithstanding anything in the Agreement to the contrary, the reletting duties of the City herein shall not apply to the Warehouse Facility after the date upon which the term of this Agreement with respect to the Warehouse Facility was scheduled to expire had there been no Event of Default (after giving effect to any effective renewal option in respect of which the City has not notified Lessee that the City intends to use the land on which the Facility is located for Airport expansion purposes in accordance with Section 3.02).

(e) In connection with any reletting by the City during the original term of this Agreement, Lessee shall be subrogated to the right of the Trustee to receive payments hereunder to support repayment of the Bonds to the extent that Lessee has made payments on the Bonds under the Guaranty.

Section 10.03: Additional Remedy. In addition to the other remedies herein provided, the City may, in the case of an Event of Default under Section 10.01(c), enter the Special Facilities and Ground Lease Properties (without such entering causing or constituting a termination of this Agreement or an interference with the possession of the Special Facilities and Ground Lease Properties by Lessee) and do all things reasonably necessary to cure such Event of Default, charging to Lessee the reasonable cost and expense thereof and Lessee agrees to pay to City upon demand such charge in addition to all other amounts payable by Lessee hereunder.

Section 10.04: No Remedy Exclusive. No remedy herein

conferred upon or reserved to the City is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or hereafter existing under law or in equity (to the extent not inconsistent with the terms hereof). No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, unless such notice is herein expressly required or is required by law.

Section 10.05: Agreement to Pay Attorneys' Fees and Expenses. In the event there should be an Event of Default under any of the provisions of this Agreement and the City should determine that the services of an attorney are required or the City incurs other expenses for the collection of rent or the enforcement of performance or observance of any obligation or agreement on the part of Lessee, the Lessee agrees that it will on demand therefor pay to the City the reasonable, just and necessary fee of such attorneys and other reasonable expenses so incurred.

Section 10.06: No Additional Waiver Implied by One Waiver. In the event any covenant contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. Failure of either party hereto to insist on the strict performance of any of the agreements herein or to exercise any rights or remedies accruing hereunder upon an Event of Default or failure of performance shall not be considered a waiver of the right to insist on, and to enforce by any appropriate remedy, strict compliance with any other obligation hereunder or to exercise any right or remedy occurring as a result of any future default or failure of performance.

Section 10.07: Enforcement by City Attorney. The City Attorney or his or her designee shall have the right to enforce all legal rights and obligations under this Agreement without further authorization. Lessee covenants to provide to the City Attorney all documents and records within Lessee's possession that the City Attorney reasonably deems necessary to assist in determining Lessee's compliance with this Agreement, with the exception of those documents made confidential by federal or state law or regulation and provided that the provision of such documents and records by Lessee shall further be limited in any respect that the provision of any documents or records by the City pertaining to this Agreement would be limited pursuant to Chapter 551, Texas Government Code, as amended, or otherwise.

ARTICLE XI

ASSIGNMENTS, SUBLETTING AND TERMINATION BY LESSEE

Section 11.01: Assignments and Subletting by Lessee. (a) This Agreement may not be assigned or otherwise transferred in whole or in part by Lessee (except pursuant to Section 12.01 hereof) without the prior written consent of the Director; provided, however, that, unless permitted by Section 7.6(b) of the Trust Indenture or Section 12.01 hereof, the City will not consent to any assignment by Lessee of its rights hereunder without first obtaining a written agreement from the Lessee that Lessee shall remain primarily liable for Net Rent hereunder. Lessee may sublet the Special Facilities and Ground Lease Properties or any part thereof to any party, subject to the condition that Lessee first obtains the written consent of the Director to such subletting and all the terms thereof, unless such subletting is expressly authorized herein.

(b) If Lessee sublets all or any part of the Special Facilities and/or Ground Lease Properties or if all or any part of the Special Facilities are occupied (pursuant to a written consent from the Director) by anyone other than Lessee (including any subsidiary of Lessee or a code-share affiliate of Lessee), the City may, if an Event of Default shall have occurred hereunder and be continuing, collect rent from such sublessee or occupant and the City shall apply the amount collected to the extent possible to satisfy the obligations of Lessee hereunder, but no such collection shall be deemed a waiver by the City of the covenants contained herein or an acceptance by the City of any such sublessee, claimant or occupant as a successor Lessee, nor a release of Lessee by the City from the further performance by the Lessee of the covenants imposed upon Lessee herein.

(c) NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, SO LONG AS ANY BONDS REMAIN OUTSTANDING NO SUCH SUBLEASE OR ASSIGNMENT SHALL BE AUTHORIZED IF IN ANY WAY IT RELEASES LESSEE FROM ITS PRIMARY OBLIGATIONS HEREUNDER, INCLUDING ITS OBLIGATION TO PAY NET RENT.

Section 11.02: Termination of Agreement by Lessee. Lessee shall not terminate this Agreement for any reason whatsoever as long as any of the Bonds remain Outstanding within the meaning of the Trust Indenture or any other amounts are due and owing under the Trust Indenture.

ARTICLE XII

MISCELLANEOUS

Section 12.01: Lessee to Maintain Its Corporate Existence. The Lessee shall throughout the term hereof maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided, that the Lessee may, without violating the agreement contained in this Section, consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise dispose of all or substantially all of its assets as an entirety and thereafter dissolve, provided, if Lessee is not the surviving corporation, the surviving, resulting or transferee corporation, as the case may be, (i) assumes in writing all of the obligations of the Lessee herein and (ii) qualifies or is qualified to do business in Texas.

Section 12.02: Exempt Facilities. In order to assure that interest on the Bonds shall be exempt from federal income taxation, the Lessee covenants and agrees that it shall not, and it shall not permit or allow any other person to, construct, acquire, use, employ, modify, rebuild or repair the Project or any Special Facilities in any manner that would cause or allow it or them to be or become facilities which are not included within those set forth and described in Sections 142(a)(1) and (c) of the Internal Revenue Code of 1986, as amended, and the regulations prescribed thereunder, and the City covenants and agrees that it will not permit or allow any of the foregoing to occur. The Lessee hereby makes an irrevocable election, which it shall cause to be binding on all successors in interest under this Agreement, not to claim for federal income tax purposes depreciation or investment credit with respect to the Special Facilities or any component thereof. It is further agreed and acknowledged by Lessee that the City shall never be required or requested hereunder to issue any Bonds or expend any proceeds thereof to pay any Costs of the Special Facilities that would have the effect of causing interest on any of the Bonds not to be exempt from federal income taxation.

Section 12.03: Notices. (a) Any and all notices required or permitted to be given hereunder shall be deemed sufficiently given when delivered or when mailed by registered or certified mail, return receipt requested, postage prepaid, or when given by telephone immediately confirmed in writing by telecopier or other communication device to any party hereto as follows or at such other address, telephone number or telecopier number as any party may from time to time designate in writing to the other parties hereto:

City:

Director, Department of Aviation
City of Houston
P. O. Box 60106
Houston, Texas 77205
Attention: Director
Telephone: (281) 233-3000
Telecopier: (281) 233-1864

and

City Legal Department
P. O. Box 1582
Houston, Texas 77001
Attention: City Attorney
Telephone: (713) 247-2000
Telecopier: (713) 247-1017

Lessee:

Continental Airlines, Inc.
1600 Smith Street
Dept. HQS-EO
Houston, Texas 77002
Attention: General Counsel
Telephone: (713) 324-2948
Telecopier: (713) 324-2687

and

Continental Airlines, Inc.
1600 Smith Street

Dept. HQS-PF
Houston, Texas 77022
Attention: Vice President,
Corporate Real Estate
and Environmental Affairs
Telephone: (713) 324-2245
Telecopier: (713) 324-6954

and

Continental Airlines, Inc.
1600 Smith Street
Dept. HQS-FN
Houston, Texas 77022
Attention: Vice President, Corporate Finance
Telephone: (713) 324-2544
Telecopier: (713) 324-2447

Trustee:

Chase Bank of Texas, National Association
Attention: Global Trust Service
600 Travis Street, Suite 1150
Houston, Texas 77002
Attention: Corporate Trust Department
Telephone: (713) 216-4808
Telecopier: (713) 216-5476

(b) All computations for the expiration of time periods required by this Agreement shall be computed from the date such notice is deposited in the United States mail, as set forth above; provided, however, that should the last day of the period fall on a Saturday, Sunday or legal holiday, the period shall run until the end of the next day which is neither a Saturday, Sunday nor legal holiday.

Section 12.04: Consents and Approvals. (a) With respect to the approvals herein required of the Lessee, Lessee shall from time to time furnish to the City a certificate signed by its Secretary or an Assistant Secretary, and such certificate shall set forth the officers or representatives of Lessee who are authorized to grant such approvals and to bind the Lessee thereto; and the City and all third parties affected by any such approvals, including the holders of Bonds, may rely upon any writing purporting to grant such approvals signed by any officer or representative thus certified as being conclusively binding upon Lessee, and any such writing shall itself constitute conclusive evidence that any and all corporate actions necessary to be taken with respect to the matter thus approved by such officer or representative to have been so taken by the corporation, and that the approval therein given has been authorized by the corporation.

(b) Any consent or approval herein required of the City may be given by the City's Director of the Department of Aviation unless otherwise provided.

(c) All consents or approvals of the City, or any department thereof, or Lessee when required herein shall not be unreasonably withheld or delayed.

(d) All consents and approvals required or permitted herein by either party shall be given in writing.

(e) An approval by the Director, or by any other instrumentality of the City, of any part of Lessee's performance shall not be construed to waive compliance with this Agreement except as expressly set forth in such approval or to establish a standard of performance other than required by this Agreement or by law.

Section 12.05: Rights Reserved to City. Nothing contained herein shall unlawfully impair the right of City to exercise its governmental or legislative functions. This Agreement is made subject to the Constitution and laws of the State of Texas and to the provisions of the Airport Improvement Program Grant Agreements applicable to the Airport and its operation, and the provisions of such agreements, insofar as they are applicable to the terms and provisions of this Agreement, shall be considered a part hereof to the same extent as though copied herein at length to the extent, but only to the extent, that the provisions of any such agreements are required generally by the United States at other civil airports receiving federal funds. To the best of City's knowledge, nothing contained in such laws or agreements conflicts with the express provisions of this Agreement.

Section 12.06: Force Majeure. Neither the City nor Lessee shall be deemed in violation of this Agreement if it is prevented from performing any of the obligations hereunder by reason of strikes, boycotts, labor disputes, embargoes, shortage of material, acts of God, acts of the public enemy, acts of superior governmental authority, weather conditions, floods, riots,

rebellion, sabotage, war, or any other circumstances for which it is not responsible or which is not in its control, and the time for performance shall be automatically extended by the period the party is prevented from performing its obligations hereunder; provided, however, that these provisions shall not apply to any failure by the Lessee to pay the rentals and other charges pursuant to Article VI hereof, expressly including the Net Rent payable thereunder.

Section 12.07: Severability Clause. If any word, phrase, clause, paragraph, section or other part of this Agreement shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Agreement and the application of such word, phrase, clause, sentence, paragraph, section or other part of this Agreement to any other person or circumstance shall not be affected thereby and it is expressly agreed and understood that the obligation of Lessee to make the rental payments to City required under the provisions of Article VI hereof shall continue to remain in full force and effect.

Section 12.08: Place of Performance; Laws Governing. This Agreement shall be performable and enforceable in Harris County, Texas, and shall be construed in accordance with the laws of the State of Texas, the City Charter and Ordinances of the City of Houston, Federal law and all applicable State and Federal regulations. Lessee acknowledges that, to the extent the City's Charter or Texas law requires any expenditure of funds that may be contemplated to be made by the City herein to be prefunded to be valid, then such expenditure shall be subject to City Council approval; provided, that, the City agrees to use its best efforts to obtain such approval.

Section 12.09: Brokerage. The Lessee and the City each to the other represents and warrants that no brokers have been concerned on their behalf in the negotiation of this Agreement and that there are no such brokers who are or may be entitled to be paid commissions in connection therewith. The Lessee and the City shall indemnify and save harmless each other of and from any claim for commission or brokerage made by any such brokers when such claims are based in whole or in part upon any acts or omissions of the Lessee or the City as applicable.

Section 12.10: Individuals Not Liable. No director, officer, agent or employee of the City or Lessee shall be charged personally or held contractually liable by or to the other party under any term or provision of this Agreement or of any supplement or amendment hereto because of any breach thereof or because of his or their execution of same.

Section 12.11: Binding Nature of Agreement; Benefits of Agreement. This Agreement shall inure to the benefit of, and be binding upon, the City and Lessee, and their respective legal representatives, successors and assigns. This Agreement is not made for the benefit of, nor may it be relied upon by, any third party other than the holders of the Bonds, unless expressly herein provided.

Section 12.12: Ambiguities. In the event of any ambiguity in any of the terms of this Agreement, it shall not be construed for or against any party hereto on the basis that such party did or did not author the same.

Section 12.13: Survival. Lessee and the City shall remain obligated to the other party hereto under all clauses of this Agreement that expressly or by their nature extend beyond the expiration or termination of this Agreement, including but not limited to the indemnity provisions hereof.

Section 12.14: No Merger of Title. There shall be no merger of this Agreement (or of the leasehold estate created by this Agreement) with the ownership of any portion of or interest in the Special Facilities or Ground Lease Properties by reason of the fact that the same person or entity may acquire, own or hold, directly or indirectly, this Agreement (or the rights and interests created by this Agreement) together with an ownership, leasehold or other right or interest in the Special Facilities or Ground Lease Properties; and no such merger shall occur unless and until the City and all persons and entities holding (a) the rights and interest created by this Agreement and (b) the ownership, leasehold or other rights or interest in the Special Facilities and Ground Lease Properties or any part thereof shall join in a written instrument expressly effecting such merger. Without limiting the generality of the foregoing, it is agreed that no merger of title shall arise if the City becomes a sublessee hereunder.

Section 12.15: Entire Agreement. This Agreement, together with the Trust Indenture, constitutes the entire agreement between the City and Lessee pertaining to the subject matter hereof.

IN WITNESS WHEREOF, this Agreement has been entered into and effective as of the date first above written, and executed in multiple counterparts by the respective officers of the parties hereto.

ATTEST: CITY OF HOUSTON

City Secretary By _____
Mayor

APPROVED AS TO FORM COUNTERSIGNED BY:

Senior Assistant City Attorney City Controller

APPROVED

Director, Department of Aviation
CONTINENTAL AIRLINES, INC.

ATTEST: By: _____
Title: _____

Title: _____

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, a Notary Public in and for Harris County, Texas, on this day personally appeared LEE BROWN, Mayor of the CITY OF HOUSTON, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, as the act and deed of the CITY OF HOUSTON, the said municipal corporation, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, 199__.

Notary Public in and for
Harris County, Texas

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared _____, _____ of Continental Airlines, Inc., a corporation, known to me to be the person and officer whose name is to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the _____ day of _____, 199__.

Notary Public in and for
Harris County, Texas

EXHIBITS TO BE ATTACHED

Exhibit "A"	Description of Project
Exhibit "B"	Description of Easements
Exhibit "C"	Description of Ground Lease Properties
Exhibit "D"	Deed and Bill of Sale for Project

EXHIBIT "A"

(Series 1997C Bonds)

DESCRIPTION OF 1997C PROJECT

All properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances to be acquired, constructed, fabricated and/or installed in, on, as a part of or around the Ground Lease Properties and the Easements that are financed with proceeds of the Series 1997C Bonds and leased to the Lessee pursuant to the Special Facilities Lease Agreement, including without limitation the following:

1. Hangar Maintenance Facility. The aircraft hangar, maintenance and parts storage facility consists of an enclosed complex of approximately 255,800 square feet anticipated to be located in and adjacent to Continental's existing maintenance area on the airfield side of the Airport, including approximately 124,300 square feet of hangar space and maintenance shops and approximately 131,500 square feet of warehouse and office space as well as improvements to the existing hangar.
2. Mail Sort Facility The mail sort facility will consist of a building of approximately 40,000 square feet anticipated to be located near Continental's existing "B check" maintenance facility and certain fixtures, furnishings and equipment necessary for the operation of the facility. The facility consists of trans-loading facilities and mechanical sorting equipment with appropriate offices.

However, there is expressly excluded from the Project any and all properties, facilities, structures, equipment, fixtures, furnishings, finishes, and appurtenances not financed with the proceeds of Series 1997C Bonds.

(Series 1998C Bonds)

DESCRIPTION OF 1998C PROJECT

All properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances to be acquired, constructed, fabricated and/or installed in, on, as a part of or around the Ground Lease Properties and the Easements that are financed with proceeds of the Series 1998C Bonds and leased to the Lessee pursuant to the Special Facilities Lease Agreement, including without limitation the following:

1. Hangar Maintenance Facility. The Hangar Maintenance Facility elements of the 1998C Project include the additions to the Hangar Maintenance Facility under the 1997C Project, which additions include the increase of the size of the Hangar Maintenance Facility to approximately _____ square feet, together with other scope changes, including the construction of an aircraft pad and blast fence and the addition of new ground equipment for use in connection with the Hangar Maintenance Facility.
2. In-flight Training Facility. The In-flight Training Facility element of the 1998C Project consists of an addition of approximately 12,400 square feet to the existing 42,200 square foot facility which will house training equipment related to Continental's newly acquired Boeing 777 and Next Generation Boeing 737 aircraft.
3. JFK Blvd. Facility. The JFK Blvd. Facility elements of the 1998C Project consist of an addition of approximately 27,620 square feet to the existing Continental flight simulator facility to allow for the installation of flight simulators for Continental's new Boeing 777 and Next Generation 737 aircraft as well as classrooms and administrative offices; and the construction of a new approximately 30,000 square foot simulator building for Continental Express to permit installation of flight simulators for the EMB-135 and EMB-145 aircraft as well as classrooms and administration offices.
4. Warehouse Facility. The Warehouse Facility element of the 1998C Project consists of renovations and upgrades to a former flight kitchen including replacement of the roof, replacement of lighting, installation of an underground fire main, and other renovations to provide for dry storage of materials to support the Chelsea Flight Kitchen in-flight meal preparation function.

EXHIBIT B

DESCRIPTION OF EASEMENTS

The Easements shall consist of the following:

All reasonably necessary easements within the Airport to permit the extension of water, sanitary sewer, electric power, gas and telephone service to the Ground Lease Properties and the Special Facilities located thereon. Such easements shall be provided by the City to the Lessee by the time or times needed by Lessee to extend such services.

EXHIBIT C

DESCRIPTION OF GROUND LEASE PROPERTIES

Ground Lease Properties shall consist of the following:

1. Maintenance Site

The area containing approximately 22.60 acres of land as shown as "Hangar Maintenance Facility" comprised of two tracts which are shaded on the diagram attached as Exhibit C-1 and which is described by metes and bounds in such Exhibit C-1 attached hereto, together with all improvements located thereon except Special Facilities.

2. Mail Sort Site

The area containing approximately 15.5414 acres of land as shown on the diagram attached as Exhibit C-2 and which is described by metes and bounds in such Exhibit C-2 attached hereto, together with all improvements located thereon, except Special Facilities.

3. Inflight Training Site

The area containing approximately 14.3939 acres of land as shown on the diagram attached as Exhibit C-3 and which is described by metes and bounds in such Exhibit C-3 attached hereto, together with all improvements located thereon, except Special Facilities.

4. JFK Blvd. Site

The area containing approximately 11.1505 acres of land as shown on the diagram attached as Exhibit C-4 and which is described by metes and bounds in such Exhibit C-4 attached hereto, together with all improvements located thereon, except Special Facilities.

5. Warehouse Site

The area containing approximately 2.2383 acres of land as shown on the diagram attached as Exhibit C-5 and which is described by metes and bounds in such Exhibit C-5 attached hereto, together with all improvements located thereon, except Special Facilities.

EXHIBIT D

DEED AND BILL OF SALE

THE STATE OF TEXAS

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF HARRIS

THAT CONTINENTAL AIRLINES, INC., a corporation (hereinafter called "Grantor"), for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) cash and other good and valuable considerations to it in hand paid by the CITY OF HOUSTON, TEXAS, a municipal corporation and home-rule city situated principally in Harris County, Texas (hereinafter called "Grantee"), the receipt and sufficiency of which are here acknowledged and confessed, has GRANTED, BARGAINED, SOLD AND CONVEYED and by these presents does GRANT, BARGAIN, SELL AND CONVEY unto the Grantee that certain airport Special Facilities more fully described in Exhibit "A" attached hereto located in and at George Bush Intercontinental Airport in leased space and/or in the easements leased or granted to Grantee by Grantor which leased space and/or easements are more fully described in Exhibit "B" attached hereto.

TO HAVE AND TO HOLD the aforesaid Special Facilities, together with all and singular the rights and appurtenances thereto in any way belonging unto Grantee, its successors and assigns forever; and it is hereby agreed that Grantor, its successors and legal representatives are hereby bound to WARRANT AND FOREVER DEFEND, all and singular, said property unto Grantee, its successors and assigns against every person whosoever lawfully claiming or to claim the same, or any part thereof, by, through or under Grantor, but not otherwise.

THE EXECUTION, delivery and acceptance of this conveyance is made pursuant to the terms of that certain Special Facilities Lease Agreement dated as of _____, 1997, as amended, by and between Grantor and Grantee.

EXECUTED as of the _____ day of _____, 199_.

CONTINENTAL AIRLINES, INC.

By _____
Title: _____

ATTEST:

Assistant Secretary

THE STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared _____, _____ of the CONTINENTAL AIRLINES, INC., a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 199_.

Notary Public in and for
Harris County, Texas

(SEAL)

CLEVELAND HOPKINS INTERNATIONAL AIRPORT

SPECIAL FACILITIES LEASE AGREEMENT

WITH

CONTINENTAL AIRLINES, INC.

 1997 Concourse Expansion

 Dated as of
 October 24, 1997

TABLE OF CONTENTS

ARTICLE I - DEFINITIONS.	2
ARTICLE II - RIGHTS, PRIVILEGES AND PREMISES	9
2.01 Lease and Use of Continental Special Facilities.	9
2.02 Space in and Adjacent to Terminal Building	10
2.03 Access	11
2.04 Use by Airline	12
2.05 Environmental Compliance	12
ARTICLE III - OCCUPANCY; TERM.	16
3.01 Term	16
3.02 Relationship to Other Agreements	18
ARTICLE IV - QUIET ENJOYMENT	20
ARTICLE V - ISSUANCE OF BONDS AND GARBS; CONSTRUCTION OF 1997 CONCOURSE EXPANSION; PAYMENT OF COSTS OF THE 1997 CONCOURSE EXPANSION.	21
5.01 Issuance of the Bonds; Deposit of Bond Proceeds; Deposit of Airline's Funds	21
5.02 Issuance of GARBS.	23
5.03 Allocation of Costs of Facilities.	24
5.04 Reimbursements and Disbursements Generally	24
5.05 Specific Reimbursement and Disbursement Matters.	25
5.06 Airline's Obligation to Complete Construction of the 1997 Concourse Expansion	27
5.07 Construction of 1997 Concourse Expansion	28
5.08 Subsequent Improvements by Airline	32
5.09 Environmental Compliance, Remediation and Liability During the Construction Phase.	32
5.10 FAA Coordination	34
5.11 ODOT Coordination.	34
5.12 Regulatory Delays.	34
5.13 Permanent Rental Car Facilities.	35
5.14 Default, Notice and Termination During the Construction Period.	36
ARTICLE VI - OPERATION AND MAINTENANCE OF CONTINENTAL SPECIAL FACILITIES; UTILITIES	39
6.01 Operation and Maintenance of Continental Special Facilities	39
6.02 Efficient Use of Space	40
6.03 Hydrant Fueling System	40
6.04 Loading Bridges.	41
6.05 Ramp Areas	41
6.06 Construction, Installation and Maintenance of Utilities	41
6.07 Relocation of Underground Utilities.	41
6.08 Security	41
ARTICLE VII - BASIC RENT, CHARGES AND FEES; BOND RENT.	43
7.01 Payment of Rentals, Charges and Fees	43
7.02 Basic Rent	43
7.03 Determination and Annual Adjustment of Basic Rent.	43

7.04	Basic Rent Reserve	45
7.05	Bond Rent.	46
7.06	Utilities.	47
7.07	Concession for Sale of Alcoholic Beverages	47
7.08	Additional Payments by City.	47
ARTICLE VIII - RELATED INDENTURE PROVISIONS & UNDERSTANDINGS		48
8.01	Trust Indenture and Financial Structure.	48
8.02	Airline to Maintain Its Legal Existence.	48
8.03	Financial Reports.	48
8.04	Tax Matters.	48
8.05	Continuing Disclosure.	50
ARTICLE IX - RULES AND REGULATIONS; COMPLIANCE WITH LAWS; ADDITIONAL COVENANTS.		51
9.01	Rules and Regulations.	51
9.02	Compliance with Laws	51
9.03	Ramp Usage and Servicing	52
9.04	New Employee Parking Lot	52
9.05	Noise Abatement.	53
ARTICLE X - RELEASE AND INDEMNIFICATION; DAMAGE OR DESTRUCTION; INSURANCE.		54
10.01	Release and Indemnification.	54
10.02	Insurance.	54
10.03	Damage or Destruction.	55
10.04	Waiver of Subrogation; Property Damage Insurance	57
ARTICLE XI - CERTAIN RIGHTS OF CITY.		58
11.01	Eminent Domain	58
11.02	Right to Enter, Inspect and Repair	59
11.03	Accommodation of Airport Construction.	60
ARTICLE XII - DEFAULTS		63
12.01	Events of Default.	63
12.02	Remedies	64
12.03	Effect of Termination.	65
12.04	Additional Rights	65
ARTICLE XIII - ASSIGNMENT AND SUBLETTING		66
13.01	Assignment or Sublease	66
13.02	Requests for Assignment or Sublease.	67
13.03	Filing of Assignment or Sublease	67
13.04	Application of Rent.	67
13.05	Insufficient Utilization of Concourse D Gates by Assignee.	67
13.06	Assignments by City.	68
ARTICLE XIV - AIRLINE'S RIGHT TO TERMINATE		69
14.01	Airline's Right to Terminate	69
ARTICLE XV - DELIVERY OF POSSESSION.		70
ARTICLE XVI - HOLDING OVER		71
ARTICLE XVII - MISCELLANEOUS PROVISIONS.		72
17.01	Employment Opportunities	72
17.02	No Personal Liability.	72
17.03	Taxes.	72
17.04	Interpretation of Agreement.	73
17.05	Notices, Requests and Other Communications	73
17.06	Entire Agreement; Amendment.	75
17.07	Waiver	76
17.08	Non-Discrimination	76
17.09	Force Majeure.	76
17.10	Severability	77
17.11	Headings	77
17.12	Non-Exclusivity.	77
17.13	Approvals.	77
17.14	Binding Nature	77
17.15	Incorporation of Exhibits.	77
17.16	Memorandum of Lease.	77
17.17	No Agency.	77
17.18	Counterparts	78
17.19	Rights and Obligations as to Rates and Charges	78
17.20	Accommodation of 1997 Concourse Expansion.	78
17.21	Letter Agreement	78
17.22	Special Obligation of City; Subject to Laws.	78

SIGNATURES
NOTARIZATION

EXHIBIT A - Original Lease

- EXHIBIT B - Continental Special Facilities
 - B-1 - Concourse D
 - B-2 - Concourse C
 - B-3 - Deicing Pad
 - B-4 - Hydrant Fueling System
- EXHIBIT C - Cost Allocation Policy
- EXHIBIT D - Disbursement Request Forms
 - D-1 - Disbursements from Bond Proceeds
 - D-2 - Disbursements from GARB Proceeds
- EXHIBIT E - Competitive Bidding Procedures for Public and Non-Public Areas
- EXHIBIT F - Maintenance and Repair Responsibilities
 - DEFINITIONS AND REFERENCES
- EXHIBIT G - Equal Opportunity Clause
- EXHIBIT H - Blacklined MOU
- EXHIBIT I - 1997 Concourse Expansion Budget
- EXHIBIT J - GARB Improvements
 - J-1 Concourses C & D Public Areas and Concourse D Concession Areas
 - J-2 Certain Utilities
 - J-3 Aircraft Ramp & Other Aircraft Paving
 - J-4 Permanent Rental Car Facilities
 - J-5 New Employee Parking Lot
 - J-6 Triturator
 - J-7 Outbound Bag Room, Bag Claim & Security Check Point Expansion in the Terminal Building
- EXHIBIT K - Letter Agreement

THIS SPECIAL FACILITIES LEASE AGREEMENT ("Agreement") is made and entered into as of the 24th day of October, 1997, by and between the CITY OF CLEVELAND, a municipal corporation and political subdivision of the State of Ohio ("City"), and CONTINENTAL AIRLINES, INC., a corporation organized and existing under the laws of the State of Delaware and authorized to do business in the State of Ohio ("Airline"). Capitalized words and terms in these preambles, unless stated otherwise or unless the context dictates otherwise, shall have the meanings given to them in Article I hereof.

WITNESSETH:

WHEREAS, City owns and operates Cleveland Hopkins International Airport ("Airport"); and

WHEREAS, the Council of City, pursuant to Ordinance No. 1585-A-76, passed by the Council on August 16, 1976, authorized City to enter into agreements and leases substantially in the form attached to that Ordinance as Exhibit A setting forth the terms on which certain airlines would lease portions of the Airport from City and be permitted to use the Airport's facilities; and

WHEREAS, the Council of City, pursuant to Ordinance No. 2551-A-82, passed by the Council of City on June 15, 1983, authorized City to enter into additional such agreements and leases with additional Scheduled Airlines (as defined therein); and

WHEREAS, pursuant to Ordinance No. 2551-A-82, City entered into an Agreement and Lease with Airline, dated as of May 15, 1987; and

WHEREAS, Section 20.20 of the Original Lease and Section 3(e) of Ordinance No. 1773-A-76, passed by the Council of City on August 16, 1976 and incorporated into the Indenture (as defined in the Original Lease) permit City to issue Special Revenue Bonds to finance the construction of any Special Facilities (both as defined in the Original Lease); and

WHEREAS, Airline desires to construct Special Facilities and to fund the costs thereof from Special Revenue Bonds of City payable solely from the Bond Rent to be paid by Airline under this Agreement and other amounts derived by City or the Trustee under this Agreement; and

WHEREAS, Airline estimates that its City-based work force will increase by the equivalent of approximately 524 full-time jobs over the next five years as Airline adds employees to support the increased flights that will be accommodated in large part by those Special Facilities and related improvements;

WHEREAS, pursuant to Ordinance No. 561-97, passed by the Council of City on June 2, 1997 ("Authorizing Ordinance"), the Council of City authorized City, among other things, to execute and deliver this Agreement; and

WHEREAS, pursuant to Ordinance No. 923-97, passed by the Council of City on June 9, 1997, the Council of City authorized City, among other things, to issue Series 1997 Project Bonds (as defined therein) for the purpose of funding a portion of the costs of City's Airport System Capital Improvement Program 1997-2001, which includes the 1997 Concourse Expansion;

WHEREAS, the Authorizing Ordinance requires that this Agreement be signed and delivered before those Series 1997 Project Bonds to be issued for such related improvements may be issued; and

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants, agreements and conditions contained herein, the parties hereto agree as follows:

ARTICLE I - DEFINITIONS

Unless otherwise defined herein and except as otherwise stated herein, all capitalized words and terms defined in the Original Lease and used herein are used herein with the definition assigned to them in the Original Lease as in effect on the date hereof and as attached hereto as Exhibit A. The following words and terms are used herein with the following definitions:

"1989 Special Facilities Lease" means the Special Facilities Lease Agreement dated as of December 1, 1989, by and between City and Airline relating to certain improvements constructed from the proceeds of City's \$76,320,000 Airport Special Revenue Bonds, Series 1990 (Continental Airlines, Inc. Project).

"1997 Concourse Expansion" means the Continental Special Facilities and the improvements specifically described in Section 5.02(a) of this Agreement. However, whenever "1997 Concourse Expansion" is used with reference to any obligation of Airline, it shall not include the permanent rental car facilities being constructed by City.

"Additional Bond Rent" means: (i) such amounts as shall be required to satisfy any requirement under the Code to pay to the United States any excess investment income on certain investments acquired from the proceeds of the Bonds as provided in Section 148 of the Code, applicable Treasury regulations and the Indenture; and (ii) to the extent not paid out of the proceeds of the Bonds, (a) the reasonable fees and other costs incurred for services of the Trustee and any other entity serving as paying agent, authenticating agent and registrar of the Bonds, (b) all reasonable fees and other costs incurred by or on behalf of the Trustee or City in connection with the issuance of the Bonds or the purchase or redemption by Airline of any Bonds or making any examinations or reports or giving any opinions required by the Indenture or otherwise satisfying any requirement of the Indenture, and (c) except as otherwise specifically provided in the Indenture, the reasonable fees and other costs incurred by or on behalf of the Trustee or City in defense of any action or proceeding with respect to the Bonds or in enforcing any obligation of Airline with respect to the Bonds.

"Additional Rent" means all forms of "additional rent" referred to in this Agreement except Additional Bond Rent.

"Assumed Amortization" means the debt service on the Bonds that would be payable as of the date of calculation assuming that (i) the principal of the Bonds had been retired based on annual level debt service payments, and (ii) the Bonds bear interest at an interest rate equal to the weighted average of the actual interest rates at which the Bonds were sold.

"Basic Rent" means the rent payable by Airline pursuant to Article VII hereof.

"Basic Rent Reserve" means: (i) during the period preceding the first determination of the Basic Rent pursuant to Article VII hereof, the estimate of the Basic Rent which would be payable during the first full calendar year following the Commencement of Occupancy (as certified to Airline by the Director of Port Control of City); and (ii) from and after the determination of Basic Rent pursuant to Article VII hereof, the amount of Basic Rent payable during the then current calendar year.

"Basic Rent Reserve Fund" means the Fund of that name established pursuant to Section 7.04 hereof.

"Best Efforts", when describing an obligation of City, shall not include the obligation to invoke City's police powers or any other power or authority derived solely from City's status as a municipal corporation or public utility that is different from the power or authority of a private commercial landlord.

"Bond Fund" means the Fund of that name to be established under the Indenture in the custody of the Trustee for the deposit of Bond Rent to be paid by Airline or other monies to pay Bond Service Charges on the Bonds.

"Bond Ordinance" means the ordinance to be passed by the Council of City authorizing the issuance and sale of the Bonds.

"Bond Rent" means the rent payable by Airline pursuant to Section 7.05 hereof.

"Bond Service Charges" means, for any applicable time period or payment date, the principal (including any mandatory sinking fund installments), interest, and redemption premium, if any, required to be paid by City on the Bonds during such period or on such payment date.

"Bonds" means the Airport Special Revenue Bonds to be issued by City at the request of Airline to pay the Costs of the Facilities of the Continental Special Facilities and the Related Facilities.

"City Project Manager" means the appropriately qualified, full-time individual dedicated to managing the implementation of the 1997 Concourse Expansion, including without limitation: (a) coordinating the review of and response to plans and specifications submitted by Airline; (b) communicating City's written approvals of and written objections to such plans and specifications, upon which written communications (or written communications of City Project Manager's designee) Airline may rely, for purposes of this Agreement, without independent verifications thereof with respect to matters described in Section 5.07(a)(2) hereof and matters within City's jurisdiction; and (c) receiving requests from Airline for any consents, approvals or disbursements of funds relating to the construction of the GARB Improvements.

"Code" means the Internal Revenue Code of 1986, as amended, including, where appropriate, the statutory predecessor of the Code and all applicable Treasury regulations.

"Commencement of Occupancy": (a) for purposes of determining the Term of the lease of each element of the Continental Special Facilities pursuant to Section 3.01 of this Agreement, means the date on which the construction of the applicable Continental Special Facilities (the Concourse C Expansion Special Premises, the Concourse D Special Premises, the Deicing Pad Special Premises or the Hydrant Fueling System Special Premises, as the case may be), together in each case with any associated GARB Improvements, has been substantially completed and such element is usable for its intended purposes; and (b) for purposes of the payment of Basic Rent for the Concourse D Special Premises and the Concourse C Expansion Special Premises, means the earlier of (i) the end of the capitalized interest period for the GARBs or (ii) the date on which construction of the Concourse D Special Premises or the Concourse C Expansion Special Premises, respectively, and, as to each, any associated GARB Improvements, has been substantially completed and the Concourse D Special Premises or the Concourse C Expansion Special Premises, respectively, is usable by Airline for its intended purposes.

"Concourse C" means generally the existing concourse at the Airport that is referred to at Section 1.19 of the Original Lease as the South Concourse, as the same may be changed, expanded or modified.

"Concourse C Expansion Special Premises" means that portion of the Continental Special Facilities located on or in Concourse C, as more specifically described in Exhibit B-2 to this Agreement.

"Concourse C Expansion Term" means the term of this Agreement pertaining to the Concourse C Expansion Special Premises.

"Concourse D" means generally the concourse at the Airport that is to be constructed by Airline pursuant to the terms of this Agreement, as the same may be changed, expanded or modified.

"Concourse D Special Premises" means that portion of the Continental Special Facilities located on or in Concourse D, as more specifically described in Exhibit B-1 to this Agreement.

"Concourse D Term" means the term of this Agreement pertaining to the Concourse D Special Premises.

"Concourse Improvements" means the Concourse C Expansion Special Premises and the Concourse D Special Premises, as more specifically described in Exhibits B-2 and B-1, respectively.

"Construction Fund" means the construction fund to be held by the Trustee under the Indenture for the deposit of proceeds of the Bonds to be used to pay Costs of the Facilities with respect to improvements to be financed with the proceeds of the Bonds.

"Construction Period" means the period of time between the Effective Date and the date on which the construction of the 1997 Concourse Expansion has been substantially completed and those aspects of the 1997 Concourse Expansion to be used by Airline hereunder are useable by Airline for their intended purposes.

"Continental Special Facilities" means the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises, and the Hydrant Fueling System Special Premises, as more specifically described in Exhibits B-1, B-2, B-3, and B-4 to this Agreement, respectively, which premises shall be reserved for the exclusive use and control of Airline to service its passengers, customers and operations and shall not be open to, available for, or used by the general public and/or by the passengers, customers or operations of other airlines or persons.

"Costs of the Facilities" means the cost of the installation, construction, acquisition and development of the improvements in the 1997 Concourse Expansion and Related Facilities, and shall include, without limitation:

(a) with respect to improvements financed with the proceeds of either the Bonds or the GARBs, or both, (i) the cost of engineering, architectural, construction management and other services relating to the design and construction of those improvements, plans, specifications and surveys and estimates of costs, (ii) the cost of preparation of the existing real estate that is the site of those improvements, (iii) the cost of any indemnity and surety bonds or other insurance coverage with respect to those improvements during construction, (iv) fees and expenses of the trustee in connection with the preparation, issuance and delivery of the Bonds or GARBs, as the case may be, including, without limitation, initial fees and expenses of the trustee and of its counsel, (v) interest that is due and payable on the Bonds or GARBs, as applicable, during construction of the improvements financed thereby and, in the case of the GARBs, any amounts necessary to fund any debt service reserve or other reserves as may be required by the agreements securing GARBs, (vi) the cost of issuance of the Bonds or GARBs, as the case may be, including, without limitation, discounts, commissions, financing charges and fees and expenses of underwriters, bond counsel and other attorneys, accountants, financial advisors and consultants, the cost of audits, the costs of any registration of the Bonds or GARBs, as the case may be, or of registration of the obligation of Airline to pay Bond Rent under federal and state securities laws and any qualifications of the Indenture under the Trust Indenture Act of 1939, (vii) reimbursement of monies advanced or applied by City or Airline from whatever source provided for the payment of any item of cost of the improvements in the 1997 Concourse Expansion, (viii) costs of compliance with environmental requirements (other than any remediation or clean-up costs), (ix) the cost of all utility services consumed during the construction and until substantial completion of the various elements of the 1997 Concourse Expansion, and (x) such other costs of the 1997 Concourse Expansion improvements, whether or not specified herein, necessary or incidental to the acquisition, construction, reconstruction, installation, equipping, furnishing or other improvement of the 1997 Concourse Expansion improvements, the financing thereof and the placing thereof in condition for use and operation and all like or related costs and expansions; provided that such costs are permitted by applicable laws to be funded by the Bonds or GARBs, including the Code in the case of an issue of Bonds or GARBs that are to be qualified under the Code as obligations the interest on which is excluded from gross income for federal income tax purposes;

(b) with respect to improvements financed with the proceeds of the Bonds: (i) the actual, reasonable out-of-pocket expenses of City and Airline to the extent related to the issuance of the Bonds and the implementation of the 1997 Concourse Expansion (which does not include the permanent rental car facilities), with such implementation expenses to be allocated to the Bonds pursuant to Section 5.03(a) hereof, including legal, construction inspection and other consultant fees; and (ii) the direct labor costs of City and Airline employees dedicated to the 1997 Concourse Expansion (which does not include the permanent rental car facilities), with such labor costs to be allocated to the Bonds pursuant to Section 5.03(a) hereof, provided that the direct labor costs of City shall not exceed those for the equivalent of 10 full-time City employees; and

(c) with respect to improvements financed with the proceeds of the GARBs: (i) the actual, reasonable out-of-pocket expenses of City and Airline to the extent related to the issuance of the GARBs and the implementation of the 1997 Concourse Expansion (with such implementation expenses to be allocated to the GARBs pursuant to Section 5.03(a) hereof), including legal, construction inspection and other consultant fees; and (ii) the direct labor costs of City and Airline employees dedicated to the 1997 Concourse Expansion (with such labor costs to be allocated to the GARBs pursuant to Section 5.03(a) hereof), provided that the direct labor costs of Airline shall not exceed those for the equivalent of 10 full-time Airline employees.

"Defeasance Date" means the date on which all Bonds shall have been paid and discharged, or shall be deemed paid and discharged, and the Indenture shall have been defeased in accordance with its terms.

"Deicing Pad Special Premises" means that portion of the Continental Special Facilities more specifically described in

"Deicing Pad Term" means the term of this Agreement pertaining to the Deicing Pad Special Premises.

"Effective Date" means the date of issuance of the GARBs.

"Environmental Laws" means, collectively, any federal, state, or local law, rule, regulation or standard (whether now existing or hereafter enacted or promulgated, as they may be amended from time to time) pertaining to protection of health, safety or the environment, and any judicial or administrative interpretation thereof, including any judicial or administrative orders or judgments, including, without limitation: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Paragraph 9601 et seq. ("CERCLA"); the Resource Conservation and Recovery Act, 42 U.S.C. Paragraph 6901 et seq. ("RCRA"), the Clean Water Act, 33 U.S.C. Paragraph 1251 et seq.; the Clean Air Act, 42 U.S.C. Paragraph 7401 et seq., the Toxic Substances Control Act, 15 U.S.C. Paragraph 2601 et seq. ("TSCA"); the Hazardous Materials Transportation Act, 49 U.S.C. Appx. Paragraph 1801 et seq., Ohio Revised Code Chapters 3704, 3710, 3714, 3734, 3737, 3742, 3745, 3751, 3752 and 3767; or any other applicable state statute or city or county ordinance regulating the generation, storage, containment or disposal of any Hazardous Material or providing for the protection, preservation or enhancement of the environment.

"Event of Default" means any of the circumstances designated as such in Section 12.01 hereof.

"Existing Contamination" means any and all pollution or contamination caused by any Hazardous Material, and not caused by Airline, its officers, employees, agents, contractors, subcontractors, successors, assigns, and any other person or entity acting for or through Airline, that previously existed or exists in, on, or under the soil or groundwater at or beneath the Continental Special Facilities on or before the Effective Date of this Agreement.

"Expiration Date" means the scheduled expiration date of the latest-to-expire Term of the Continental Special Facilities as provided in Section 3.01 hereof.

"Fiscal Officer" means the Director of Finance of City.

"Force Majeure" means Force Majeure as described at Section 17.09 hereof.

"GARB Improvements" means that portion of the 1997 Concourse Expansion contemplated hereunder to be funded with the proceeds of the GARBs as described in Section 5.02 and Exhibit J hereof.

"GARB Indenture" means the Trust Indenture dated as of November 1, 1976, as supplemented and amended by the First Supplemental Trust Indenture dated as of April 1, 1990 and the Second Supplemental Trust Indenture dated as of August 1, 1994, each between City and the GARB Trustee, as to be supplemented and amended by the Third Supplemental Trust Indenture between City and the GARB Trustee to be executed in connection with the issuance of the GARBs.

"GARB Trustee" means Mellon Bank, F.S.B., Cleveland, Ohio, and any bank or trust company succeeding to the duties of the trustee under the GARB Indenture.

"GARBs" means that portion of the general airport revenue bonds of City which is issued to pay the Costs of the Facilities of the GARB Improvements specifically described in Section 5.02 of this Agreement.

"Hazardous Materials" means, but shall not be limited to, any oil or petroleum product, any hazardous or toxic waste or substance, and any substance which, because of its concentration or characteristics, constitutes or may reasonably be expected to constitute or contribute to a danger or hazard to public health, safety or welfare or to the environment, including without limitation any asbestos (whether or not friable) and any asbestos-containing materials, lead paint, petroleum or petroleum products, solvents, polychlorinated biphenyls (PCBs), toxic metals, explosives, reactive materials, pesticides, herbicides, radon gas, and chemical, biological and radioactive wastes, or any other materials or conditions which are or may in the future be included under or regulated by any Environmental Law.

"Hydrant Fueling System Special Premises" means that portion of the Continental Special Facilities more specifically described in Exhibit B-4 to this Agreement.

"Hydrant Fueling System Term" means the term of this Agreement pertaining to the Hydrant Fueling System Special Premises.

"Indenture" means the trust indenture to be entered into by City and a bank or trust company serving as Trustee to provide for the terms of the Bonds, as same may be amended from time to time in accordance with its terms.

"Interest Account" means the account of the Bond Fund to be established under the Indenture for the deposit of money to pay interest on the Bonds.

"Interest Payment Date" means the dates to be set forth in the Indenture as the dates on which interest on the Bonds is payable to the holders of the Bonds.

"Jet Gate" means an aperture in the wall of a Concourse specifically designed to accommodate a jet loading bridge; provided, however, that a single such aperture to which a dual-loading capable jet bridge is connected shall constitute only one Jet Gate for such purposes.

"Original Lease" means the Agreement and Lease by and between City and Airline, dated as of May 15, 1987, as the same may be modified or amended from time to time.

"Permanent Site Availability" means that (a) City has caused permanent rental car facilities to be made available in operational condition, (b) City has caused to vacate their premises all of the rental car company tenants which were not relocated to interim rental car facilities, (c) City has caused those rental car company tenants which were relocated to those interim rental car facilities to vacate those premises, and (d) City has delivered to Airline full possession of the premises described in (b) and (c) above, with all improvements (including, without limitation, all above-ground and underground storage tanks) in, on, or under the premises described in (b) above demolished and/or removed in accordance with applicable laws.

"Principal Account" means the account of the Bond Fund to be established under the Indenture for the deposit of money to pay principal of the Bonds.

"Redemption Account" means the account of the Bond Fund to be established under the Indenture for the deposit by Airline of money to pay Bonds upon call for redemption.

"Related Facilities" means (i) fixtures, furnishings and equipment (including telecommunications equipment and regional jet-capable jetbridges) associated with the holdrooms, passenger and related space at three gates on Concourse A (currently identified as Gates A-9, A-9A, and A-11) to be occupied or used by Airline on an interim basis until the Commencement Date of the Concourse D Special Premises, (ii) fixtures, furnishings and equipment (including telecommunications equipment and regional jet-capable dual jetbridges) associated with the conversion of an existing airline lounge on Concourse C to holdrooms, passenger and related space, and (iii) fixtures, furnishings and equipment (including telecommunications equipment and narrow body-capable jetbridges) associated with other holdrooms, passenger and related space on Concourse C.

"Support Facilities" means the Deicing Pad Special Facilities and the Hydrant Fueling System Special Facilities.

"Term" means, with respect to each element of the Continental Special Facilities, the term of the lease of those facilities pursuant to this Agreement, as more specifically set forth in Section 3.01.

"Termination Date" means, with respect to this Agreement, the earlier of: (a) the Expiration Date; or (b) the date of the termination of this Agreement pursuant to any applicable provision hereof.

"Trustee" means the bank or trust company designated in the Bond Ordinance to be the trustee under the Indenture and such entity's successors under the Indenture.

(End of Article I)

ARTICLE II - RIGHTS, PRIVILEGES
AND PREMISES

2.01 Lease and Use of Continental Special Facilities

In addition to such rights as Airline has under the Original Lease, any agreement which may succeed or supersede the Original Lease, the 1989 Special Facilities Lease and any other agreements Airline may have with City until the respective terminations thereof in accordance with their respective terms, for the rent, upon the agreements, and subject to the terms and conditions hereinafter set forth and subject to the rules and regulations prescribed by City, City hereby agrees to lease the Continental Special Facilities to Airline, and Airline agrees to lease the Continental Special Facilities from City, and City agrees that Airline shall have the right to conduct from and at the Continental Special Facilities its air transportation activities for the carriage of persons, property and mail, the operation of an airline lounge, and activities incidental thereto.

Specifically and without limitation, the following rights are included among the rights hereby conferred:

a. The use, in common with other duly authorized users, of the public areas of the Terminal Complex.

b. The right of ticketing passengers, and of loading and unloading persons, property and mail at the Continental Special Facilities by such motor vehicles or other means of conveyance as Airline may require as is consistent with normal airport practice and the Original Lease. Notwithstanding the preceding sentence, the Concourse D Special Premises will be used primarily in connection with Airline's passenger operations. Any material deviations to such primary use must first be mutually agreed upon by Airline and City.

c. The right to install at Airline's expense identifying signs on the Concourse Improvements, the number, type, size, design and location of which shall all be consistent with such reasonable graphic standards as City may from time to time adopt. Outside the leaselines of the Concourse Improvements, Airline's ability to advertise shall be subject to City's right to lease space for advertising signs throughout the Terminal Complex. Inside the leaselines of the Concourse Improvements, Airline shall not display advertising for persons or entities other than Airline, its subsidiaries, or entities providing commuter services for Airline, and such advertising shall be limited to that for air transportation services or related transportation services offered by Airline, its subsidiaries, or entities providing commuter services for Airline, which air or related transportation services are available (either directly, or indirectly through connecting flights) to Airport passengers. Airline shall make no such installation of identifying signs or display of advertising without the prior written approval of the Director of Port Control of City, which approval shall not be unreasonably withheld, conditioned or delayed.

d. The right to install, maintain and operate such radio, communication, meteorological, security screening and aerial navigation equipment and facilities as may be necessary in the opinion of Airline for its operation; provided, however, that the location of such equipment and facilities must be first approved by City, which approval shall not be unreasonably withheld, conditioned or delayed, and which location shall not interfere with the full and proper use of the Airport System.

e. Airline shall retain exclusive rights to the Concourse D Jet Gates (excluding Ramp Areas) and to the Concourse C Jet Gates (excluding Ramp Areas) that are constructed or modified using the proceeds of the Bonds, and shall not be obligated to make such gates available to any other carriers during the Concourse D Term or the Concourse C Expansion Term, respectively.

f. Airline shall not install or operate pay telephones, coin-operated or credit-card operated machines and devices, or similar machines and devices, in the Continental Special Facilities, but may have such installed by companies having agreements with City for such installations, if such shall be for the use of Airline's employees and located in the Continental Special Facilities; provided, however, that if such company or companies choose not to install such devices, Airline may make arrangements for the installation of same, subject to City's standard fees and charges, and provided that Airline shall have the right to charge for the cost of electric power used in the operation of such machines; and provided also that Airline may install or operate such or similar devices on the Continental Special Facilities for the sale or issuance of Airline's tickets, subject to City's approval, which approval shall not be unreasonably withheld, conditioned or delayed.

g. The right of landing, taking off, taxiing, pushing, towing, loading, unloading, repairing, maintaining, conditioning, servicing, testing or parking its aircraft of its choice or other equipment owned or operated by Airline, including the right to provide or handle all or part of the operations or services of another air transportation company.

h. The right of purchase, sale, disposal and exchange of Airline's aircraft, engines, accessories, fuel, oil, lubricants and other equipment, and materials or supplies.

i. The right of servicing of aircraft and other equipment owned, or operated, by Airline or other Scheduled Airlines, by truck or otherwise, with fuel, oil, lubricants, parts, or aircraft supplies, at aircraft loading and unloading aprons and other locations designated by City for such servicing; provided, however, that any entity providing such service at the Airport for profit may be required to first secure and thereafter hold a valid lease, license or other agreement with City for the right to operate at the Airport, and shall pay City such reasonable rentals, fees and/or percentages of the charges for such services as City and such entity may agree upon for such right.

j. Any uses not permitted herein shall be negotiated in good faith by City and Airline to be consistent with Airline's planned hub growth and City's reasonable need to plan and manage the Airport in a prudent manner.

2.02 Space in and Adjacent to Terminal Building

a. From and after its commencing to occupy the Concourse Improvements, Airline shall lease the following Concourse Improvements for the respective purposes shown:

Concourse C

(1) Airline lounge. 10,548 square feet

Concourse D

(2) Holdroom, passenger and related space 52,482 square feet

(3) Concourse office and Operations space. 50,654 square feet

(4) Ramp control tower. 324 square feet

b. The dimensions of the areas to be occupied by Airline as set forth in Section 2.02(a) above are approximate only, and upon completion of the construction of the Concourse Improvements, actual dimensions thereof shall be taken by City and Airline representatives, measuring from the center line of walls for interior space and to the inside space of exterior walls. The actual square foot dimensions shall thereupon be incorporated in a writing signed by City and Airline representatives within six months after the Commencement of Occupancy for all elements of the Concourse Improvements, and shall be the basis for determining the amount of the Basic Rent pertaining thereto; provided, however, that until such actual dimensions shall have been taken, Airline's rental payments shall be based upon the approximations in Section 2.02(a) hereof. If the actual square foot dimensions prove to be different than the approximate dimensions, the total amount of overpayment or underpayment of Basic Rent shall be corrected by City granting rent credits or requiring additional rent, as the case may be, in six equal installments (which together shall equal the total amount of overpayment or underpayment) over the six-month period beginning the month after the writing containing the actual square foot dimensions is signed by City and Airline representatives.

2.03 Access

a. Subject to the provisions hereof, such restrictions as Airline may impose with respect to the Continental Special Facilities and the rules and regulations prescribed by City with respect to the Airport System, City hereby grants to Airline, its agents, suppliers, employees, contractors, passengers, guests and invitees the right and privilege of ingress and egress to the Continental Special Facilities and to public areas and public facilities of the Terminal Complex. City agrees that, subject to the provisions of this Agreement, there shall be no unreasonable interference with Airline's access to or use of the GARB Improvements or in connection with Airline's access to or use of the Continental Special Facilities.

b. The ingress and egress provided for above: (i) shall not be used, enjoyed or extended to any person engaging in any activity or performing any act or furnishing any service for or on behalf of Airline that Airline is not authorized to engage in or

perform under the provisions hereof unless expressly authorized by City; and (ii) shall be used and exercised in accordance with and subject to any security measures required by federal, state or local law or otherwise reasonably deemed necessary by City.

c. All means of access up to the leaselines of the Continental Special Facilities provided by City pursuant to this Section 2.03 shall be in common with such other persons as City may authorize or permit, and all of such rights of access shall be exercised subject to and in accordance with all applicable laws and ordinances whether federal, state, or local.

d. City shall have the right at any time or times to close, relocate, reconstruct, change, alter or modify any such means of access provided for Airline's use pursuant to this Agreement or otherwise, either temporarily or permanently; provided that reasonable notice to Airline and a reasonably convenient and adequate means of access for ingress and egress shall exist or be provided in lieu thereof. City shall suffer no liability by reason thereof and such action shall in no way alter or affect any of Airline's obligations under this Agreement.

Notwithstanding the foregoing or any other provision of this Agreement, City's right to close, relocate, reconstruct, change, alter or modify the connector tunnel listed at Section 5.02(a) (i) shall be subject to Airline's approval. Prior to taking such actions, City must submit plans sufficient to disclose the nature and extent of the work to be performed to Airline, and City shall not commence such proposed action until Airline approves such plans or any disagreements are resolved in the manner set forth in this paragraph. If Airline objects to such plans of City, it must give City specific written notice of its objections within 30 days, otherwise City's plans shall be deemed approved. In the event Airline timely objects to such plans of City, the parties hereby agree to work cooperatively in an attempt to reach a mutually satisfactory resolution of any such differences. If such resolution is not achieved within seven days after City's receipt of Airline's written notice of objections, the parties hereby agree to have the dispute resolved by an arbitration process to be agreed upon by the parties at the time, but which process, in any event, shall take no longer than 30 days; provided, however, that if such arbitration process is not agreed upon within three days after said seven-day period, the dispute will be referred to the American Arbitration Association, which will establish the process by which to resolve it, but which process the parties at the time shall exercise all reasonable efforts to complete within 30 days. Notwithstanding the foregoing in this paragraph, City may commence emergency maintenance or repairs of, or initiate emergency security procedures or measures involving, the connector tunnel upon such prior written notice to Airline as is reasonable under the circumstances.

2.04 Use by Airline

In connection with the exercise of its rights under this Agreement, and as may be supplemented by Section 2.05 of this Agreement, Airline:

a. Shall not cause or create nor permit to be caused or created (except by City, its officers, employees, agents, contractors, subcontractors, successors, assigns, and any other person or entity acting for or through City -- collectively, and for purposes of this Section 2.04, "City Actors," which term shall not include Airline) within the Continental Special Facilities any noxious odors or smokes, or noxious gases or vapors. Neither the creation of exhaust fumes by the operation of aircraft engines, when operated in a manner approved by the Federal Aviation Administration, nor the existence of gasoline or other fumes resulting from the proper fueling of aircraft or motor vehicles, nor the existence of paint fumes or odors, provided the same occur during lawful use of the Continental Special Facilities and lawful operation by Airline therefrom in accordance with the other provisions of this Agreement, shall constitute a violation of this subsection.

b. Shall not do or permit to be done (except by City Actors) anything at or on the Continental Special Facilities which may interfere with the effectiveness or accessibility of the drainage and sewage system, fire protection system, sprinkler system, alarm system, fire hydrants and hoses, water system, ventilation, air-conditioning and heating systems, communications systems, and key-card access systems, if any, installed or located on or within the Continental Special Facilities or the Airport.

c. Shall not do or permit to be done (except by City Actors) any act or thing at or on the Continental Special Facilities which will by itself invalidate or conflict with any fire or other casualty insurance policies (copies of which, together with premium schedules, shall be furnished to Airline upon request) covering the Airport or any part thereof.

d. Shall not dispose of or permit any other person (except City Actors) to dispose of any waste material (whether liquid or solid) taken from or products used with respect to its aircraft into the sanitary or storm sewers at the Airport unless such waste material or products shall first have been properly treated by equipment installed with the approval of City for that purpose.

e. Shall not keep or store flammable liquids within the enclosed portion of the Continental Special Facilities in excess of Airline's working requirements during any 24-hour period except in facilities complying with applicable law and the rules, regulations and policies of City and City's Department of Port Control.

2.05 Environmental Compliance

a. Throughout the term of this Agreement, Airline shall observe and obey all applicable Environmental Laws and comply with Airline's obligations under this Section 2.05 and shall cause its employees, agents, contractors, subcontractors, and licensees to observe and obey all applicable Environmental Laws and comply with Airline's obligations under this Section 2.05.

b. Except as may be permitted by and only in accordance with applicable Environmental Laws, Airline shall not cause, directly or indirectly, any Hazardous Materials to exist or be stored, located, possessed, managed, processed, or otherwise handled on, or discharged or released into the environment about, the Continental Special Facilities, and shall comply with all Environmental Laws affecting the use or operation of the Continental Special Facilities. Airline shall not use, or allow others within Airline's control to use, Hazardous Materials on or about the Continental Special Facilities, except for those Hazardous Materials customarily used in the industry for operations of the type conducted by Airline. No activity shall be undertaken by Airline on the Continental Special Facilities which would cause (i) the Continental Special Facilities to be considered on the date of the activity a hazardous waste treatment, storage or disposal facility under any applicable Environmental Laws, or (ii) an unpermitted or unlawful release of any Hazardous Materials into the environment, excluding Existing Contamination, the release of which Airline agrees to exercise commercially reasonable efforts to minimize.

c. Airline shall, with all due diligence, and at its own cost and expense, take all actions as may be required by applicable Environmental Laws for the remediation of all releases of Hazardous Materials at or from the Continental Special Facilities (other than Existing Contamination, and/or contamination of the 1997 Concourse Expansion caused by Hazardous Materials to the extent such contamination results from the acts or omissions of persons or entities other than Airline, its employees, agents, contractors, subcontractors, and licensees), which actions shall be taken in accordance with all applicable Environmental Laws. In connection with any remedial work under this Agreement, Airline will only be required to meet the least stringent standards of applicable Environmental Laws, provided such least stringent standards do not materially interfere with City's Airport operations and City's intended use of the facilities, and City will cooperate with Airline in Airline's design and performance of cost-effective remedies. Airline shall further pay or cause to be paid at no expense to City all clean-up, administrative, and enforcement costs of applicable government agencies or the parties protected by such Environmental Laws which may be asserted against the Continental Special Facilities as a result of any such release by Airline but only to the extent that such costs are incurred in causing the resulting contamination to be remediated as required by the least stringent standards of applicable Environmental Laws. City and Airline acknowledge and agree that the foregoing sentence shall in no way modify or affect the rights and claims of the parties with respect to the Existing Contamination. If, under Section 10.01 of this Agreement City is entitled to indemnification by Airline of costs incurred by City in connection with Airline's obligations, warranties, representations or other matters addressed in this Section 2.05, Airline shall be obligated to pay all amounts owing under such indemnification obligation upon 30 days written notice by City, with interest thereon at the rate of 1% per month from the expiration of the 30-day notice period.

d. In designing or performing any environmental remedial work under this Agreement, the party planning or performing such work shall give reasonable advance notice of, and an opportunity to comment on, any such proposed remedial work. City shall have the right, but not the obligation, to approve any work plan proposed by Airline to the extent that the manner in which the remedial work is to be performed reasonably is expected to impact Airport operations (other than those of Airline), which approval shall not be unreasonably withheld, conditioned or delayed; provided, however, that if any superior governmental authority with jurisdiction over the Continental Special Facilities approves a remediation plan or schedule for the Continental Special Facilities, such plan or schedule shall prevail; and further provided that City may modify

the work plan proposed by Airline to include costs or elements beyond those required by the least stringent standards of applicable Environmental Laws ("Extra Remedial Costs") only if City provides funding for such Extra Remedial Costs. Any work done by City shall be designed and performed, to the extent practicable, in a way that minimizes interference with Airline's operations at the Airport.

e. Airline and City shall promptly notify each other in writing should either become aware of any: (i) release or threatened release of Hazardous Materials or other occurrence with respect to the Continental Special Facilities which reasonably is expected to give rise to claims or liabilities or to any restriction in ownership, occupancy, transferability or use of the Continental Special Facilities under any Environmental Laws; (ii) lien filed, action taken or notice given of any liabilities under Environmental Laws with respect to the Continental Special Facilities or conditions which, with any applicable notice, lapse of time, or failure to take certain curative or remedial actions, is reasonably expected to result in liabilities under Environmental Laws; or (iii) notice given from any subtenant or other occupant of the Continental Special Facilities or the Airport or any notice from any governmental authority with respect to any potential liabilities under any Environmental Laws in connection with the Continental Special Facilities.

f. Airline and City shall, promptly upon receipt or issuance, as the case may be, provide each other with copies of any permits or any notices of releases of Hazardous Materials, studies or correspondence which are given by or on behalf of Airline or City, respectively, to, or which are received from, any federal, state or local agencies or authorities regarding the 1997 Concourse Expansion. In addition, in connection with any environmental litigation or threat of environmental litigation affecting the 1997 Concourse Expansion, Airline and City shall deliver to each other any non-privileged, non-proprietary, relevant documentation or records (or copies thereof) as City or Airline, respectively, may reasonably request and which are susceptible of being obtained by Airline or City, respectively, without undue cost or expense, and shall give written notice to each other of any subsequent developments. Such documentation, records or copies shall be provided as soon as practicable.

g. City shall have the right, but not the obligation, to conduct environmental audits of the Continental Special Facilities and Airline's operations, equipment, facilities and fixtures thereon, which right shall be exercised in such a manner as not to unreasonably interfere with Airline's operations. If the resulting audit report reveals material non-compliance (considering the significance of the non-compliance) by Airline with any of its environmental obligations under this Agreement, City shall submit the audit report to Airline. Airline may in good faith contest such report and/or required remedial actions within 30 days of receipt of such report. Airline shall not be deemed in default under this Agreement for failure to complete the required remedial actions while diligently and in good faith contesting such report or the required remedial actions. Absent such contest or following resolution of such contest resulting in a final determination of non-compliance by Airline pursuant to this paragraph: (i) Airline shall promptly reimburse City for the reasonable costs of such audit; and (ii) if Airline does not complete the required remedial actions within a reasonable time, City shall have the right, but not the obligation, to enter upon the Continental Special Facilities without abatement of any rent and implement any remediation actions which it reasonably deems necessary or prudent to address such requirements. If City implements any remediation action pursuant to the foregoing sentence, Airline shall pay as additional rent City's reasonable direct cost of performing any remediation as is required by Airline hereunder. If such additional rent is not paid within 30 days of City's written demand therefor from Airline, Airline shall pay interest thereon at the rate of 1% per month from the expiration of such 30-day period. City's right to conduct environmental audits under this Section 2.05(g) shall be limited in frequency to once per year unless there is a pattern of material non-compliance by Airline warranting more frequent audits.

h. The Hydrant Fueling System Special Premises shall be designed and maintained under good engineering practices for the industry. Airline shall, at its own expense, install and maintain in proper working condition spill detection instruments and alarms as well as spill containment devices if and to the extent required by the good engineering practices in the industry. Airline shall for all purposes be considered the owner and operator of the Hydrant Fueling System Special Premises, and, as owner and operator of the Hydrant Fueling System Special Premises, shall comply with all provisions of all laws, rules and regulations applicable to the "owner" or "operator" of the Hydrant Fueling System Special Premises. Nothing contained herein shall diminish any of the obligations of Airline to remove the Hydrant Fueling System Special Premises as may be required by applicable

Environmental Laws nor any of the obligations of Airline to remove the Hydrant Fueling System Special Premises at the expiration of the Hydrant Fueling System Term, unless City purchases the Hydrant Fueling System Special Premises as provided for in Section 6.03 hereof. If Airline fails at the expiration of the Hydrant Fueling System Term to remove the Hydrant Fueling System Special Premises upon reasonable request of City or any other appropriate government entity, City may remove the same, all at Airline's expense, and take such other measures as it reasonably deems necessary for the protection of people, property and the environment and any reasonable expenses of City related thereto shall be paid by Airline as additional rent. Airline agrees to cooperate with City or any other governmental entity in furnishing such information related to the Hydrant Fueling System Special Premises as is reasonably required by City or by any other government entity.

i. City covenants that, to the extent required by any governmental authority or by any court of competent jurisdiction, or if it is reasonably expected that remediation is necessary to avoid a remediation order or material liability arising from a third party claim, City will remediate: (a) Existing Contamination; and (b) environmental contamination of the 1997 Concourse Expansion caused by Hazardous Materials to the extent such contamination results from the acts or omissions of persons or entities other than Airline. In connection with any remedial work under this Agreement, unless otherwise directed by any governmental authority or court of competent jurisdiction, City will only be required to meet the least stringent standards of applicable Environmental Laws, provided such least stringent standards do not materially interfere with Airline's operations or Airline's proposed construction and intended use of the facilities, and Airline will cooperate with City in City's design and performance of cost-effective remedies. City shall exercise promptly and in good faith, diligent efforts to recover such costs of remediation from the party or parties responsible for such contamination and restore the same to the appropriate cost center, or in the absence of recovery from the responsible parties to charge such costs to the appropriate cost center.

If City does not, upon reasonable written notice from Airline, and upon reasonable opportunity to City to cure, commence such remediation, or fails to diligently continue to complete such remediation pursuant to this Section 2.05, then Airline, in addition to any other remedy which may be available to it, shall have the right, but not the obligation, following reasonable written notice, to enter the affected areas and perform such remediation. Airline shall be entitled to reimbursement from City within 30 days of written demand to City from Airline for payment for any and all reasonable direct costs incurred in completing such remediation.

(End of Article II)

ARTICLE III - OCCUPANCY; TERM

3.01 Term

a. This Agreement shall be effective as of the Effective Date and shall terminate with respect to each element of the Continental Special Facilities at the end of the applicable Term for that element, as set forth in this Section, subject to earlier termination as provided for in this Agreement.

b. Unless earlier terminated pursuant to any of the provisions of this Agreement, the Terms of the respective elements of the Continental Special Facilities shall be as follows:

1. The Concourse C Expansion Term shall begin upon the Commencement of Occupancy of the Concourse C Expansion Special Premises and shall end on the earlier to occur of the following: (i) that date which is 80 percent of the weighted average reasonably expected economic life of the Continental Special Facilities and Related Facilities; or (ii) December 31, 2019.

2. The Hydrant Fueling System Term shall begin upon the Commencement of Occupancy of the Hydrant Fueling System Special Premises and shall terminate on the earlier to occur of the following: (i) that date which is 80 percent of the weighted average reasonably expected economic life of the Continental Special Facilities and Related Facilities; or (ii) 30 years from the Commencement of Occupancy of the Hydrant Fueling System Special Premises.

3. The Deicing Pad Term shall begin upon the Commencement of Occupancy of the Deicing Pad Special Premises and shall terminate on the earlier to occur of the following: (i) that date which is 80 percent of the weighted average reasonably expected economic life of the Continental Special Facilities and Related Facilities; or (ii) 30 years from the Commencement of Occupancy of the Deicing Pad Special Premises.

4. The Concourse D Term shall begin upon the Commencement of Occupancy of the Concourse D Special Premises and shall terminate on the earlier to occur of the following: (i) that date which is 80 percent of the weighted average reasonably expected economic life of the Continental Special Facilities and Related Facilities; or (ii) 30 years from the Commencement of Occupancy of the Concourse D Special Premises, but in no event later than 30 years from April 22, 2000, unless the Commencement of Occupancy has been delayed beyond April 22, 2000 due to Force Majeure or regulatory delays. For purposes of making the foregoing determination with respect to the Concourse D Term, April 22, 2000 shall be extended by one day for each day after November 22, 1997 that City fails to deliver Permanent Site Availability.

The determination of 80 percent of the weighted average reasonably expected economic life of the Continental Special Facilities and Related Facilities will be made by City based on the certification by Airline to City prior to issuance of the Bonds, and in any event on or prior to December 31, 1997, of the reasonably expected economic life of each of the facilities comprising the Continental Special Facilities and Related Facilities and the date such facilities are expected to be placed in service.

c. Upon 90 days prior written notice to City, Airline may terminate this Agreement by: (i) making payment or provision for payment, in accordance with the Indenture, of the Bonds issued to fund the Continental Special Facilities and by making payment or provision for payment of all other amounts then due and owing to City or the Trustee with respect to the Bonds; and (ii) depositing (notwithstanding any provision in this Agreement to the contrary) in the Basic Rent Reserve Fund an amount sufficient to cause the balance in that Fund to be not less than two times the amount of Basic Rent payable during the then current calendar year (the "Two-Year Reserve Requirement").

Airline's obligation to deposit the Two-Year Reserve Requirement may be satisfied by delivery to City for deposit in the Basic Rent Reserve Fund of cash or a credit facility in the form of an irrevocable, direct-pay letter of credit in a stated amount not less than the Two-Year Reserve Requirement payable to City, provided that City has received evidence satisfactory to it that (i) the provider of the credit facility has a credit rating in one of the two highest credit rating categories by two nationally recognized rating agencies, (ii) the term of the credit facility is at least 36 months, unless such term cannot be obtained on commercially reasonable terms, in which case the term of the credit facility is at least 12 months and the provider agrees to notify City of the renewal of the credit facility, and (iii) the provider of the credit facility shall be obligated to notify City (A) immediately in the event of any nonreinstatement of the letter of

credit following a draw to a stated amount not less than the Two-Year Reserve Requirement, or in the event of termination of the credit facility and (B) at least three months prior to expiration of the credit facility. If (i) City receives notice of nonreinstatement or expiration, (ii) City receives notice of the termination of the credit facility, or (iii) the credit rating of the provider of such credit facility is no longer in the two highest credit rating categories by two nationally recognized rating agencies, Airline shall (A) provide a substitute credit facility that meets the requirements set forth in the foregoing sentence, or (B) deposit cash equal to the Two-Year Reserve Requirement to the Basic Rent Reserve Fund. In the event that Airline fails to take either action, City may draw on such credit facility in the amount of the Two-Year Reserve Requirement and deposit the proceeds from such drawing in the Basic Rent Reserve Account (1) prior to expiration of the credit facility in the case of receipt of an expiration notice, (2) prior to the termination date in the case of receipt of a termination notice, or (3) immediately in the case of such reduction in credit rating or nonreinstatement to the required stated amount. The terms of the credit facility referenced in this paragraph may be amended, deleted, or otherwise modified upon written agreement of the parties to this Agreement.

Upon such termination, Airline shall be obligated to make monthly payments on the first business day of each month until the scheduled expiration of the Concourse D Term and the Concourse C Expansion Term, as the case may be, of such approximately equal monthly amounts which, when multiplied by 12, will be sufficient to pay: (A) the debt service requirements with respect to the GARBs during the succeeding twelve-month period, less any amounts (net of operating and maintenance expenses attributable to the Continental Special Facilities not paid by third parties or Airline) to which City is contractually entitled from third parties for such period as a result of reletting any of the Continental Special Facilities; and (B) the operation and maintenance costs associated with the Continental Special Facilities, provided that City shall be obligated to minimize such operation and maintenance costs to the extent practicable under the circumstances. In the event that at any time or times during such succeeding 12-month period City becomes contractually entitled to receive from third parties any amounts attributable to the Continental Special Facilities which were not taken into account in calculating the amount of the monthly payments owed by Airline as described above, or if for any other reason such monthly payments prove to be inaccurate for their intended purpose, City and Airline shall make appropriate adjustments to future monthly payments owed by Airline to reflect the amounts which City has become so entitled to receive from third parties or to correct such inaccuracy. If Airline terminates this Agreement pursuant to this Section 3.01(c), City shall use Best Efforts to fill the vacancy thereby created in the Continental Special Facilities that are subject to this Agreement for the balance of the applicable Term at the maximum rental rate reasonably attainable; provided, however, that if the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises, or the Hydrant Fueling System Special Premises cannot be relet at a rental rate sufficient to fully cover the incremental operation and maintenance costs in excess of those minimized costs described in subsection (B) of this paragraph upon such reletting of the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises, or the Hydrant Fueling System Special Premises, respectively, City shall not undertake such reletting. Amounts paid to City under leases or other agreements pertaining to such reletting will be paid, to the extent applicable, first, to the Basic Rent Reserve Fund to cover any deficiency therein; second, to the payment of those amounts Airline is obligated to pay pursuant to subsections (A) and (B) of this paragraph; third, to the payment of any Additional Rent required to be paid pursuant to this Agreement; fourth, to the payment of any Additional Bond Rent; and fifth, to the payment to Airline of an amount equal to the principal of the Bonds which would have been outstanding on the date of termination of this Agreement if the Bonds had not been paid (or provision made for their payment pursuant to the Indenture) and if the Bonds had been issued payable on the Assumed Amortization terms. Except as otherwise provided in this Section 3.01(c) or elsewhere in this Agreement, and excepting accrued liabilities to City, Airline shall be released from its obligations and responsibilities hereunder upon termination of this Agreement pursuant to this Section 3.01(c).

d. In the event that Airline does not exercise its option to terminate this Agreement prior to the Expiration Date upon defeasance of any Bonds, Airline shall continue to pay Basic Rent and all other amounts payable hereunder except the Bond Rent and Additional Bond Rent for which payment or provision for payment has been made.

3.02 Relationship to Other Agreements

a. The execution and delivery of this Agreement shall in

no way affect the validity and binding effect of the Original Lease or 1989 Special Facilities Lease. No reference to the Original Lease or the 1989 Special Facilities Lease herein shall be deemed an agreement of the parties hereto to cause the Original Lease or the 1989 Special Facilities Lease to extend beyond its terms in accordance with its terms.

On or after January 1, 2004, and in a manner consistent with City's obligations to other airlines, City may request that the parties to the Original Lease commence to negotiate in good faith the master use agreement that shall govern upon expiration of the Original Lease. Upon such request, Airline agrees to participate in such good faith negotiations.

b. The provisions of the Memorandum of Understanding for Proposed Expansion of Continental Airlines Facilities at Cleveland Hopkins International Airport, dated March 26, 1997, by and between City and Airline ("MOU") relating to matters that are specifically provided for in this Agreement are hereby superseded by this Agreement. Provisions of the MOU relating to matters not specifically addressed in this Agreement shall remain in full force and effect unless and until superseded by definitive agreements with respect to those matters or terminated in accordance with the terms of the MOU. A blacklined MOU is attached as Exhibit H and, notwithstanding anything in this Agreement to the contrary, is specifically not incorporated herein by reference. It is attached for purposes of demonstrating the agreement of the parties as to which MOU provisions have been superseded (i.e., those stricken) and which MOU provisions remain in effect despite the execution of this Agreement (i.e., those provisions not stricken).

c. City acknowledges that Airline intends to occupy and use the Concourse Improvements as part of a comprehensive operation with passenger departure lounges and with ticket counters, offices, and other support facilities that it occupies and uses in the Terminal Complex under the Original Lease and the 1989 Special Facilities Lease. City and Airline each acknowledge that no portion of the Continental Special Facilities is or shall be encumbered by the Original Lease or the 1989 Special Facilities Lease. Nothing herein shall be construed to negate or diminish the provisions of the Original Lease incorporated herein by reference.

d. City further acknowledges that the value of the leasehold interest in the Concourse D Special Premises acquired hereunder by Airline will be enhanced if Airline also acquires hereunder the right to continue to occupy and use such facilities in the Terminal Complex and Airfield Area as are necessary for Airline to continue to conduct its operations in the Concourse D Special Premises after its rights to do so under the Original Lease have terminated. Accordingly, City agrees that, from and after the termination of the Original Lease and until the earlier of (i) the date on which Airline and City shall have entered into a subsequent lease or other agreement providing for Airline's occupancy and use of such facilities in the Terminal Complex and Airfield Area, or (ii) the date on which this Agreement terminates, Airline shall be entitled to occupy or use such facilities in the Terminal Complex (including, without limitation, ticket counters, operational areas, and offices, but excluding gates, holdrooms and passenger departure lounges) and the Airfield Area as City, in consultation with Airline, reasonably determines are necessary for Airline to utilize the Concourse D Special Premises fully. Airline understands, acknowledges, and agrees that its right hereunder does not apply to any particular facilities and that City reserves the right and discretion (subject to the following sentence) to fulfill its obligations hereunder by permitting Airline to use and occupy facilities other than those actually used and occupied by Airline prior to the termination of the Original Lease and to change the facilities Airline is permitted to use and occupy hereunder from time to time. The terms on which Airline shall be entitled to such occupancy and use of the facilities inside the Terminal Complex shall be those agreed upon by Airline and City at the time, provided that, in the absence of such agreement, the terms shall be no less favorable than those which City shall have offered to any passenger airline for such occupancy and use of the facilities inside the Terminal Complex at the time, including, without limitation, terms that will not impose unreasonable costs upon Airline to refit any such other facilities to make them comparable to facilities occupied and used by Airline prior to the termination of the Original Lease; the terms on which Airline shall be entitled to such use of the facilities in the Airfield Area shall be those agreed upon by Airline and City at the time, provided that, in the absence of such agreement, the terms shall be no less favorable than those which City shall have offered to any similarly situated passenger airline at the Airport for such use of the Airfield Area at the time.

(End of Article III)

ARTICLE IV - QUIET ENJOYMENT

As long as Airline shall have paid all rents required to be paid hereunder, made all other payments required to be made hereunder, and shall not have permitted any default hereunder on its part to occur and be continuing beyond applicable notice and cure periods, then City, so long as it is the owner and operator of the Airport, and thereafter its successors and assigns, shall take no act or action and shall not permit any action to be taken, except as otherwise provided by this Agreement, that will prevent Airline from peaceably having and enjoying the Continental Special Facilities, together with the appurtenances, facilities, rights, licenses and privileges granted herein. Notwithstanding the foregoing, City shall not be obligated to invoke its police powers or any other power or authority derived solely from City's status as a municipal corporation or public utility that is greater than the power or authority of a private commercial landlord.

(End of Article IV)

ARTICLE V - ISSUANCE OF BONDS AND GARBS;
CONSTRUCTION OF 1997 CONCOURSE EXPANSION;
PAYMENT OF COSTS OF THE 1997 CONCOURSE EXPANSION

5.01 Issuance of the Bonds; Deposit of Bond Proceeds;
Deposit of Airline's Funds.

a. In order to provide funds for payment of the Costs of the Facilities comprising the Continental Special Facilities and Related Facilities incurred under or in connection with this Agreement that are eligible for funding under applicable federal and State laws, City agrees to work cooperatively with Airline to authorize, issue, sell and deliver an original issue of Bonds in accordance with Airline's scheduling needs and in an amount not to exceed \$225 million, provided that Airline has taken all actions necessary on its part in connection with the issuance of the Bonds and Airline is not in default under this Agreement. The maximum maturity of the Bonds shall be the earlier of (a) the maximum maturity permitted by federal tax law requirements or (b) the Expiration Date. City agrees to deposit the proceeds from the sale of the Bonds with the Trustee for application as follows: (i) to the Interest Account to be held by the Trustee under the Indenture, such amount from the proceeds as may be designated by the Fiscal Officer as accrued interest on the Bonds; (ii) to the Construction Fund to be held by the Trustee under the Indenture, such amount from the proceeds as may be designated by the Fiscal Officer as available to pay interest on the Bonds during construction of the Continental Special Facilities; and (iii) to the Construction Fund, the balance of the proceeds of the Bonds.

b. In the event that City shall fail to take any action reasonably necessary to cause an original issue of Bonds in an amount specified by Airline (but not to exceed \$225 million) to be issued by that date which is six months following Airline's written request for such Bonds to be issued, despite Airline having taken, reasonably in advance of such date, all actions necessary on its part in connection with such issuance, and provided that Airline shall not be in default under this Agreement remaining uncured beyond any applicable notice and cure periods, Airline shall have the right to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU, and City shall reimburse Airline for all of the costs (including all out-of-pocket expenses and direct dedicated labor costs) incurred by Airline in connection with the GARB Improvements and the Continental Special Facilities. Upon any such termination, and in the event Airline has not been so reimbursed, City shall grant to Airline exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law, receive a security interest, subject only to any security interest required to be created pursuant to the GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline may reasonably request) and to the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the Continental Special Facilities, as applicable. At any time during such exclusive use period, City may repurchase such rights from Airline at a cash price equal to the original amount of such unreimbursed costs to Airline. City shall not be entitled to repurchase from Airline such exclusive rights with respect to any portion of the GARB Improvements or the Continental Special Facilities without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities and the GARB Improvements. City shall to the fullest extent legally possible reimburse Airline for such costs of the GARB Improvements and the Continental Special Facilities from the proceeds of the GARBs. Until such time as City shall have fully reimbursed Airline, reimbursement payments with respect to the GARB Improvements and the Continental Special Facilities shall be made by City to Airline from the Airport Improvement Fund, which shall be dedicated exclusively to reimburse Airline (as evidenced by documentation acceptable to Airline in its reasonable discretion) until such time as full reimbursement of Airline shall have been made. In the event that the Airport Improvement Fund shall cease to exist or cannot be used consistent with applicable Majority In Interest procedures of Section 8.07 of the Original Lease prior to Airline being fully reimbursed with respect to the GARB Improvements and the Continental Special Facilities, City shall so dedicate other sources of Airport funds from which City shall continue to make to Airline reimbursement payments at a level not less than the level of payments which previously had been made to Airline from the Airport Improvement Fund.

c. Airline at its discretion may, but shall not be obligated to, deposit its own funds into the Construction Fund at

any time for use for the purposes of that Construction Fund in accordance with the provisions of this Agreement.

d. In the event the cost to complete the Continental Special Facilities exceeds that portion of the net proceeds of the Bonds available therefor:

(i) at Airline's request, Airline and City shall work cooperatively and reasonably to issue additional Bonds (to the extent legally permissible) to complete the Continental Special Facilities;

(ii) failing (i), Airline may propose a reduction in the scope of the Continental Special Facilities (the plans and specifications for which scope reduction shall be prepared and submitted by Airline for City's approval in accordance with Section 5.07 below) so that the Continental Special Facilities may be completed at a cost within the net proceeds of the Bonds (provided that the scope of improvements shall not be reduced in a manner or to an extent that would render the improvements comprising the 1997 Concourse Expansion unusable for the purposes which the improvements are intended);

(iii) failing (i) and (ii), Airline and City shall work cooperatively to reach another mutually acceptable course of action; or

(iv) failing (i), (ii) and (iii), Airline shall substantially complete the construction of the Continental Special Facilities in accordance with Section 5.06 and pay all costs therefor in excess of the money available in the Construction Fund.

e. The Bonds are to be issued under, secured by, and payable in accordance with the Indenture. The principal of, interest on, and any premiums associated with the Bonds shall not be payable from any funds of City (other than the Bond Rent which City will assign to the Trustee under the Indenture), and the Bonds shall not be secured by any assets of City. No amount of the Costs of the Facilities shall be paid or provided for by the use of tax abatements or monies in City's general fund.

f. The proceeds of the Bonds may be used to pay Costs of the Facilities of the Related Facilities provided that Airline's right to use and occupy the Related Facilities shall terminate on the earlier to occur of: (i) that date which is 80 percent of the weighted average reasonably expected economic life of the Continental Special Facilities and the Related Facilities; or (ii) that date which is the later of (A) the end of the lease term under the applicable existing agreement governing Airline's occupancy of the Related Facilities or the site thereof, being the Assignment and Novation from US Airways, Inc. to Continental Airlines, Inc. (City Contract No. 28672, dated October 16, 1997) (the "Assignment and Novation") in the case of those Related Facilities associated with Concourse A, and the 1989 Special Facilities Lease in the case of those Related Facilities associated with Concourse C, as either of the same may be replaced, amended, restated, supplemented, renewed or extended, or (B) the expiration date of the agreement governing any of the premises at the Airport to which any of the moveable Related Facilities are relocated by Airline. There shall be no extension of the terms of the Original Lease, the Assignment and Novation, or the 1989 Special Facilities Lease implied by the use of the proceeds of the Bonds to acquire or improve the Related Facilities.

5.02 Issuance of GARBs

a. In order to provide funds for payment of the costs of constructing permanent improvements to the Airport related to the 1997 Concourse Expansion, the Council of City has authorized, subject to the signing and delivery by Airline of this Agreement, and City hereby agrees, subject to the signing and delivery by Airline of this Agreement, to issue, sell and deliver GARBs. The GARBs will fund the construction of the following improvements, described more particularly in Exhibit J:

(i) Concourses C and D public areas (including connector tunnel between such areas), and Concourse D concession areas;

(ii) Utilities to a line running five feet from the outermost exterior walls with respect to the Concourse D Special Premises;

(iii) Aircraft ramp and other aircraft paving;

(iv) Permanent rental car facilities;

(v) New employee parking lot;

(vi) Triturator; and

(vii) Outbound bag room, bag claim expansion, and security

check point expansion in the Terminal Building.

b. The proceeds of the GARBs shall be deposited and disbursed as provided in the GARB Indenture, subject to and consistent with the 1997 Concourse Expansion Budget set forth in Exhibit I, as the same may be supplemented or amended by subsequent written agreement of the parties. The allocation of the Costs of the Facilities contained in the 1997 Concourse Expansion Budget in Exhibit I was prepared by Airline for preliminary planning and budgeting by the parties. That allocation is not the agreement of the parties as to the actual allocation of the Costs of the Facilities, which shall be governed by the Cost Allocation Policy set forth in Exhibit C.

c. In the event that the cost to complete the GARB Improvements exceeds the portion of the net proceeds of the GARBs which is available to be utilized for such improvements, Airline and City shall work cooperatively and reasonably to agree upon a supplemental financing plan (based upon a mutually agreed revised budget) involving issuance of additional general airport revenue bonds (to the extent legally permissible) or other funding sources (other than the Bonds or Airline credit) to complete such improvements. If no such supplemental financing plan can be implemented, Airline shall propose a reduction in the scope of such improvements (the plans and specifications for which scope reduction shall be prepared and submitted by Airline for City's approval in accordance with Section 5.07 below) so that the same may be completed within the net proceeds of the GARBs available to be utilized for such improvements; provided, however, that the scope of the improvements shall not be reduced in a manner or to an extent that would render the improvements comprising the 1997 Concourse Expansion unusable for the intended purposes. If no such supplemental financing plan can be implemented and if such scope reduction cannot be effectuated, Airline and City shall work cooperatively to reach another mutually acceptable course of action. If and to the extent the 1997 Concourse Expansion Budget set forth in Exhibit I changes pursuant to this Section 5.02(c), an amended or supplemented 1997 Concourse Expansion Budget, approved by the Fiscal Officer and the Director of Port Control of City, shall be attached to this Agreement and submitted to the GARB Trustee and shall thereupon be deemed incorporated herein.

d. In the event that the cost to complete the GARB Improvements is less than the portion of the net proceeds of the GARBs available to be utilized for such improvements, Airline and City agree that any such excess GARB proceeds may be used to pay costs of other Airport capital projects, consistent with applicable Majority In Interest ("MII") procedures under the Original Lease, provided that such use shall not adversely affect the exclusion from gross income under the Code of the interest on the GARBs, and provided further that the debt service associated with such excess GARB proceeds shall be charged to the appropriate Airport cost center. In the event that City reasonably determines, based on an established construction budget for all 1997 MII-approved projects intended to be funded by the GARBs, that the costs of other Airport capital projects funded with proceeds of an issue of general airport revenue bonds (of which the GARBs are a portion) are less than the net proceeds of those bonds available to be utilized for such projects, City shall apply such excess bond proceeds to pay costs of the GARB Improvements to the extent those costs exceed the net proceeds of the GARBs.

5.03 Allocation of Costs of the Facilities

a. City and Airline acknowledge that the Costs of the Facilities to be incurred under construction and other contracts to be entered into by Airline in connection with certain of the Concourse Improvements will be funded by both the Bonds and the GARBs. City and Airline agree that such costs shall be allocated to the GARBs and the Bonds in accordance with the methodology set forth in Exhibit C attached to this Agreement (the "Cost Allocation Policy"), as may be subsequently supplemented or amended. Any supplemented or amended Cost Allocation Policy must be approved by Airline and by the Fiscal Officer and Director of Port Control of City and shall be attached to this Agreement and submitted to the GARB Trustee and shall thereupon be deemed incorporated herein. Upon completion of the 1997 Concourse Expansion, Airline shall perform an accounting with respect to all such allocation matters.

b. In the event that a cost allocation methodology is adopted at the Airport which calls for allocating the construction costs of building support systems (e.g., HVAC, MEP Systems, etc.) to any cost center other than the Concourse in which such systems are located, the City will pay to Airline the Building Support Adjustment Payment so that Airline is not discriminated against with respect to the responsibility for these costs. The Building Support Adjustment Payment shall be an amount equal to the principal that would be outstanding as of the date such cost allocation methodology is adopted if the Bonds had been issued payable on the Assumed Amortization terms, on that portion of the Bonds allocable to payment of costs of construction of such systems in Concourse D, plus interest on that principal amount at the

Assumed Amortization terms to the earliest date that such amount of the Bonds may be paid at stated maturity or by redemption without penalty or premium.

5.04 Reimbursements and Disbursements Generally

a. City shall, in the Indenture, authorize and direct the Trustee to use the monies in the Construction Fund for payment of the Costs of the Facilities for the improvements to be funded by the Bonds. Disbursements from the Construction Fund shall be made by the Trustee to Airline, in reimbursement for Costs of the Facilities paid or incurred by Airline (subject to applicable restrictions under the Code), or to the persons designated by Airline upon submission by Airline to Trustee of the Disbursement Request in substantially the form attached hereto as Exhibit D-1. A copy of each Disbursement Request submitted to the Trustee shall be delivered at the same time to the City Project Manager and to the Fiscal Officer.

b. In the case of Costs of the Facilities for the GARB Improvements, Airline shall submit to the City Project Manager, Director of Port Control, Fiscal Officer, and Project Counsel a completed Disbursement Request in substantially the form attached hereto as Exhibit D-2, accompanied by all supporting documentation required by that Disbursement Request form, for review by City (including any consultants retained by City for the purpose) and approval by the Director of Port Control. Upon approval of the Disbursement Request by the Director of Port Control, the Fiscal Officer shall direct the GARB Trustee to disburse money from the GARB construction fund held by the GARB Trustee as provided in the GARB Indenture to pay, or to reimburse Airline for its payment of, costs of those improvements (subject to applicable restrictions under the Code).

c. In the case of Costs of the Facilities of the 1997 Concourse Expansion to be paid from the proceeds of both Bonds and GARBs, Airline shall, consistent with the Cost Allocation Policy set forth in Exhibit C to this Agreement, allocate such Costs of the Facilities among those to be paid from the proceeds of Bonds and those to be paid from the proceeds of GARBs. Airline shall require contractors to provide, and Airline shall include in its Disbursement Requests, sufficient information to enable City to verify that the costs have been allocated consistent with the Cost Allocation Policy.

d. Disbursements for Costs of the Facilities of the 1997 Concourse Expansion shall be solely for the payment of expenses properly incurred in connection with the 1997 Concourse Expansion, including construction in accordance with the plans and specifications delivered to and approved or deemed approved by City as required by this Agreement. In submitting any request for payment or reimbursement for advances for Costs of the Facilities to the Trustee or to City, Airline shall complete the applicable Disbursement Request form attached hereto, including the attachment of such invoices (or copies thereof) and other information required thereby. Airline hereby agrees to submit such other information not required by the applicable Disbursement Request form as the Trustee or GARB Trustee may reasonably require, promptly after request therefor.

e. City and Airline shall have the right to reasonably review the books and records of the other party relating to the various costs to be reimbursed or paid from the proceeds of the Bonds or the GARBs, provided that no such review shall delay the construction schedule or unreasonably delay the receipt by Airline of reimbursement payments from the proceeds of the Bonds or GARBs. City and Airline each shall be entitled to conduct reasonable audits of the other party's costs and expenses for which payments are requested from the proceeds of the Bonds or the GARBs. City and Airline shall have the right of access to those books and records of the other party that are necessary to respond to an audit by a governmental entity, which right shall survive the termination of this Agreement.

5.05 Specific Reimbursement and Disbursement Matters

a. Subject to applicable restrictions under the Code, reimbursement for those Costs of the Facilities to be financed by GARBs incurred by Airline prior to issuance of the GARBs will be made within the later of (i) 5 business days of the issuance of the GARBs or (ii) 30 days after Airline's submission of a Disbursement Request form and all supporting documentation required thereon as shown at Exhibit D-2 hereto, which form pertains to such Costs of the Facilities. Airline shall be reimbursed from the proceeds of the Bonds for those Costs of the Facilities to be financed by the Bonds incurred by Airline prior to issuance of the Bonds according to the procedures set forth herein.

City acknowledges receipt from Airline of a Certificate of Expenditures, dated October 20, 1997 and delivered to City prior to execution and delivery of this Agreement, setting forth all

expenditures (other than preparation of plans and specifications, other preliminary engineering work, and other preliminary expenditures (within the meaning of Treasury Regulations Paragraph 1.150-2(f)(2)), not in excess of 20 percent of the issue price of the general airport revenue bonds of which the GARBs are a part) by Airline for Costs of the Facilities paid by Airline before February 13, 1997, for which Airline seeks reimbursement from the proceeds of the GARBs. City agrees to reimburse Airline for those expenditures from the proceeds of the GARBs. Airline agrees that no reimbursement will be made to Airline by City for any costs of the GARB Improvements to be funded by the GARBs for which payment was made by Airline prior to February 13, 1997, except for (i) preparation of plans and specifications, other preliminary engineering work, and other preliminary expenditures (within the meaning of Treasury Regulations Paragraph 1.150-2(f)(2)), not in excess of 20 percent of the issue price of the general airport revenue bonds of which the GARBs are a part and (ii) the payments described in the Certificate of Expenditures referenced in this Section 5.05(a).

b. Regardless of the actual date of issuance of the GARBs or submission of the Disbursement Request form and supporting documentation, Airline and City shall cooperate and work diligently and in good faith (including identifying and correcting any deficiencies in documentation) to ensure reimbursement prior to December 31, 1997 of Airline's upfront expenditures on those portions of the 1997 Concourse Expansion funded by GARBs. If Airline is not reimbursed for its upfront GARB-related expenditures in accordance with the time period prescribed in the first sentence of Section 5.05(a) hereof, and provided that Airline is not then in default under this Agreement remaining uncured beyond any applicable notice and cure periods, Airline shall have the right to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU. In the event of such termination, City shall reimburse Airline for all of the costs (including all out-of-pocket expenses and direct dedicated labor costs) incurred by Airline in connection with the GARB Improvements and the Continental Special Facilities. Upon any such termination, and in the event Airline has not been so reimbursed, City shall grant to Airline exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law, receive a security interest, subject only to any security interest required to be created pursuant to the GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline may reasonably request) and to the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the Continental Special Facilities, as applicable. At any time during such exclusive use period, City may repurchase such rights from Airline at a cash price equal to the original amount of such unreimbursed costs to Airline. City shall not be entitled to repurchase from Airline such exclusive rights with respect to any portion of the GARB Improvements or the Continental Special Facilities without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities and the GARB Improvements. City shall to the fullest extent legally possible reimburse Airline for such costs of the GARB Improvements and the Continental Special Facilities from the proceeds of the GARBs. Until such time as City shall have fully reimbursed Airline, reimbursement payments with respect to the GARB Improvements and the Continental Special Facilities shall be made by City to Airline from the Airport Improvement Fund, which shall be dedicated exclusively to reimburse Airline (as evidenced by documentation acceptable to Airline in its reasonable discretion) until such time as full reimbursement of Airline shall have been made. In the event that the Airport Improvement Fund shall cease to exist or cannot be used consistent with applicable Majority In Interest procedures of Section 8.07 of the Original Lease prior to Airline being fully reimbursed with respect to the GARB Improvements and the Continental Special Facilities, City shall so dedicate other sources of Airport funds from which City shall continue to make to Airline reimbursement payments at a level not less than the level of payments which previously had been made to Airline from the Airport Improvement Fund.

c. City shall complete all City reviews and take all necessary City actions to authorize the GARB Trustee to reimburse Airline for Costs of the Facilities that qualify under the Code, the Cost Allocation Policy and the 1997 Concourse Expansion Budget (attached as Exhibits C and I, respectively) as costs and expenses eligible to be funded by the GARBs, consistent with approved plans and specifications submitted by Airline pursuant to Section 5.07 hereof, within 30 days of Airline's submission to the City Project Manager, Fiscal Officer, Director of Port Control, and Project Counsel, of the Disbursement Request form and all supporting

documentation required thereon as shown at Exhibit D-2. In the event City does not approve the Disbursement Request submitted by Airline, City shall within such 30-day period notify Airline in writing, specifying the reasons for disapproval, and such 30-day period shall be suspended from the date of notification to Airline of such disapproval through the date Airline submits such information as may be required by this Agreement to evidence that the Costs of the Facilities for which Airline is requesting reimbursement qualify for payment from proceeds of the GARBs, consistent with the approved plans and specifications, the requirements of the Code, the Cost Allocation Policy, and the 1997 Concourse Expansion Budget. Following Airline's submission of such information to the City Project Manager, Director of Port Control, and Project Counsel, City shall have the remaining balance of the 30-day period (taking into account any applicable suspension pursuant to the second sentence of this paragraph) to reconsider Airline's Disbursement Request, as supplemented and amended, and proceed to take all necessary actions to authorize the GARB Trustee to reimburse Airline.

d. Notwithstanding any provision of this Agreement to the contrary, City shall be entitled to be reimbursed or paid from the proceeds of the Bonds for Costs of the Facilities that qualify under the Code, the Cost Allocation Policy and the 1997 Concourse Expansion Budget (attached as Exhibits C and I, respectively) as costs and expenses eligible to be funded by the Bonds. To obtain such reimbursement or payment, City shall submit to Airline an invoice (or copy thereof) and supporting documentation, which Airline shall, in turn, submit to the Trustee in Airline's next monthly requisition cycle (but in no event later than two months from the date of City's submission to Airline) in accordance with the applicable disbursement request procedures described in Section 5.04(a) hereof. If the Trustee then delivers payment or reimbursement for City's Costs of the Facilities directly to Airline, Airline shall, in turn, promptly deliver such payment or reimbursement to City. Airline shall be entitled to conduct reasonable audits of City's costs and expenses described in this Section 5.05(d).

5.06 Airline's Obligation to Complete Construction of the 1997 Concourse Expansion

a. Airline shall use Best Efforts to proceed diligently to cause the 1997 Concourse Expansion to be completed in material compliance with applicable law and regulations. In any event, Airline shall undertake such efforts as will result in the substantial completion of Concourse D on or before April 22, 2001, subject to Force Majeure and/or regulatory delays, which April 22, 2001 deadline shall be extended by one day for each day after November 22, 1997, that City fails to deliver Permanent Site Availability.

b. Promptly following the substantial completion of each element of the 1997 Concourse Expansion, as hereinafter described, Airline shall evidence such substantial completion by furnishing to City and the Trustee a completion certificate ("Completion Certificate") signed by the authorized representative of Airline (i) stating that such element of the 1997 Concourse Expansion has been completed substantially in accordance with the final plans and all costs then due and payable in connection therewith have been paid, and that substantial completion has been accomplished in such a manner as to conform with all applicable zoning, planning, building, environmental and other regulations of all governmental authorities having jurisdiction, as the same may be amended by variance, except for such noncompliances which, singly or in the aggregate, could not have a materially adverse effect on the 1997 Concourse Expansion or their operations, (ii) specifying the actual date of substantial completion of such element of the 1997 Concourse Expansion, and (iii) stating that it is given without prejudice to any rights against third parties which then exist or may subsequently come into being. Reference to an element of the 1997 Concourse Expansion means, in the case of the Continental Special Facilities, the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises and the Hydrant Fueling Special Premises, and in the case of the GARB Improvements, means each of the improvements listed in subparagraphs (i) through (iii), and (v) through (vii), of Section 5.02(a).

c. Airline acknowledges and agrees that the damages incurred by City as a result of any breach of obligations under this Section 5.06 are not readily ascertainable, that money damages or other legal relief will not adequately compensate City for any such breach, and that City is entitled to injunctive relief compelling the specific performance of the obligations under this Section 5.06.

5.07 Design and Construction of 1997 Concourse Expansion

a. Airline shall be responsible for the design and construction of the 1997 Concourse Expansion. To the extent that

construction of the 1997 Concourse Expansion has not already commenced as of the Effective Date, Airline, at its expense (subject to the applicable reimbursement provisions of this Agreement) and upon receipt of notification from City that such work may be commenced with respect to an element of the 1997 Concourse Expansion, shall proceed diligently to commence the construction of each such element of the 1997 Concourse Expansion. Airline's construction of the 1997 Concourse Expansion shall be subject to the following conditions:

1. Before the commencement of any such work following the Effective Date, Airline shall submit two blueline sets and one electronic copy (in Autocad 12 Windows format on computer diskette) of all detailed plans and specifications for each material element of the 1997 Concourse Expansion to City's Director of Port Control and the City Project Manager. Airline shall submit such other number of blueline sets and electronic copies of such plans and specifications as the parties may agree upon to any other persons or City departments reasonably designated by the City Project Manager to receive such submissions, including, without limitation, the Properties Division of the Department of Port Control and City's Department of Community Development. All such work shall be done subject to and in accordance with the requirements of law and applicable regulations of all such governmental departments or authorities, the Director of Port Control and, where required, each affected public utility company. Each such submission by Airline shall include information reasonably sufficient to permit City to evaluate the impact of each proposed element on the 1997 Concourse Expansion as a whole. Airline shall include on the design team for the Concourse Improvements a design consultant designated by City to ensure the consistency of design with the other Concourses at the Airport.

2. The City Project Manager or the City Project Manager's designee shall communicate to Airline's Director of Corporate Real Estate (Design and Construction) or such other person as Airline may designate, either (i) City's written approval (which may be by issuance of a permit or permits) of such plans and specifications, or (ii) City's specific written objections thereto, in either case within 30 days following submission of such plans and specifications by Airline. In the event City determines that a submission does not satisfy the requirements set forth in Section 5.07(a)(1) hereof, the City Project Manager shall notify Airline in writing of the specific deficiencies and the 30-day deadline for approval or objection shall be suspended from the date of notification to Airline of such deficiencies through the date Airline cures such deficiencies through resubmission of satisfactory plans and specifications pursuant to Section 5.07(a)(1) hereof. If the City Project Manager shall fail to communicate the written approval or specific written objections described in the first sentence of this paragraph within the 30-day time period there stated (taking into account any applicable suspension pursuant to the second sentence of this paragraph), then, in addition to any other remedies which may be available to Airline, all aspects of such plans and specifications which are not specifically subject to the Ohio Basic Building Code shall be deemed to have been approved by City. If City does object to a submission by Airline, City and Airline shall negotiate in good faith to reach a mutually acceptable resolution within no more than 60 days of the original submission (taking into account any applicable suspension pursuant to the second sentence of this paragraph). City shall not unreasonably withhold, condition or delay approval of plans and specifications. Airline shall be entitled to rely, without independent verification, on the written information provided by the City Project Manager or his or her designee with respect to the matters described in this Section 5.07(a)(2) and within City's jurisdiction.

3. Any material revision(s) to plans and specifications which have been approved or deemed to have been approved by City shall require further City approval, which approval shall be delivered on a timely basis (consistent with the construction schedule and the process in this Section 5.07) and shall not be unreasonably withheld, conditioned or delayed.

4. Subject to the provisions of this Agreement, City shall grant Airline continuous access for construction purposes to the sites necessary to construct the 1997 Concourse Expansion. City and Airline agree to work cooperatively and in good faith to promptly: (i) identify and cause to vacate their premises any tenants occupying space necessary for the construction of the 1997 Concourse Expansion; and (ii) identify and cause to be removed any improvements hindering such construction.

5. Such work shall be performed in a first-class, workmanlike manner and substantially in accordance with the plans and specifications approved for the same. Airline shall redo or replace, at its sole cost and expense, any work which is not done substantially in accordance with such plans and specifications, as approved or deemed approved by City prior to or after completion of such work; however, any request to redo or replace any such work

shall be made by City within 60 days after its receipt of notice of completion from Airline. The quality of the interior elements of the Concourse Improvements shall be at least comparable with that of the existing interior Concourse C improvements. The exterior finish of the new Concourse D shall be of a quality at least comparable to that of existing Concourses A, B and C. City and Airline will mutually agree upon the standards of any modifications to facilities or building maintenance systems on Concourse C needed to accommodate Concourse D and the connector tunnel.

6. City shall hire a representative/construction inspector, and an accounting/audit consultant, both of whom shall be involved throughout the construction of the 1997 Concourse Expansion and shall be permitted reasonable access to plans, specifications and other project information by Airline. The salaries or fees and expenses of such City employees or consultants, as the case may be, shall be allocated to the Bonds and the GARBs in accordance with the Cost Allocation Policy attached hereto as Exhibit C. Continental Special Facility progress meetings involving City's representative/construction inspector shall be held on a regular basis.

7. Airline's construction activities shall not unreasonably interfere with the business operations of other tenants at the Airport without City's prior consent, the parties acknowledging that relocation of rental car facilities, as referred to elsewhere in this Agreement, will, by its nature, necessarily result in some interference with certain tenants' business operations.

8. Airline shall provide City with copies of all Disbursement Request forms submitted to the Trustee together with all required attachments, and all documents required to be submitted by Airline pursuant to Section 5.04(b) hereof. Within 12 months after the end of the Construction Period, the parties shall request from each other such other books and records and all other documents and papers relating to the construction of the 1997 Concourse Expansion as shall be necessary to determine and verify all costs and expenditures of funds pertaining thereto. The party from whom such books, records, documents and papers are requested shall provide such books, records, documents and papers, or copies thereof, to the requesting party within a reasonable period of time after said request or, with respect to requests for periodic information, within a reasonable period of time after coming into possession of requested documents.

b. The 1997 Concourse Expansion, and all other alterations, additions or improvements at any time placed on, in or upon the 1997 Concourse Expansion, including movable furniture, movable personal property, and other removable trade fixtures, the cost of which is financed with the proceeds of Bonds or GARBs, shall be deemed to be and become part of the realty and the sole and absolute property of City upon completion thereof, subject to Airline's rights hereunder. Any alterations, additions, improvements, or property in or upon the Continental Special Facilities installed at the expense of Airline and not funded by the Bonds or GARBs, or at the expense of third parties (other than City) leasing to or from Airline, shall not be deemed to become property of City at or before the termination of this Agreement, and Airline shall have the right to remove that property from the Continental Special Facilities on or before the time of termination of this Agreement, subject to any valid lien which City may have thereon; but any damage to the Continental Special Facilities caused by such removal shall be repaired at Airline's expense. Airline hereby makes an irrevocable election, binding on itself and all successors in interest, not to claim any depreciation deductions or investment credits (within the meaning of Section 142(b)(1)(B) of the Code) with respect to any elements of the 1997 Concourse Expansion funded with the Bonds or GARBs.

c. Airline shall promptly pay all lawful claims and discharge all liens made against it or against City by Airline's contractors, subcontractors, materialmen and workmen, and all such claims and liens made against Airline or City by other third parties arising out of or in connection with, whether directly or indirectly, any work done by Airline, its contractors, subcontractors or materialmen; provided, however, that Airline shall have the right to contest the amount or validity of any such claim or lien without being in default of this Agreement upon furnishing security satisfactory to the Director of Law of City guaranteeing that such claim or lien will be properly and fully discharged forthwith in the event that such contest is finally determined against Airline or City.

d. Airline shall: (i) procure and maintain effective during construction of the 1997 Concourse Expansion and all other improvements by Airline pursuant to this Article V comprehensive public liability insurance for claims arising out of bodily injury or property damage, or, if the work is to be done by an independent contractor, Airline shall procure and maintain or require such contractor to procure and maintain such insurance in Airline's

name, in either case, in limits and meeting the requirements otherwise specified in Article X of this Agreement, including the naming of City as additional insured to the extent of Airline's indemnification and defense obligations under Section 5.07(d) (iii) hereof; (ii) procure and maintain effective during construction of the 1997 Concourse Expansion and all other improvements by Airline pursuant to this Article V builder's all-risk insurance, including explosion hazard, underground property hazard, and collapse hazard insurance, or, if the work is to be done by an independent contractor, Airline shall procure and maintain or require such contractor to procure and maintain such insurance in Airline's name, in either case, naming City as additional insured to the extent of Airline's indemnification and defense obligations under Section 5.07(d) (iii) hereof; and (iii) without limiting the time period over which the indemnification and defense obligations set forth in Section 10.01 hereunder apply, the indemnification and defense obligations set forth in Section 10.01 hereunder shall apply to the construction activities of Airline, its employees, agents, and contractors during the Construction Period.

e. In all prime contracts Airline enters into for building and materials for the construction of the 1997 Concourse Expansion, Airline shall require the contractor to warrant all materials and workmanship for a period of one year following final acceptance of the work performed, and Airline will take all steps reasonably necessary to enforce full and faithful performance of such warranties. Airline agrees that it will not compromise or settle any resulting claim or litigation without the concurrence of City, which concurrence shall not be unreasonably withheld, conditioned, or delayed.

f. Airline shall ensure that City is either furnished with or is a named beneficiary with respect to a bond or bonds in an amount equal to: (i) at least 50% of the total estimated cost of construction and installation of the entire 1997 Concourse Expansion to secure Airline's obligation to construct and install the 1997 Concourse Expansion; and (ii) 100% of the total estimated cost of each construction contract, but in no event shall any element of the construction project be required to be bonded greater than 100%.

g. As soon as practicable, but in no event later than 180 days after the completion of construction or installation of all the 1997 Concourse Expansion improvements, Airline shall, at its expense, furnish the Director of Port Control with three sets of "as built" drawings on Autocad 12 Windows format on computer diskette of those improvements, which drawings shall be deemed incorporated in this Agreement by reference.

h. Airline shall obtain all required building and other permits relating to the Continental Special Facilities (and City will assist in obtaining such permits on an expedited basis) and Airline shall comply with all of the following: (i) the State of Ohio prevailing wage requirements; (ii) City's Minority Business Enterprise ("MBE")/Female Business Enterprise ("FBE") goals of 30% MBE participation and 10% FBE participation for design and construction services, provided, however, that contracts for goods and services for which there is no qualified MBE/FBE provider, as determined in consultation with City's Director of the Office of Equal Opportunity, shall not be subject to such goals (based upon Airline's experience, Airline believes that contracts which will be so excluded from such goals will include, by way of example and not limitation, those for passenger loading bridges and baggage conveyor systems); (iii) the Competitive Bidding Procedures for Public and Non-Public Areas set forth in Exhibit E attached hereto, including the additional requirements that Airline provide the City Project Manager with at least 72 hours advance written notice of the time and place of bid openings and, if the City Project Manager or his or her designee appears at such time and place, that Airline permit such individual to be physically present when such bids are opened; (iv) City residency goal of 35% for construction new hires; and (v) City's Equal Opportunity Clause, which is Section 187.11(B) of City's Codified Ordinances (wherein Airline is referred to as the "contractor"), attached hereto as Exhibit G.

5.08 Subsequent Improvements by Airline

Subsequent to constructing the 1997 Concourse Expansion as expressly provided herein, Airline shall make no alterations, additions or improvements to the 1997 Concourse Expansion or other installation on the 1997 Concourse Expansion without the prior written approval of City, which approval shall not be unreasonably withheld, conditioned or delayed. All subsequent improvements, alterations or construction work done by Airline during the term of this Agreement shall be performed in accordance with the requirements of this Article V.

5.09 Environmental Compliance, Remediation and Liability During the Construction Phase

a. City and Airline shall coordinate to obtain any legally

necessary environmental approvals for construction of the 1997 Concourse Expansion. The costs of obtaining such approvals: (i) with respect to the Continental Special Facilities, will be reimbursed from the proceeds of the Bonds; (ii) with respect to those portions of the 1997 Concourse Expansion funded with the proceeds of the GARBS, will be reimbursed from the proceeds of the GARBs; and (iii) with respect to those portions of the 1997 Concourse Expansion funded with a combination of Bonds and GARBs, will be reimbursed according to the Cost Allocation Policy attached hereto as Exhibit C. City and Airline shall provide to each other copies of all environmental and engineering studies, inspection reports and correspondence with state and federal governmental agencies relating to environmental matters in connection with the 1997 Concourse Expansion.

b. Notwithstanding anything in this Agreement to the contrary, Airline shall not be responsible for any environmental contamination discovered in connection with the 1997 Concourse Expansion to the extent that the presence of the material resulting in the environmental contamination was not caused by Airline's acts or failures to act where Airline had a duty to act. During the Construction Period, City's obligations to remediate to the extent and in the manner set forth in Section 2.05(i) hereof shall apply.

c. If, during the Construction Period, Airline plans to encounter or disturb that area commonly known as the "Five Points Burn Pit" underlying a portion of the construction site of certain of the 1997 Concourse Expansion improvements, Airline shall provide City with written notice of same as soon as practicable, along with any proposed plan of remediation or avoidance which Airline may, but is not required, to submit. City shall notify Airline as soon as practicable, but in any event within 21 days following the foregoing notice from Airline, of City's approval and authorization to proceed with any plan of remediation or avoidance offered by Airline and accepted by City, or of City's intention to develop an alternative plan of remediation or avoidance. In the latter case, City will then proceed to develop and implement any such plan of remediation or avoidance as soon as practicable under the circumstances.

During the Construction Period, upon request by Airline, City will, as soon as practicable under the circumstances, take all actions necessary to remediate Existing Contamination (other than the Five Points Burn Pit) and/or contamination of the 1997 Concourse Expansion caused by Hazardous Materials to the extent such contamination results from the acts or omissions of persons or entities other than Airline, its employees, agents, contractors, subcontractors, and licensees, to the extent required under applicable Environmental Laws in order to permit Airline's proposed construction and intended use of the facilities. In connection with such remedial work, City will only be required to meet the least stringent standards of applicable Environmental Laws, provided such least stringent standards are consistent with Airline's proposed construction and intended use of the facilities. Airline will cooperate with City in City's design and performance of cost-effective remedies, provided that such remedies do not unreasonably interfere with the construction or use of the facilities.

If City does not, upon reasonable written notice from Airline, and upon reasonable opportunity to City to cure, commence or diligently continue to complete any remediation to be performed pursuant to this Section 5.09, then Airline, in addition to any other remedy which may be available to it, may, following reasonable written notice, perform such remediation. Airline shall be entitled to reimbursement from City within 30 days of written demand to City from Airline for payment for any and all reasonable direct costs incurred in completing such remediation.

In the event Existing Contamination unexpectedly encountered during the construction of the 1997 Concourse Expansion poses an immediate threat to the public health or safety, Airline shall provide notice of such situation to City as soon as reasonably practicable under the circumstances ("Emergency Notice"). In the event City fails, within 48 hours of receipt of such Emergency Notice, to notify Airline of its intention to respond immediately to such emergency situation or if City provides such notice but the City fails immediately so to respond, Airline is authorized to undertake steps reasonably calculated to eliminate the immediate threat to the public health or safety. Any authorized remediation undertaken by Airline pursuant to this Section 5.09(c) shall be reimbursed by City to the extent of Airline's reasonable direct expenditures.

d. City shall exercise promptly and in good faith, diligent efforts to recover costs associated with the provisions of Section 5.09 hereof from the party or parties responsible for such contamination and restore the same to the affected cost center, or in the absence of recovery from the responsible parties, to charge such costs to the appropriate cost center.

e. At Airline's request, City promptly shall enforce to the fullest extent all rights which City has against rental car companies with respect to the removal of storage tanks from, and the remediation of any environmental contamination associated with, such companies' sites.

f. In the event that an environmental study reveals materially adverse conditions, or if any other environmental circumstances outside of Airline's reasonable control relating to the Airport property or construction of the 1997 Concourse Expansion thereon are discovered which would substantially and materially impact the cost of, or delay the scheduled completion by more than 18 months of, the 1997 Concourse Expansion, Airline shall have the right to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU. In the event of such termination, Airline shall be reimbursed by City for the costs to Airline (including all out-of-pocket expenses and direct dedicated labor costs) of all improvements constituting a portion of the GARB Improvements, but Airline shall not be entitled to reimbursement for the costs to Airline of those improvements constituting a portion of the Continental Special Facilities. City shall to the fullest extent legally possible reimburse Airline for such costs of the GARB Improvements from the proceeds of the GARBs. Until such time as full reimbursement shall have been made to Airline with respect to the GARB Improvements, City shall grant to Airline the right to exclusive use of the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law receive a security interest, subject only to any security interest required to be created pursuant to the existing GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline reasonably may request). Upon such termination, City also shall grant Airline exclusive use rights with respect to the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of those Continental Special Facilities. At any time during such exclusive use period, City may repurchase such exclusive use rights from Airline at a cash price equal to the original amount of such unreimbursed costs to Airline. City shall not be entitled to repurchase from Airline such exclusive use rights with respect to any portion of the Continental Special Facilities without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities (other than the Hydrant Fueling System Special Premises).

5.10 FAA Coordination

In connection with the construction of the 1997 Concourse Expansion: (a) Airline shall prepare Forms 7460-1 (Notice of Proposed Construction or Alteration) and City shall submit that Form to the FAA; (b) Airline shall prepare the FAA safety phasing plans and City shall submit that plan to the FAA; and (c) City shall request an update to the Airport Layout Plan when and as appropriate, and which shall be consistent with the plan for constructing the 1997 Concourse Expansion. Airline shall contract for (and coordinate with City on) any required air quality studies, and City shall submit the same to the appropriate governmental agencies.

5.11 ODOT Coordination

In connection with the construction of the 1997 Concourse Expansion, City shall be responsible for coordinating all highway signage and other matters with the Ohio Department of Transportation (ODOT).

5.12 Regulatory Delays

a. If any non-City regulatory delay substantially and materially impacts the cost of, or delays (or is jointly anticipated by City and Airline in the exercise of each party's reasonable discretion to delay) the scheduled completion by more than one year (or 18 months in the case of any required environmental impact statement) of, the 1997 Concourse Expansion, then City and Airline each shall have the right to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU. In the event of such termination, Airline shall be reimbursed by City for the costs to Airline (including all out-of-pocket expenses and direct dedicated labor costs) of all improvements constituting a portion of the GARB Improvements, but Airline shall not be entitled to reimbursement for the costs to Airline of those improvements constituting a portion of the Continental Special Facilities. City shall to the fullest extent legally possible reimburse Airline for such costs of the GARB Improvements from the proceeds of the GARBs. Until such time as full reimbursement shall have been made to

Airline with respect to the GARB Improvements, City shall grant to Airline the right to exclusive use of the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law receive a security interest, subject only to any security interest required to be created pursuant to the existing GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline reasonably may request). Upon such termination, City also shall grant Airline exclusive use rights with respect to the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of those Continental Special Facilities. At any time during such exclusive use period, City may repurchase such exclusive use rights from Airline at a cash price equal to the original amount of such unreimbursed costs to Airline. City shall not be entitled to repurchase from Airline such exclusive use rights with respect to any portion of the Continental Special Facilities without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities (other than the Hydrant Fueling System Special Premises).

b. If any City regulatory delay (not resulting from Airline's failure to comply with this Agreement and the MOU) substantially and materially (which, for purposes of this sentence, shall mean by 12% or more) impacts the cost of, or delays (or is anticipated by Airline in the exercise of its reasonable discretion to delay) the scheduled completion by more than one year of, the 1997 Concourse Expansion, then Airline shall have the right to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU. In the event of such termination, City shall reimburse Airline for all of the costs (including all out-of-pocket expenses and direct dedicated labor costs) incurred by Airline in connection with the GARB Improvements and the Continental Special Facilities. Upon any such termination, in the event Airline has not been so reimbursed, City shall grant to Airline exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law receive a security interest, subject only to any security interest required to be created pursuant to the GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline may reasonably request) and the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the Continental Special Facilities, as applicable. At any time during such exclusive use period, City may repurchase such rights from Airline at a cash price equal to the original amount of such unreimbursed costs to Airline. City shall not be entitled to repurchase from Airline such exclusive rights with respect to any portion of the GARB Improvements or the Continental Special Facilities without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities and the GARB Improvements. City shall to the fullest extent legally possible reimburse Airline for such costs of the GARB Improvements and the Continental Special Facilities from the proceeds of the GARBs. Until such time as City shall have fully reimbursed Airline, reimbursement payments with respect to the GARB Improvements and the Continental Special Facilities shall be made by City to Airline from the Airport Improvement Fund, which shall be dedicated exclusively to reimburse Airline (as evidenced by documentation acceptable to Airline in its reasonable discretion) until such time as full reimbursement of Airline shall have been made. In the event that the Airport Improvement Fund shall cease to exist or cannot be used consistent with applicable Majority In Interest procedures of Section 8.07 of the Original Lease prior to Airline being fully reimbursed with respect to the GARB Improvements and the Continental Special Facilities, City shall so dedicate other sources of Airport funds from which City shall continue to make to Airline reimbursement payments at a level not less than the level of payments which previously had been made to Airline from the Airport Improvement Fund.

5.13 Permanent Rental Car Facilities

a. Airline has contracted for the design of permanent rental car facilities, which contracts were assigned to City at no additional cost to City. City shall construct the permanent rental car facilities, and shall cause them to be made available in operational condition by April 15, 1998. City shall cause all of the rental car company tenants which were not relocated to interim rental car facilities to vacate their premises ("Premises A") by May 8, 1998. City shall also cause those rental car company tenants which were relocated to said interim rental car facilities

to vacate such interim facilities ("Premises B") by May 31, 1998. City shall then deliver full possession of both Premises A and Premises B to Airline by June 1, 1998, with all improvements (including, without limitation, all above-ground and underground storage tanks) in, on, and under Premises A demolished and/or removed in accordance with all applicable laws. Thereafter, Airline shall have continuous access to Premises A and Premises B for construction purposes, provided that Airline shall not unreasonably interfere with the business operations of other tenants at the Airport without City's prior consent, acknowledging that relocation of rental car company tenants will, by its nature, necessarily result in some interference with such tenants' business operations. Upon obtaining access to Premises B from City for construction purposes, Airline shall demolish and/or remove, in accordance with all applicable laws, all improvements (including, without limitation, all above-ground and underground storage tanks) in, on, and under Premises B; Airline shall be reimbursed from the proceeds of the GARBs for such demolition and/or removal, and such destruction and/or removal shall be charged to the appropriate general cost center as may be specified by and to the extent permitted under the Original Lease.

b. In the event that Permanent Site Availability does not occur by June 1, 1998, subject to (a) Force Majeure, (b) non-City regulatory delays, and (c) any binding court order precluding delivery of such site to Airline, Airline shall have the right to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU. In the event of such termination, City shall reimburse Airline for all of the costs (including all out-of-pocket expenses and direct dedicated labor costs) incurred by Airline in connection with the GARB Improvements and the Continental Special Facilities. Upon any such termination, in the event Airline has not been so reimbursed, City shall grant to Airline exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law receive a security interest, subject only to any security interest required to be created pursuant to the GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline may reasonably request) and the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the Continental Special Facilities, as applicable. At any time during such exclusive use period, City may repurchase such rights from Airline at a cash price equal to the original amount of such unreimbursed costs. City shall not be entitled to repurchase from Airline such exclusive rights with respect to any portion of the GARB Improvements or the Continental Special Facilities without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities and the GARB Improvements. City shall to the fullest extent legally possible reimburse Airline for such costs of the GARB Improvements and the Continental Special Facilities from the proceeds of the GARBs. Until such time as City shall have fully reimbursed Airline, reimbursement payments with respect to the GARB Improvements and the Continental Special Facilities shall be made by City to Airline from the Airport Improvement Fund, which shall be dedicated exclusively to reimburse Airline (as evidenced by documentation acceptable to Airline in its reasonable discretion) until such time as full reimbursement of Airline shall have been made. In the event that the Airport Improvement Fund shall cease to exist or cannot be used consistent with applicable Majority In Interest procedures of Section 8.07 of the Original Lease prior to Airline being fully reimbursed with respect to the GARB Improvements and the Continental Special Facilities, City shall so dedicate other sources of Airport funds from which City shall continue to make to Airline reimbursement payments at a level not less than the level of payments which previously had been made to Airline from the Airport Improvement Fund.

5.14 Default, Notice and Termination During Construction Period

a. If a substantial and material default by either party occurs with respect to a substantial and material obligation under this Agreement during the Construction Period, and the defaulting party fails to cure the default within 60 days following receipt of written notice from the non-defaulting party specifically describing the default, the non-defaulting party shall be entitled as its sole remedy to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU and exercise the remedies set forth in (i) Section 5.14(b) of this Agreement if City is the non-defaulting party, or (ii) Section 5.14(c) of this Agreement if Airline is the non-defaulting party; provided, however, that if the non-defaulting party elects to so terminate any one of the agreements referenced in this sentence, it shall be obligated to terminate them all.

This same obligation shall apply generally to the right to terminate the aforementioned agreements specifically referenced in Sections 5.01(b), 5.05(b), 5.09(f), 5.12(a), 5.12(b), and 5.13(b). Any provision of this Agreement to the contrary notwithstanding, notice of default given under this Article V by Airline to City shall be sent by U.S. registered or certified mail, postage prepaid, return receipt requested and, in addition to the addresses for City set forth in Section 17.05 below, any such notice also shall be sent to the Mayor of City and City Council at the addresses also set forth at Section 17.05 below.

b. In the event of a termination by City pursuant to Section 5.14(a), Airline shall not be entitled to reimbursement for the costs of the GARB Improvements or the Continental Special Facilities and, to the extent that Airline shall have been reimbursed from the proceeds of the GARBs prior to the date of City's termination, Airline shall pay when due the principal of and interest on the GARBs, the proceeds of which shall have been disbursed to Airline, and shall pay or cause to be paid on a date selected by City, which date shall be on or before December 31, 2005 but not before June 1, 2004, the then unpaid principal of, and any premium and interest to the date of redemption on, those GARBs the proceeds of which shall have been so disbursed to Airline. Upon such termination, provided Airline is not in breach of its obligations with respect to payment of the GARBs, City shall grant to Airline exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law receive a security interest, subject only to any security interest required to be created pursuant to the GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline reasonably may request) and the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the Continental Special Facilities, as applicable. At any time during such Airline exclusive use period, City may repurchase such rights from Airline at a cash price equal to the original amount of such unreimbursed costs to Airline. City shall not be entitled to repurchase from Airline such exclusive use rights with respect to any portion of the Continental Special Facilities or the GARB Improvements without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities (other than the Hydrant Fueling System Special Premises) and the GARB Improvements.

c. In the event of a termination by Airline pursuant to Section 5.14(a), City shall reimburse Airline for all of the costs (including all out-of-pocket expenses and direct dedicated labor costs) incurred by Airline in connection with the GARB Improvements and the Continental Special Facilities. Upon any such termination, in the event Airline has not been so reimbursed, City shall grant to Airline exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which Airline shall, to the extent that Airline has not been reimbursed for costs of the permanent rental car facilities, or for one-half of the costs incurred by Airline with respect to the interim rental car facilities (but not exceeding \$1,000,000), and to the fullest extent allowed by law receive a security interest, subject only to any security interest required to be created pursuant to the GARB Indenture, in the income stream therefrom evidenced by such documentation as Airline may reasonably request) and the Continental Special Facilities for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the Continental Special Facilities, as applicable. At any time during such exclusive use period, City may repurchase such rights from Airline at a cash price equal to the original amount of such unreimbursed costs to Airline. City shall not be entitled to repurchase from Airline such exclusive rights with respect to any portion of the GARB Improvements or the Continental Special Facilities without at the same time also repurchasing from Airline such exclusive use rights with respect to the remainder of the Continental Special Facilities and the GARB Improvements. City shall to the fullest extent legally possible reimburse Airline for such costs of the GARB Improvements and the Continental Special Facilities from the proceeds of the GARBs. Until such time as City shall have fully reimbursed Airline, reimbursement payments with respect to the GARB Improvements and the Continental Special Facilities shall be made by City to Airline from the Airport Improvement Fund, which shall be dedicated exclusively to reimburse Airline (as evidenced by documentation acceptable to Airline in its reasonable discretion) until such time as full reimbursement of Airline shall have been made. In the event that the Airport Improvement Fund shall cease to exist or cannot be used consistent with applicable Majority In Interest procedures of Section 8.07 of the Original Lease prior to Airline being fully reimbursed with respect to the GARB Improvements and the Continental Special Facilities, City shall so

dedicate other sources of Airport funds from which City shall continue to make to Airline reimbursement payments at a level not less than the level of payments which previously had been made to Airline from the Airport Improvement Fund.

d. At the end of the Construction Period, all default and termination provisions contained in this Section 5.14 and elsewhere in this Article V shall cease, leaving only those default and termination rights and remedies described in other provisions of this Agreement.

(End of Article V)

ARTICLE VI - OPERATION AND
MAINTENANCE OF CONTINENTAL SPECIAL FACILITIES;
UTILITIES

6.01 Operation and Maintenance of Continental Special
Facilities

a. Airline agrees that it will, with reasonable diligence, prudently operate the Continental Special Facilities, improve them and keep them in good repair, employing at all times adequate and qualified personnel for the purpose of doing so. Without limiting the generality of the foregoing, except if and to the extent that City is responsible for the maintenance and repair of any of the Continental Special Facilities as specified on Exhibit F hereto, Airline shall: (i) at all times keep the Continental Special Facilities appropriately neat, orderly, sanitary and presentable and perform certain maintenance, repair and cleaning; (ii) make such repairs and replacements to the Continental Special Facilities as City may from time to time reasonably direct Airline to make in order to keep the Continental Special Facilities in good repair; (iii) furnish its own janitor service for the Continental Special Facilities; (iv) provide and maintain toilet facilities for the Continental Special Facilities; and (v) cause to be removed, at Airline's own expense, from the Continental Special Facilities, all waste, garbage and rubbish, and not deposit the same on any part of the Airport, except that Airline may deposit the same temporarily in the Terminal Complex at such spaces, if any, designated by City in connection with collection for removal, all as further described in Exhibit F hereto.

b. Except if and to the extent that Airline is responsible for the maintenance and repair of any of the GARB Improvements as specified on Exhibit F hereto, City shall keep the GARB Improvements appropriately neat, orderly, sanitary and presentable, and in doing so shall provide, with respect to the GARB Improvements, such maintenance and cleaning services as are specified on Exhibit F hereto.

c. If Airline does not, upon reasonable written notice and reasonable opportunity to Airline to cure, considering the nature of the maintenance or repair, commence such maintenance and repairs as Airline is required to perform pursuant to Section 6.01(a) hereof or fails to diligently continue to complete such maintenance or repairs, then City, in addition to any other remedy which may be available to it, may, following reasonable written notice, enter the Continental Special Facilities and perform such maintenance or repair as City determines, in its reasonable discretion, is required. Airline shall indemnify and save harmless City from all injury, loss or damage to any person or property occasioned by City's completion of such maintenance or repair, except to the extent such loss or damage is the result of negligence or willful misconduct (whether act or failure to act where City has the duty to act) of City, its employees, agents or contractors. Airline shall reimburse City for any and all reasonable direct costs incurred in completing such maintenance or repair within 30 days of receiving written demand therefor from City.

d. If City does not, upon reasonable written notice to City's Director of Port Control from Airline's Hub Vice President or Station Manager or equivalent, as applicable, and upon reasonable opportunity to City to cure, considering the nature of the maintenance or repair, commence such maintenance and repairs as City is required to perform pursuant to Section 6.01(b) hereof or fails to diligently continue to complete such maintenance or repairs, then Airline, in addition to any other remedy which may be available to it, may, following reasonable written notice, enter the affected areas and perform such maintenance or repair as Airline determines, in its reasonable discretion, is required. Airline shall be entitled to reimbursement from City within 30 days of written demand to City from Airline for payment for any and all reasonable direct costs incurred in completing such maintenance or repair.

e. In no event shall total collections from all Airport tenants (including Airline) for the costs of maintenance and repair at any time exceed actual Airport maintenance and repair costs.

f. If maintenance and repair responsibilities arise out of the 1997 Concourse Expansion which are not covered by this Agreement or other existing agreements between the parties, those responsibilities will be negotiated in good faith by Airline and City for the purpose of allocating appropriately those maintenance and repair costs among the various parties engaged in operations at the Airport.

6.02 Efficient Use of Space

Airline acknowledges that a portion of the Continental Special Facilities is to be used by the traveling public. Airline shall

make available such space to its passengers and to the traveling public on a nondiscriminatory basis. Airline shall not use its Continental Special Facilities so as to unreasonably interfere with the operations of abutting tenants or the utilization of the public spaces in the Airport, including concession areas.

6.03 Hydrant Fueling System

a. Airline shall be responsible for the operation, maintenance and repair of its Hydrant Fueling System Special Premises; provided, however, that if City, pursuant to this Section 6.03, elects to purchase from Airline the rights to Airline's Hydrant Fueling System Special Premises in order to incorporate said system into a larger fuel distribution system at the Airport, Airline shall no longer be solely responsible for the costs of ongoing maintenance and repair of the Hydrant Fueling System Special Premises, but will rather share responsibility for such costs associated with the larger fuel distribution system in accordance with a formula to be agreed upon by City and the users of such system.

b. In addition to the requirements listed in Article V and elsewhere in this Agreement for the construction of the Continental Special Facilities generally, upon request of City, Airline will provide to City an estimate of the associated cost to make the Hydrant Fueling System Special Premises capable of being expanded beyond Concourse C and Concourse D (as in a multi-user system). City will provide to Airline its decision whether to allocate funds to make the Hydrant Fueling System Special Premises capable of being expanded prior to Airline beginning the construction thereof. City shall have the right, on terms acceptable to City and Airline in their respective reasonable discretions, to purchase from Airline the rights to the Hydrant Fueling System Special Premises if City incorporates said system into a larger fuel distribution system for the Airport, in which event the Hydrant Fueling System Term shall terminate and Airline shall pay for its fair share of such larger system based upon system cost and use. Airline shall not be obligated to participate in any manner in the cost of a hydrant fueling system for Concourses other than Concourse C and Concourse D unless City shall so purchase Airline's Hydrant Fueling System Special Premises and incorporate it into such a larger system.

c. If City has not purchased from Airline Airline's leasehold rights to the Hydrant Fueling System Special Premises pursuant to this Section 6.03 during the Hydrant Fueling System Term, City and Airline shall cooperate in an effort to reach an agreement as to the disposition of the Hydrant Fueling System Special Premises at the scheduled expiration of the Hydrant Fueling System Term or upon such damage or destruction or such taking by eminent domain which results in Airline's termination of its rights, obligations and responsibilities under this Agreement with respect to the Hydrant Fueling System Special Premises under Section 10.03 or Section 11.01 hereof, respectively. In the event that no such agreement can be reached, Airline agrees that, at the end of the Hydrant Fueling System Term, Airline shall remove the Hydrant Fueling System Special Premises, fill any resulting tunnels, holes and depressions, and return the site affected by such removal to grade, including restoration of surface areas to their states immediately before such removal.

6.04 Loading Bridges

Airline shall, at Airline's sole cost and expense, install, keep, and maintain and, within a reasonable time period, repair any damage to the loading bridges serving the gates at Concourse D (including any connecting equipment, joints and the like, required to connect the loading bridges to the concourses); provided, however, that if Airline determines that its operations do not require such loading bridges serving such gates, it may relocate them on the Airport premises, unless such relocation would adversely affect the tax-exempt status of the Bonds.

6.05 Ramp Areas

City shall perform structural maintenance and repairs and non-structural surface maintenance to the Ramp Areas adjacent to Concourse D in accordance with Exhibit F. Ordinary maintenance will be Airline's responsibility, including but not limited to cleaning and removal of snow, debris, spillage and other foreign matter.

6.06 Construction, Installation and Maintenance of Utilities

Airline shall construct and install (but only on Airport property) all utilities required for the 1997 Concourse Expansion (including bringing such utilities to the 1997 Concourse Expansion, which encompasses concession areas), including, without limitation, heating, cooling and ventilation facilities, electrical connections, water facilities and sanitary sewer facilities. Airline shall be financially responsible (subject to reimbursement

from the Bonds) for the costs of constructing and installing all utilities within its leasehold. City shall be financially responsible for the costs to bring the utilities to the leaseline of each of the Continental Special Facilities and to the perimeter of each of the GARB Improvements; and Airline acknowledges that such costs shall be funded from the proceeds of the GARBs, consistent with the 1997 Concourse Expansion Budget attached as Exhibit I. The 1997 Concourse Expansion shall be maintained in accordance with the division of responsibilities listed at Exhibit F hereto.

6.07 Relocation of Underground Utilities

Airline shall be responsible for relocating all underground utilities affected by construction and installation of the 1997 Concourse Expansion; these costs will be paid for 100% by GARBs for any such relocation in public areas or preferential use areas (i.e., used by Airline on a priority basis over all other users in connection with all of Airline's airline-wide scheduled and associated irregular operations) and will be paid for 50% by GARBs and 50% by Bonds for any such relocation within exclusive leased areas.

6.08 Security

Airline shall, at Airline's sole cost and expense, provide all personnel and equipment necessary in accordance with all applicable laws and regulations for passenger screening and other security services for passengers using the gates at Concourse D using contractors reasonably acceptable to City. Airline will make all necessary arrangements with City and pay for all services for law enforcement or security officers required under this Section 6.08.

Airline shall take such security precautions, with respect to the Continental Special Facilities and Ramp Areas adjacent to Concourse D, and Airline's operations and service personnel related thereto, as City in its sole discretion may, from time to time, require, consistent with Federal Aviation Administration rules and regulations, as promulgated from time to time; provided, however, that Airline shall be afforded a reasonable opportunity to discuss such required security precautions with City. Airline further stipulates that it shall be solely responsible for providing security to and within the Continental Special Facilities and Ramp Areas adjacent to Concourse D, with no right of reimbursement from City.

(End of Article VI)

ARTICLE VII - BASIC RENT, CHARGES AND FEES; BOND RENT

7.01 Payment of Rentals, Charges and Fees

Airline agrees to pay City, without notice or demand and without deduction or setoff, for the use of the Continental Special Facilities, for the rights, licenses and privileges granted hereunder, and for the undertakings of City hereunder, the Basic Rent, the Bond Rent, the Additional Bond Rent, and all additional rentals, charges, and fees payable hereunder during the Terms contained within this Agreement. Without limiting the generality of the foregoing, Airline agrees that it shall not have the right of setoff or deduction respecting Basic Rent or other rental payments due and owing to City hereunder upon the assertion of an exercise of a self-help right hereunder, claim of breach hereunder, or claim to reimbursement hereunder.

On or before December 15 of each year, City shall transmit to Airline a statement of the Basic Rent payable for each month during the next year and on or before the 10th day of each month a statement of all additional rentals (other than Bond Rent and Additional Bond Rent and other amounts relating to the Bonds), charges and fees then payable. Airline shall pay the Basic Rent on or before the first day of each month and shall pay the additional rentals within 30 days of receipt of such statement by check made payable to City at the place and in the manner specified by the Director of Port Control in such statement. Any payment not received by such dates, as applicable, shall thereafter bear interest at the rate of 1% per month until paid in full.

The Bond Rent and Additional Bond Rent and other amounts relating to the Bonds shall be payable at the times and in the manner set forth in Section 7.05 hereof. City and Airline acknowledge that City will irrevocably pledge all of its right, title and interest in and to the Bond Rent, including its right to receive the same from Airline, to the Trustee under the Indenture as security for the Bonds.

7.02 Basic Rent

From and after Airline's Commencement of Occupancy of the Concourse Improvements, Airline shall pay to City Basic Rent for each category of space in the Concourse Improvements. The amount of Basic Rent to be paid each calendar year shall be determined pursuant to Section 7.03.

7.03 Determination and Annual Adjustment of Basic Rent

a. As long as the Original Lease remains in effect, the Basic Rent payable by Airline pursuant to Section 7.02 hereof shall be determined and readjusted annually as though such Basic Rent were "Rentals" for purposes of Article VIII of the Original Lease. For purposes of making such adjustments, the parties hereto acknowledge and agree that:

(i) The Concourse Improvements shall constitute part of the "Concourses" and shall further constitute "Terminal Concourse space or Terminal Building Space leased to a Scheduled Airline" for the purpose of allocating the rent due under the Original Agreement, provided however that the Concourse Improvement Factor, referred to in Section 8.04(a)(iii) of the Original Agreement, allocable to the Concourse C Expansion Special Premises shall exclude any debt incurred prior to the Effective Date.

(ii) Debt service requirements of the GARBs allocable to the connector tunnel described herein at Section 5.02(a)(i) shall be allocated solely to Concourse D Special Premises for purposes of calculating the Concourse Improvement Factor referred to in Section 8.04(a)(iii) of the Original Agreement. Costs allocable to a subsequent connector to Concourse D shall be allocated solely to the Terminal Complex cost center excluding the Concourse D cost center.

b. From and after the termination of the Original Lease, Airline shall continue to pay the Basic Rent payable pursuant to Section 7.02 hereof, as the same shall have been readjusted prior to such termination pursuant to paragraph (a) of this Section 7.03, and such Basic Rent shall be subject to further readjustment as follows:

(i) If City then permits the Scheduled Airlines to continue to use the Airport on the same terms as would apply if the Original Lease and the other, substantially similar agreements with the other Scheduled Airlines were still in effect, then the Basic Rent shall continue to be readjusted pursuant to paragraph (a) of this Section 7.03 on those terms.

(ii) If City shall have entered into substantially

similar agreements with each of the airlines then leasing space in the Terminal Complex directly from City to succeed or supersede the Original Lease and the other, substantially similar agreements with the other Scheduled Airlines, then Airline shall pay Basic Rent for the Concourse Improvements on the same basis and terms on which the airlines which are party to such agreements pay for space of the same categories under such agreements; provided, however, that if such other agreements require other airlines to lease certain areas classified as public areas under the Original Lease, then Airline shall also be required to pay for the cost of such space adjoining its leased premises to obtain such rate. For the purposes of this subparagraph (ii), City shall be deemed to have entered into an agreement with an airline notwithstanding the absence of any written agreement between City and such airline if the terms on which such airline is in fact leasing space in the Terminal Complex directly from City are substantially the same as those in the substantially similar agreements then in effect between City and the other airlines then leasing space in the Terminal Complex directly from City.

(iii) If City shall have entered into one or more agreements with any of the airlines then leasing space in the Terminal Complex directly from City, pursuant to which such airlines pay rental for space of the same categories as are included in the Concourse Improvements, then Airline shall pay Basic Rent for the Concourse Improvements at the most favorable (from the perspective of the airlines) rates then payable for such space by any such airline; provided, however, that if such other agreements require other airlines to lease certain areas classified as public areas under the Original Lease, then Airline shall also be required to pay for the cost of such space adjoining its leased premises to obtain such rate.

(iv) If none of the circumstances described in subparagraphs (i), (ii) or (iii) above applies, then Airline shall continue to pay Basic Rent for the Concourse Improvements on the same basis and terms on which it paid Basic Rent during the last Additional Term prior to the termination of the Original Lease.

7.04 Basic Rent Reserve

There is hereby created by and with City a trust fund which shall be designated the "City of Cleveland, Ohio, 1997 Concourse Expansion Basic Rent Reserve Fund - Continental 1997 Expansion Program" (the "Basic Rent Reserve Fund"). Simultaneously with the issuance of the GARBs, and as a prepayment of the last year's Basic Rent due hereunder, Airline shall cause to be deposited in the Basic Rent Reserve Fund an amount equal to the Basic Rent Reserve. Within 30 days of the effective date of any determination or adjustment in the Basic Rent pursuant to Section 7.03 hereof, Airline shall deposit in the Basic Rent Reserve Fund the additional amount, if any, then necessary to cause the amount on deposit therein to equal the Basic Rent Reserve.

Airline's obligation to deposit the Basic Rent Reserve may be satisfied by delivery to City for deposit in the Basic Rent Reserve Fund of cash or a credit facility in the form of an irrevocable, direct-pay letter of credit in a stated amount not less than the Basic Rent Reserve payable to City, provided that City has received evidence satisfactory to it that (i) the provider of the credit facility has a credit rating in one of the two highest credit rating categories by two nationally recognized rating agencies, (ii) the term of the credit facility is at least 36 months, unless such term cannot be obtained on commercially reasonable terms, in which case the term of the credit facility is at least 12 months and the provider agrees to notify City of the renewal of the credit facility, and (iii) the provider of the credit facility shall be obligated to notify City (A) immediately in the event of any nonreinstatement of the letter of credit following a draw to a stated amount not less than the Basic Rent Reserve, or in the event of termination of the credit facility and (B) at least three months prior to expiration of the credit facility. If (i) City receives notice of nonreinstatement or expiration, (ii) City receives notice of the termination of the credit facility, or (iii) the credit rating of the provider of such credit facility is no longer in the two highest credit rating categories by two nationally recognized rating agencies, Airline shall (A) provide a substitute credit facility that meets the requirements set forth in the foregoing sentence, or (B) deposit cash equal to the Basic Rent Reserve to the Basic Rent Reserve Fund. In the event that Airline fails to take either action, City may draw on such credit facility in the amount of the Basic Rent Reserve and deposit the proceeds from such drawing in the Basic Rent Reserve Account (1) prior to expiration of the credit facility in the case of receipt of an expiration notice, (2) prior to the termination date in the case of receipt of a termination notice, or (3) immediately in the case of such reduction in creditrating or nonreinstatement to the required

stated amount. The terms of the credit facility referenced in this paragraph may be amended, deleted, or otherwise modified upon written agreement of the parties to this Agreement.

In the event of any failure by Airline to make any payment of Basic Rent (or portion thereof) as and when due, City may withdraw from the Basic Rent Reserve Fund an amount equal to the amount of Basic Rent Airline has failed to pay. The disbursement of monies to City from the Basic Rent Reserve Fund shall not be deemed a payment of the Basic Rent Airline had failed to pay, nor shall such disbursement be deemed a cure of the default hereunder occasioned by such failure to pay Basic Rent, unless and until Airline shall have fully restored the balance in the Basic Rent Reserve Fund to the Basic Rent Reserve. Airline may direct that any amount in the Basic Rent Reserve Fund at any time in excess of the Basic Rent Reserve (including any excess arising from earnings on amounts in the Basic Rent Reserve Fund) be withdrawn from the Basic Rent Reserve Fund and credited against the next payable payment for Basic Rent. Monies in the Basic Rent Reserve Fund shall be invested with other funds of the Airport unless otherwise directed by Airline in writing to the Director of Port Control and the earnings on amounts in that Fund shall be credited to said Fund and held therein pending their application in accordance with this paragraph. Except as otherwise provided herein, Airline may direct that any monies on deposit in the Basic Rent Reserve Fund during the year preceding the Termination Date be withdrawn therefrom for and applied to the payment of Basic Rent.

7.05 Bond Rent

a. Airline shall pay Bond Rent by making payments to the Trustee for the account of City on the following dates and in the following amounts:

(i) On or before each Interest Payment Date and each other date on which Bonds are to be paid upon redemption or acceleration, Airline shall pay an amount which, together with other amounts on deposit in the Interest Account, will be sufficient to pay the interest on Bonds due on that date.

(ii) On or before each date on which principal of Bonds is due and payable, whether at the stated maturity, mandatory redemption or acceleration of such Bonds by the Trustee in accordance with the Indenture, Airline shall pay an amount which, together with other amounts on deposit in the Principal Account, will be sufficient to pay the principal of Bonds due on that date.

(iii) On or before each optional redemption date, Airline shall pay an amount which, together with other amounts on deposit in the Redemption Account, will be sufficient to pay the principal of and premium, if any, on Bonds to be redeemed by optional redemption on that date.

b. In addition to the Bond Rent, and in the manner hereinafter provided, Airline shall pay Additional Bond Rent.

c. All Bond Rent and Additional Bond Rent shall be paid by Airline in lawful money of the United States of America in immediately available funds, provided that Airline may offset (notwithstanding any provision of this Agreement to the contrary), against amounts payable as Bond Rent under subdivision (a)(ii) of this Section 7.05 for the retirement or the redemption pursuant to mandatory sinking fund redemption of Bonds of a given maturity, the principal amount of any Bonds of that maturity delivered in lieu of such Bond Rent by Airline to the Trustee. Bonds delivered in lieu of Bond Rent due on or before a redemption date for the redemption of Bonds must be delivered to the Trustee before the Trustee selects the Bonds to be redeemed on that date. All such rental payments and delivery of Bonds in lieu thereof shall be made to the Trustee, at its designated corporate trust office, and the Trustee shall hold and apply the same in accordance with the provisions of the Indenture.

d. Airline shall have the right to prepay all or any part of the Bond Rent in order to cause Bonds to be redeemed or to be deemed paid and discharged in accordance with the terms and provisions of the Indenture. City agrees that it will give notice to the Trustee to redeem Bonds as may be provided in the Indenture in such principal amounts and at such times as Airline shall request in writing.

e. Airline's obligation to pay Bond Rent and Additional Bond Rent at the times and in the amounts specified in this Section 7.05 shall be absolute and unconditional and shall continue in any event, including without limitation, whether or not (1) any of the respective Terms provided for herein shall have commenced or been terminated or Airline shall remain in possession of the Continental Special Facilities or be able to use the same, or (2) the Original Lease, the 1989 Special Facilities Lease or this Agreement shall have terminated or been canceled, or (3) the Continental Special

Facilities or any interest therein are taken for any period by condemnation or other means by any governmental authority, or (4) the Continental Special Facilities deteriorate or become obsolete or are damaged or destroyed for any cause whatsoever, or become unusable by Airline, or (5) City fails to perform and observe any agreement, express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. All Bond Rent and Additional Bond Rent shall be made absolutely net, free from all claims, demands, defenses or offsets against City of any kind or nature whatsoever other than payment. Nothing contained in this subsection shall be construed to release City from the performance of any of the agreements on its part herein contained, and in the event City shall fail to perform any such agreement on its part, Airline may institute such action against City as Airline may deem necessary to compel performance, provided that no such action shall (1) violate the agreements on the part of Airline contained in the first two sentences of this paragraph or (2) diminish the payments and other amounts required to be paid by Airline pursuant to this Section 7.05. Airline may, however, at its own cost and expense and in its own name or in the name of City (provided City is a necessary party) prosecute or defend any action or proceeding or take any other action involving third persons which Airline deems reasonably necessary in order to secure or protect its rights hereunder, and in such event City hereby agrees to cooperate fully with Airline and to take all action necessary to effect the substitution of Airline for City in any such action or proceeding if Airline shall so request.

f. In the event Airline shall fail to make any of the Bond Rent or Additional Bond Rent payments required in this Section 7.05, each payment so in default shall continue as an obligation of Airline until the amount in default shall have been fully paid, and Airline will pay interest on each overdue Bond Rent payment at the rates specified in the Indenture or, if not so specified, the average rate borne by the Bonds on the date each such payment became due.

7.06 Utilities

Airline shall pay for its usage of all utilities to be furnished to or for the Continental Special Facilities. Airline shall pay City for all electricity used at or on the Continental Special Facilities at the metered rates which would be charged by the public utility electric company serving the area to like users in the vicinity of the Airport. Charges shall be paid by Airline when billed, and the quantity consumed shall be measured by a meter or meters installed by Airline for such purpose; provided, however, that if for any reason any such meter or meters shall become inoperative for any period of time, the consumption during the period such meter or meters are out of service will be considered to be the same as the consumption for a like period either immediately before or after the period during which said meter or meters are inoperative, as elected by City.

7.07 Concession for Sale of Alcoholic Beverages

Airline shall make concession payments to City in an amount equal to the percentage, established by City ordinance (currently 19%), of gross sales of alcoholic beverages in the airline lounge operated by Airline, unless Airline furnishes such beverages through City's primary concessionaire, in which case such gross sales shall be included in the amount on which that concessionaire makes concession payments to City, and in which case Airline shall not be required to make any payment to City in respect thereto.

7.08 Additional Payments by City

City may, but is not obligated to, cure any default on Airline's part in fulfilling Airline's covenants and obligations under this Agreement upon reasonable notice to Airline. Any amounts paid by City to cure any such default are hereby agreed and declared to be additional rent. Unless otherwise provided herein, all additional rent shall be due and payable with the next installment of Basic Rent due thereafter under this Agreement.

(End of Article VII)

ARTICLE VIII - RELATED INDENTURE PROVISIONS AND UNDERSTANDINGS

8.01 Trust Indenture and Financial Structure

City and Airline will work cooperatively to enter into the Indenture. City and Airline will negotiate in each such party's reasonable discretion mutually agreeable terms regarding the financial structure of the Bonds. Without limiting the foregoing, City and Airline will work cooperatively to structure the Bonds so as to minimize the bond interest rates and provide for provisions that are consistent with current market practices and City's operating needs.

8.02 Airline to Maintain Its Legal Existence

During any such time that Airline is using any of the Continental Special Facilities, Airline will maintain its status as a federally certificated air carrier and its qualification to do business in Ohio.

8.03 Financial Reports

Airline shall provide to City and the Trustee the following financial reports:

a. Annual Reports. As soon as available to Airline, but in any event within 120 calendar days after the end of each of Airline's fiscal years during which this Agreement, or any portion of it, is in force and effect, plus any period of extension for filing Airline's 10-K Report permitted by Securities and Exchange Commission ("SEC") regulations, copies of Airline's 10-K Report, as filed with the SEC (or if Airline is not required to file such 10-K Report, then financial statements prepared in accordance with generally accepted accounting principles, audited and certified by the unqualified opinion of a Certified Public Accountant);

b. Quarterly Reports. As soon as available to Airline, but in any event within 60 calendar days after the end of each of Airline's fiscal quarters during which this Agreement, or any portion of it, is in force and effect, plus any period of extension for filing Airline's 10-Q Report permitted by SEC regulations, copies of Airline's 10-Q Report, as filed with the SEC (or if Airline is not required to file such 10-Q Report, then quarterly financial statements, including a statement of income and cash flow for Airline with respect to the period then ended, certified by Airline's chief financial officer or president); and

c. Current Reports. Simultaneously with the filing by Airline with the SEC, copies of any Form 8-K Current Reports.

8.04 Tax Matters. Airline covenants as follows:

a. Airline has taken and caused to be taken and shall take and cause to be taken all actions that may be required of it alone or in conjunction with City for the interest on the Bonds to be and to remain excluded from gross income of the owners of Bonds for federal income tax purposes (other than a "substantial user" of the Continental Special Facilities or Related Facilities or a "related person"), and that it has not taken or permitted to be taken on its behalf, any action that, if taken, would adversely affect such exclusion under the provisions of the Code. Airline's failure to comply with such covenant shall not give rise to or constitute an Event of Default hereunder to the extent that any affected Bonds are redeemed in accordance with the Indenture.

b. No acquisition or construction of the Continental Special Facilities or Related Facilities to be funded by the Bonds was commenced prior to the 60th day preceding the Declaration of Official Intent made by the Fiscal Officer on April 14, 1997, pursuant to Resolution No. 1945-96, adopted by the Council of City on April 14, 1997, except for (i) preparation of plans and specifications, other preliminary engineering work, and other preliminary expenditures (within the meaning of Treasury Regulations Paragraph 1.150-2(f)(2)), not in excess of 20 percent of the issue price of the Bonds, and (ii) the construction described in a certificate to be delivered by Airline to City prior to the issuance of the Bonds.

c. At least 95% of the net proceeds of the Bonds (as defined in Section 150 of the Code) will be used to provide an airport within the meaning of Section 142(a)(1) of the Code. As used herein and in Section 142(a)(1) of the Code, the term airport means (1) items of property which are directly related and essential to servicing aircraft, enabling aircraft to take off and land, or transferring passengers or cargo to or from aircraft, and (2) property located at or adjacent to an airport that is functionally related and subordinate to such facilities and which is of a character and size commensurate with the character and size of the airport and in either case is a capital expenditure that

constitutes land or is of a character subject to the allowance for depreciation under Sections 167 and 168. All of such property will be available to and will serve the general public on a regular basis, including serving private companies operating as common carriers that serve the general public on a regular basis. All of such property is, or upon completion of acquisition or construction will be, situated at or immediately contiguous and adjacent to an airport and must be so located in order to perform their functions. The term airport does not include the costs of any office building or office space within a building or a computer facility, either of which serves a system-wide or regional function of Airline. All of such property financed by the net proceeds of the Bonds are, or upon completion will be, owned by City or another governmental unit within the meaning of Section 142(b)(1) of the Code. Airline will not request or authorize any disbursement pursuant to Section 5.04 hereof, or otherwise that, if paid, would result in less than 95% of the net proceeds of the Bonds being so used. The costs of issuance financed by the Bonds will not exceed 2% of the proceeds of the Bonds (within the meaning of Section 147(g) of the Code), and Airline will not request or authorize any disbursement pursuant to Section 5.04 hereof or otherwise, that, if paid, would result in more than 2% of the proceeds of the Bonds being so used. None of the proceeds of the Bonds will be used to pay for working capital expenditures (within the meaning of Treasury Regulations Paragraph 1.150-1(b)).

d. In accordance with Section 147(b) of the Code, the weighted average maturity of the Bonds does not exceed 120% of the weighted average reasonably expected economic life of the property financed by the Bonds.

e. None of the proceeds of the Bonds will be used to provide any airplane, skybox or other private luxury box, or health club facility; any facility primarily used for gambling; any store the principal business of which is the sale of alcoholic beverages for consumption off premises; any hotels or other lodging facilities; any retail facilities (including food and beverage facilities) in excess of the size necessary to serve passengers (and persons who meet or accompany them) and employees at the Airport; any retail facility including, but not limited to, rental car lots (other than parking for the general public that is no more than a size necessary to serve passengers and employees at the Airport) for passengers or the general public located outside the Airport terminals; office buildings for individuals who are not employees of a governmental unit or of City; industrial parks or manufacturing facilities or; any office space that is not located on the premises of the Airport, or in which more than a de minimis amount of the functions to be performed will not be directly related to the day-to-day operations at the Airport.

f. Except for land acquired by City in connection with an airport for noise abatement or wetland preservation or for future use as an airport and as to which there is not other significant use of such land, less than 25% of the net proceeds of the Bonds will be used directly or indirectly to acquire land or any interest therein, and none of such land is being or will be used for farming purposes; no portion of the net proceeds of the Bonds will be used to acquire existing property or any interest therein unless the first use of such property or interest therein is pursuant to such acquisition or the rehabilitation requirements of Section 147(d)(3) of the Code are satisfied with respect to such property.

g. Except for proceeds of the Bonds invested during the applicable temporary periods under Section 148(d)(3) of the Code, at no time during any bond year will the aggregate amount of gross proceeds of the Bonds invested in higher yielding investments (within the meaning of Section 148(b) of the Code and Treasury Regulations Paragraph 1.148-2(f)(2)(iv)) exceed 150% of the debt service on the Bonds for such bond year, and the aggregate amount of gross proceeds of the Bonds invested in higher yielding investments, if any, will be promptly and appropriately reduced as the amount of outstanding Bonds are reduced, provided, however, that the foregoing shall not require the sale or disposition of any investments in higher yielding investments if such sale or disposition would result in a loss which exceeds the amount which would be paid to the United States pursuant to Section 148(f) of the Code (but for such sale or disposition) at the time of such sale or disposition if a payment under Section 148(f) of the Code were due at such time.

The terms "bond year", "gross proceeds", "higher yielding investments", "yield", and "debt service" have the meanings assigned to them for purposes of Section 148 of the Code.

h. The Bonds are not "federally guaranteed" within the meaning of Section 149(b) of the Code.

i. At no time will any funds constituting gross proceeds of the Bonds be used in a manner as would constitute failure of compliance with Section 148 of the Code. Airline shall restrict the use of Bond proceeds in such manner and to such extent

necessary to assure that the Bonds will not constitute arbitrage bonds under Section 148 of the Code.

j. Airline will comply fully with its representations, warranties and covenants set forth in this Agreement.

8.05 Continuing Disclosure

Airline shall enter into continuing disclosure agreements with City or the GARB Trustee (with respect to the GARBs) and with the Trustee (with respect to the Bonds) with respect to the continuing disclosure required by Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934, as amended, 14 C.F.R. Paragraph 240.15c2-12 (the "SEC Rule"). Airline shall comply with and carry out all of its continuing disclosure obligations under those agreements. However, any failure by Airline to comply with any requirements under such agreements shall not give rise to or constitute an Event of Default hereunder.

(End of Article VIII)

ARTICLE IX - RULES AND REGULATIONS;
COMPLIANCE WITH LAWS; ADDITIONAL COVENANTS

9.01 Rules and Regulations

Airline covenants and agrees to observe and obey all reasonable and lawful rules and regulations (not in conflict with this Agreement and the rules, regulations, and orders of the Federal Aviation Administration) which are now in effect or as may from time to time during the term hereof be promulgated by City, the Director of Port Control or the Commissioner of Cleveland Hopkins International Airport regarding the operation of the Airport, including such rules as apply to Airline's use of the 1997 Concourse Expansion.

9.02 Compliance with Laws

a. In connection with its operations in and on the Continental Special Facilities, Airline:

1. Shall comply with and conform to all present and future laws and ordinances of City, federal, state and other governmental bodies of competent jurisdiction and the rules and regulations promulgated thereunder, applicable to or affecting, directly or indirectly, Airline, the 1997 Concourse Expansion, or Airline's operations and activities under this Agreement.

2. Shall, at its expense, make all non-structural improvements, repairs, and alterations to the Continental Special Facilities and its equipment and personal property required to comply with or conform to any of such laws, ordinances, rules and regulations referred to in subsection (a) above, to which this Agreement is expressly subject.

3. Shall at all times during the term of this Agreement comply with the Workers' Compensation Laws of the State of Ohio and pay such premiums, if any, as may be required thereunder and save City harmless from any and all liability arising from or under said laws. Airline shall also furnish, upon commencing operations under this Agreement and at such other times as may be requested, a copy of the official certificate or receipt showing the payments hereinbefore referred to or a copy of an official certificate from the State of Ohio evidencing permission for Airline to self-insure Workers' Compensation liability.

4. Shall be and remain an independent contractor with respect to all installations, construction and services performed hereunder and agrees to and does hereby accept full and exclusive liability for the payment of any and all contributions or taxes for social security, unemployment insurance, or old age retirement benefits, pensions, or annuities now or hereafter imposed under any state or federal law which are measured by the wages, salaries, or other remuneration paid to persons employed by Airline on work performed under the terms of this Agreement and further agrees to obey all rules and regulations which are now or hereafter may be issued or promulgated under said respective laws by any duly authorized state or federal officials; and Airline shall indemnify and save harmless City from any such contributions or taxes or liability therefor.

5. Shall be responsible for compliance with the Americans with Disabilities Act of 1990 ("ADA," 42 U.S.C. Paragraph 12101 et seq.) and the regulations and Accessibility Guidelines for Buildings and Facilities issued pursuant thereto. Airline recognizes that City is a public entity subject to Title II of the ADA. To the extent permitted by law, Airline shall assume and be obligated to comply with any obligations to which City may be subject under Title II of the ADA with respect to any programs, services, activities, alterations or construction conducted or undertaken by Airline in the 1997 Concourse Expansion. Airline shall also be responsible for compliance with any other applicable handicap accessibility laws including, but not limited to, the Air Carriers Access Act ("ACAA," 49 U.S.C. Paragraph 41705), and regulations implementing the ACAA. It is acknowledged by the parties that such compliance with federal regulations may require the provision of handicap access lifts at or near gate areas for commuter aircraft, which provision will be the subject of a separate agreement between City and Airline.

b. Notwithstanding the foregoing or any other provision of this Agreement, Airline may contest any laws, ordinances, rules or regulations (including, without limitation, Environmental Laws) by appropriate proceedings duly instituted in good faith and diligently prosecuted at Airline's expense. Airline shall not be deemed in default under this Agreement for failure to comply with such laws, ordinances, rules or regulations while Airline is contesting them diligently and in good faith if the Continental Special Facilities are not thereby subjected to imminent loss or forfeiture; provided, however, that if such contest is ultimately

resolved against Airline, Airline shall hold City harmless for any consequence of Airline's failure to comply with such contested laws, ordinances, rules or regulations.

9.03 Ramp Usage and Servicing

a. Notwithstanding any provision of this Agreement, Airline shall have an appurtenant right to preferential use of the Ramp Area adjacent to the Concourse D Special Premises throughout the Concourse D Term. Airline's use of that Ramp Area is subject to all applicable rules and regulations adopted from time to time by City as referenced in Section 9.01 hereof, as the same may be amended, including any ramp area use policy of general application to the airlines operating at the Airport.

b. Airline may perform, while its aircraft are parked upon the Ramp Area adjacent to the Concourse D Special Premises, customary fueling and servicing of aircraft preparatory to loading and takeoff or immediately following landing and unloading. Except to the extent consistent with Airline's preferential use rights and any ramp area use policy of general application to the airlines operating at the Airport, Airline shall not do or perform any major repair or maintenance work upon aircraft while parked upon aprons or at gate positions nor shall there be any storage of aircraft upon the Ramp Area adjacent to the Concourse D Special Premises in a manner to restrict the parking, and/or loading or unloading of passengers by other airlines on such Ramp Area. As used here, "major" is defined to be work that normally requires more than four hours to complete; provided, however, that in exceptional circumstances, Airline may request advance permission from the Director of Port Control to park aircraft upon the Ramp Area for longer than four hours, which permission shall be granted or withheld at the Director of Port Control's reasonable discretion.

9.04 New Employee Parking Lot

Airline shall have an appurtenant right to preferential use of the new employee parking lot listed at Section 5.02(a)(v) hereto for so long as Airline shall continue to use it for such purpose.

9.05 Noise Abatement

Airline shall comply with any and all federal and other laws and regulations pertaining to noise abatement, including without limitation, FAR Part 91.

(End of Article IX)

ARTICLE X - RELEASE AND INDEMNIFICATION; DAMAGE
OR DESTRUCTION; INSURANCE

10.01 Release and Indemnification

City, its officers and employees, shall not be liable to Airline, or to any other parties, for claims arising out of any injury, including death, to any persons, or for loss of or damage to any property, regardless of how such injury or damage may be caused, sustained or alleged to have been caused or sustained, as a result of any condition (including existing or future defects) or act or omission whatsoever in, on or about the Continental Special Facilities unless such claim shall arise from the sole negligence of City, its officers and employees. In addition, City, its officers and employees, shall not be liable to Airline or to any other parties for claims or liability arising out of injury to persons, loss of or damage to property, or breach of Airline's obligations under Section 2.05, caused or sustained as a result of any fault, negligence, act or omission of Airline, or any of its officers, employees, agents, or contractors, and Airline shall indemnify and save harmless City with respect to and shall assume the defense of any and all liabilities, obligations, damages, penalties, fines, assessments, claims, costs, charges and expenses, including reasonable attorneys' fees which may be imposed upon or incurred by City by reason of any such occurrences.

10.02 Insurance

In addition to any liability insurance required to be maintained by Airline pursuant to the Original Lease, Airline, at its sole cost and expense, shall purchase and maintain, from an insurance company acceptable to City in its reasonable discretion, public liability insurance for claims arising out of bodily injury or property damage occurring in, on or about the Continental Special Facilities and claims made in connection with operations of Airline in or about the 1997 Concourse Expansion, in an amount of at least \$10,000,000 single limit (or equivalent split limits). City shall be named as an additional insured with respect to Airline's operation, maintenance and use of the Continental Special Facilities to the extent of Airline's indemnification and defense obligations under Section 10.01 hereof. Airline shall provide City with a certificate of insurance, which indicates that the insurance company will provide City and the Trustee with at least 30 days advance notice of cancellation or material restriction in coverage thereof. Airline shall purchase and maintain additional limits of liability insurance in such amounts as are considered customary in connection with the operation of the business of Airline but in no event less than \$50,000,000 single limit (or equivalent split limit). Airline shall also maintain throughout the term of this Agreement, at its own expense: (1) host liquor insurance, during such times that Airline serves liquor at the Airport, in the amount of not less than \$1,000,000 combined single limit for loss or injury to one or more persons; (2) for motorized equipment, vehicle and automobile liability coverage for owned, non-owned and hired vehicles, insuring Airline and City as an additional insured (to the extent of Airline's indemnification and defense obligations under Section 10.01 hereof) against liability from loss of life or damage or injury to persons or property at the Airport or arising from Airline's operations, with limits for each occurrence of not less than a combined single limit of \$10,000,000; (3) environmental impairment liability insurance (unless City, pursuant to Section 6.03(b), elects to purchase the Hydrant Fueling System Special Premises) against risks arising from the operation of the Hydrant Fueling System Special Premises when such insurance becomes available at commercially reasonable rates, with limits for each occurrence of not less than a combined single limit of \$10,000,000; and (4) any insurance or other form or evidence of financial responsibility required by the Ohio EPA and/or U.S. EPA for above-ground and/or underground storage tanks owned or used by Airline. Each policy of property insurance whether or not specifically referred to herein shall not, as a condition of coverage, prohibit any insured from waiving, prior to the loss, said insured's right of recovery against any party. The failure of City, at any time, to enforce the provisions of this paragraph concerning insurance coverage shall not constitute a waiver of those provisions nor in any respect reduce the obligation of Airline to defend and hold and save City harmless with respect to any injury or damage covered by this Article X. Upon the execution of this Agreement, Airline shall provide the Director of Law of City with a valid certificate or certificates evidencing the insurance policy or policies required hereunder. Such certificate or certificates shall as to form, coverage and carrier be subject to the reasonable approval by the Director of Law of City. If at any time during the term of this Agreement the form, coverage or carrier on any policy shall become unsatisfactory to the Director of Law of City, Airline shall, forthwith, obtain and supply City with a certificate evidencing a new policy meeting the requirements of the Director of Law of City provided that such requirements are in conformance with the conditions hereof, and are in keeping with policy conditions

usual and customary to such types of policies. At least 30 days prior to the expiration or termination of any policy provided hereunder, Airline shall deliver to the Director of Law or Port Control of City and the Trustee verified certificates evidencing the renewal or replacement policies.

City, for the mutual benefit of City and Airline, shall purchase and maintain public liability insurance for claims arising out of bodily injury or property damage occurring in, on or about the Airport System in an amount agreed upon from time to time by both City and Airline which shall not be less than \$150,000,000. Any such insurance maintained by City may be counted toward the fulfillment of the requirements of this Section 10.02 as well as any requirements of the Original Lease that City maintain such insurance in any amount specified therein.

10.03 Damage or Destruction

a. If, prior to the Defeasance Date, the Continental Special Facilities shall be damaged or partially or totally destroyed by fire, flood, windstorm, or other casualty: (i) there shall be no abatement or reduction in the Bond Rent payable by Airline; (ii) respecting that area of the Continental Special Facilities which remains usable, there shall be no abatement or reduction in the Basic Rent payable by Airline; and (iii) respecting that area of the Continental Special Facilities which is rendered unusable due to such damage or destruction, Airline shall pay, in lieu of Basic Rent during the period of time that said area remains unusable, an amount equal to the GARB debt service component of such Basic Rent, provided, however, that Airline's obligation to make such payment described in this subsection (iii) shall be offset (notwithstanding any other provision hereof) by any proceeds from business interruption insurance that City may receive as a consequence of such damage or destruction. Upon such damage or destruction, Airline shall restore and replace to the extent physically possible that damaged or destroyed portion of the 1997 Concourse Expansion; provided, however, that Airline's obligation to restore and replace shall be limited to applicable insurance proceeds received as a consequence of the damage or destruction. To accomplish such restoration and replacement: (A) Airline agrees to use therefor the applicable insurance proceeds (as supplemented by any other funds which may be secured by City) it may receive as a consequence of such damage or destruction; (B) City agrees to assign to Airline all its rights to applicable insurance proceeds it may receive as a consequence of such damage or destruction within 30 days of receipt thereof; and (C) Airline agrees to apply such assigned insurance proceeds to such restoration and replacement; provided, however, that if all insurance proceeds (as supplemented by any other funds which may be secured by City) available for such restoration and replacement are insufficient or restoration and replacement are otherwise not feasible: (x) that portion of the insurance proceeds allocable to the Continental Special Facilities shall be applied to the payment of Bond Service Charges by depositing such net proceeds with the Trustee for deposit in the Bond Fund and application in accordance with the Indenture; and (y) that portion of the insurance proceeds allocable to the GARB Improvements shall be applied to the payment of debt service charges on the GARBS by depositing such proceeds with the GARB Trustee for application in accordance with the GARB Indenture. To the extent that the insurance proceeds exceed the costs of restoration and replacement, that portion allocable to the Continental Special Facilities shall be applied to the payment of Bond Service Charges as described above, and that portion allocable to the GARB Improvements shall be applied to the payment of debt service charges on the GARBS as described above. If the applicable insurance proceeds received as a consequence of the above-described damage or destruction are insufficient to accomplish the restoration and replacement of the damaged or destroyed property, but such proceeds together with the amount of any deductibles under applicable insurance policies would be sufficient for the purpose, that party to this Agreement which is then carrying the applicable insurance (or both parties if both are then carrying such insurance) shall be obligated to contribute to the restoration or replacement an amount equal to the applicable policy's deductible; and such contributions shall be treated as insurance proceeds for purposes of this Section 10.03.

b. If there is damage, destruction or loss of any portion of the Continental Special Facilities or the GARB Improvements listed at Section 5.02(a)(i) hereof by a risk required to be insured against under Section 10.04, and such damage, destruction or loss is not capable of being repaired within:

1. 12 months, if the damage, destruction or loss is related to the Concourse D Special Premises, then Airline shall have the option, exercisable by written notice given to City within 60 days after the occurrence of such event, to terminate this Agreement forthwith; or

2. 9 months, if the damage, destruction or loss is related to the Concourse C Expansion Special Premises, then Airline shall

have the option, exercisable by written notice given to City within 60 days after the occurrence of such event, to terminate its rights, obligations, and responsibilities under this Agreement with respect to the Concourse C Expansion Special Premises forthwith; or

3. 9 months, if the damage, destruction or loss is related to the Hydrant Fueling System Special Premises, then Airline shall have the option, exercisable by written notice given to City within 60 days after the occurrence of such event, to terminate its rights, obligations, and responsibilities under this Agreement with respect to the Hydrant Fueling System Special Premises forthwith; or

4. 90 days, if the damage, destruction or loss is related to the Deicing Pad Special Premises, then Airline shall have the option, exercisable by written notice given to City within 60 days after the occurrence of such event, to terminate its rights, obligations, and responsibilities under this Agreement with respect to the Deicing Pad Special Premises forthwith;

provided, however, that precalculations of such time periods shall exclude consideration of reasonably anticipated acts of superior governmental authorities and weather conditions; and provided further, that, if (i) Airline proceeds in good faith with the diligent repair of the damaged or destroyed premises and (ii) the actual time period of such repair exceeds the applicable time period specifically set forth above in subsections (1) through (4) of this sentence (not adjusted for reasonably anticipated acts of superior governmental authorities and weather conditions), then Airline shall be entitled to an abatement of the GARB debt service component of Basic Rent described in Section 10.03(a)(iii) hereof for that time period representing the difference between the actual time period of such repair and such applicable time period. If this Agreement, or any of Airline's rights, obligations, and responsibilities hereunder with respect to a portion of the Continental Special Facilities, as the case may be, is or are thus terminated: (i) City shall have all rights to any insurance proceeds it receives as a consequence of the damage or destruction to the GARB Improvements; (ii) Airline shall have all rights to any insurance proceeds it receives as a consequence of the damage or destruction to the Continental Special Facilities, which, to the extent Bonds are outstanding, Airline agrees to apply to the payment of Bond Service Charges by depositing such net proceeds with the Trustee for application in accordance with the Indenture; and (iii) if any Bonds are outstanding, there shall be no abatement in the Bond Rent payable by Airline. If this Agreement, or any of Airline's rights, obligations, and responsibilities hereunder with respect to a portion of the Continental Special Facilities, as the case may be, is not or are not terminated as aforesaid, or if such damage, destruction or loss is capable of being repaired within the pertinent time period described in the first sentence of this Section 10.03(b), the provisions of Section 10.03(a) hereof shall apply; provided, however, that if such damage, destruction or loss occurs within six months of the Expiration Date, or the scheduled expiration of the Term of the applicable portion of the Continental Special Facilities (i.e., Concourse C Expansion Term, Concourse D Term, Deicing Pad Term, and Hydrant Fueling System Term), as the case may be, then Airline shall have the option either to effect such repair, replacement, restoration or rebuilding or, in lieu thereof, to terminate forthwith this Agreement or its rights, obligations, and responsibilities hereunder with respect to the applicable portion of the Continental Special Facilities, as the case may be, and make payment to City of all insurance proceeds received by reason of such damage, destruction or loss, less an amount equal to the Bond debt service that would remain as of the date of termination based on the Assumed Amortization, which withheld amount, to the extent Bonds are outstanding, Airline agrees to apply to the payment of Bond Service Charges by depositing such net proceeds with the Trustee.

10.04 Waiver of Subrogation; Property Damage Insurance

City agrees to purchase property damage insurance covering the GARB Improvements and Airline agrees to purchase property damage insurance covering the Continental Special Facilities, both subject to such deductibles as are reasonable, at replacement cost on buildings, contents, equipment (mobile and fixed) and improvements and betterments owned or for which each may be responsible, to cover damage caused by fire and perils normally covered by extended coverage insurance, and such other perils as are customarily included in the term "all risk" available in Cleveland, Ohio. Upon request of either party, the other party shall provide to the requesting party a certificate of insurance which indicates the insurance company will provide City and the Trustee with at least 30 days advance notice of cancellation or material restriction in coverage thereunder. Each insurance policy, whether or not specifically referred to herein, shall not, as a condition of coverage, prohibit any insured from waiving, prior to the loss, said insured's right of recovery against any party for loss or damage to the insured property. City and Airline each hereby waive all claims and right of recovery against the other for damage to

real or personal property to the extent that such loss or damage is required to be covered by the insurance policies required to be carried under this Section 10.04, less any deductibles applicable to any policy.

(End of Article X)

ARTICLE XI - CERTAIN RIGHTS OF CITY

11.01 Eminent Domain

a. If, prior to the Defeasance Date, title to or the temporary use of the 1997 Concourse Expansion (which, for purposes of this Section 11.01, shall exclude the permanent rental car facilities listed at Section 5.02(a) (iv) hereof), or any part thereof, or improvement thereon, shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or entity acting under governmental authority: (i) there shall be no abatement in the Bond Rent payable by Airline, except to the extent Net Proceeds are applied to the payment of such rent pursuant to this Section; (ii) respecting that area of the Continental Special Facilities which remains usable by Airline after the taking, there shall be no abatement or reduction in the Basic Rent payable by Airline; and (iii) respecting that area of the Continental Special Facilities which is rendered unusable after the taking, Airline shall pay, in lieu of Basic Rent during the period of time that said area remains unusable, an amount equal to the GARB debt service component of such Basic Rent, except to the extent Net Proceeds are applied to the payment of such rent pursuant to this Section. ("Net Proceeds" shall mean, for purposes of this Section 11.01, the gross proceeds of the award minus the reasonable costs and expenses (which costs and expenses shall not include administrative costs) of defending the condemnation action.) In the event of condemnation by City, City agrees to pay Airline just compensation for the property taken according to law, taking into account, to the extent permitted by law, the Bond debt service that would remain based on the Assumed Amortization and any Basic Rent allocable to debt service on GARBs outstanding. Upon condemnation by eminent domain, Airline shall restore any impairment to the remaining 1997 Concourse Expansion, and shall replace to the extent physically possible that condemned portion of the 1997 Concourse Expansion; provided, however, that Airline's obligation to restore and replace shall be limited to the Net Proceeds (as supplemented by any other funds which may be secured by City) of any associated award. To accomplish such restoration and replacement: (i) Airline agrees to use therefor the Net Proceeds it may receive upon such condemnation; (ii) City agrees to assign to Airline all its rights to the Net Proceeds it may receive upon such condemnation within 30 days of receipt; and (iii) Airline agrees to apply such assigned Net Proceeds (as supplemented by any other funds which may be secured by City) to such restoration and replacement; provided, however, that if all Net Proceeds available for such restoration and replacement are insufficient or restoration and replacement are otherwise not physically feasible: (i) that portion of the Net Proceeds allocable to the Continental Special Facilities shall be applied to the payment of Bond Service Charges by depositing such net proceeds with the Trustee for deposit in the Bond Fund and application in accordance with the Indenture; and (ii) that portion of the Net Proceeds allocable to the GARB Improvements shall be applied to the payment of debt service charges on the GARBs by depositing such Net Proceeds with the GARB Trustee for deposit in the GARB bond fund and application in accordance with the GARB Indenture. To the extent that the Net Proceeds exceed the costs of restoration and replacement, that portion allocable to the Continental Special Facilities shall be applied to the payment of Bond Service Charges as described above, and that portion allocable to the GARB Improvements shall be applied to the payment of debt service charges on the GARBs as described above.

b. If, following the Defeasance Date, title to or temporary use of the 1997 Concourse Expansion (which, for purposes of this Section 11.01, shall exclude the permanent rental car facilities listed at Section 5.02(a) (iv) hereof), or any part thereof, or improvement thereon, shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or entity acting under governmental authority and such taking substantially and materially (considering both the extent and the duration of the taking) impairs use of all or a part of an element of the Continental Special Facilities (i.e., Concourse C Expansion Special Facilities, Concourse D Special Facilities, Deicing Pad Special Facilities, and Hydrant Fueling System Special Facilities), then Airline shall have the option to terminate its rights, obligations, and responsibilities hereunder with respect to such element of the Continental Special Facilities. If, pursuant to the foregoing sentence, Airline obtains the option to terminate its rights, obligations, and responsibilities hereunder with respect to all elements of the Continental Special Facilities, Airline shall have the option, exercisable by written notice from Airline to City within 60 days after the applicable taking, to terminate this Agreement. If this Agreement or any of Airline's rights, obligations, and responsibilities hereunder with respect to a portion of the Continental Special Facilities, as the case may be, is or are so terminated: (i) Airline shall make payment to City of any eminent domain awards received pertaining to the premises vacated by Airline upon such termination; and (ii) Airline shall

not be responsible for payment of any remaining debt service on GARBs pertaining to the premises vacated by Airline upon such termination. If this Agreement, or any of Airline's rights, obligations, and responsibilities hereunder with respect to a portion of the Continental Special Facilities, as the case may be, is not or are not terminated as aforesaid, the provisions of Section 11.01(a) shall apply; provided, however, that if such taking occurs within six months of the Expiration Date, or the scheduled expiration of the Term of the applicable portion of the Continental Special Facilities (i.e., Concourse C Expansion Term, Concourse D Term, Deicing Pad Term, and Hydrant Fueling System Term), as the case may be, then Airline shall have the option either to effect the restoration and replacement of the taken property as set forth in Section 11.01(a) or, in lieu thereof, to terminate forthwith this Agreement or its rights, obligations, and responsibilities hereunder with respect to the applicable portion of the Continental Special Facilities, as the case may be, and make payment to City of any eminent domain awards received pertaining to the premises vacated by Airline upon such termination. Upon any such termination under the immediately preceding sentence, Airline shall not be responsible for payment of any remaining debt service on GARBs pertaining to the premises vacated by Airline upon such termination.

11.02 Right to Enter, Inspect and Repair

City reserves the right to enter upon the Continental Special Facilities, without abatement of any Basic Rent, Bond Rent, Additional Bond Rent or Additional Rent, at any and all reasonable times throughout the term of this Agreement, provided that it shall not interfere unduly with Airline's operations and that it gives Airline reasonable advance notice, for the following purposes:

a. To inspect the Continental Special Facilities during regular business hours upon reasonable advance notice (or at any time in the case of emergency, in which case no notice shall be required) to ascertain the condition of the Continental Special Facilities and to determine Airline's compliance with the terms of this Agreement. The right of inspection shall impose on City no duty to inspect and shall impart no liability upon City for failure to inspect.

b. To perform maintenance and make repairs and replacements in any event where Airline is obligated to do so under this Agreement and has failed to initiate such repairs and maintenance within the time periods provided for in the Agreement, if applicable, or, if no time period is provided, within 30 days after written notice from City, and thereafter to expeditiously complete such repairs or replacements. In the event that City, in its sole discretion, deems it necessary or prudent to perform such maintenance or make such repairs or replacements within 30 days in order to preserve all or any part of the Airport from damage or to correct any condition likely to lead to injury or damage, then City shall provide Airline with as much written notice as is reasonable under the circumstances.

c. To perform any obligation of City under this Agreement and to make additions, alterations, maintenance and repairs to the Airport, subject to the limitations set forth herein.

11.03 Accommodation of Airport Construction

a. Airline acknowledges that from time to time City may undertake construction, repair or other activities related to the operation, maintenance and repair of the Terminal Complex or the Airport which will require temporary accommodation by Airline. City agrees to use reasonable efforts to minimize disruption in Airline's business operations during such period of construction.

b. Without limiting the generality of the foregoing, City may temporarily or permanently close, alter, change, modify and/or relocate any entrances, passageways, doors and doorways, corridors, elevators, escalators or other parts of the Terminal Complex; and City may at any time and from time to time make such changes, alterations, additions, improvements, repairs or replacements in or to the Terminal Complex, as well as in or to the entrances, passages, elevators, escalators, and stairways thereof, as it may deem necessary or desirable, and to change the arrangement and/or location of entrances, passageways, doors and doorways, and corridors, elevators, stairs, toilets, or other public parts of the Terminal Complex, and may stop or interrupt any service or utility system, when necessary by reason of accident or emergency or construction work until the necessity for the interruption or stoppage has ended. City will give Airline 30 days advance notice of such work; or, if 30 days advance notice is impracticable, City shall give Airline such notice as is reasonable under the circumstances.

Notwithstanding the foregoing or any other provision of this Agreement, City's right to close, relocate, alter, change, or modify the connector tunnel listed at Section 5.02(a)(i) shall be

subject to Airline's approval. Prior to taking such actions, City must submit plans sufficient to disclose the nature and extent of the work performed to Airline, and City shall not commence such proposed action until Airline approves such plans or any disagreements are resolved in the manner set forth in this paragraph. If Airline objects to such plans of City, it must give City specific written notice of its objections within 30 days, otherwise City's plans shall be deemed approved. In the event Airline timely objects to such plans of City, the parties hereby agree to work cooperatively in an attempt to reach a mutually satisfactory resolution of differences. If such resolution is not achieved within seven days after City's receipt of Airline's written notice of objections, the parties hereby agree to have the dispute resolved by an arbitration process to be agreed upon by the parties at the time, but which process, in any event, shall take no longer than 30 days; provided, however, that if such arbitration process is not agreed upon within three days after said seven-day period, the dispute will be referred to the American Arbitration Association, which will establish the process by which to resolve it, but which process the parties at the time shall exercise all reasonable efforts to complete within 30 days. Notwithstanding the foregoing in this paragraph, City may commence emergency maintenance or repairs of, or initiate emergency security procedures or measures involving, the connector tunnel upon such prior written notice to Airline as is reasonable under the circumstances.

c. Airline further acknowledges that such improvements may require substantial construction work in the Terminal Complex during normal business hours, which may disrupt Airline's business operations and create noise, dust and other concomitants of construction work. City agrees that it will use commercially reasonable efforts (taking into account the degree of the disruption) to minimize these disturbances. Airline agrees that it shall have no right, except as expressly provided herewith, to any abatement of Basic Rent, Bond Rent, Additional Bond Rent or Additional Rent under this Agreement or of Rentals under the Original Lease or other compensation or to any claim of breach of City's covenant of quiet enjoyment (express or implied) or an actual or constructive eviction or for loss of business or inconvenience, or in any event for consequential damages on account of any such construction work, and without incurring any liability to Airline or otherwise affecting Airline's obligations under this Agreement. Airline agrees to accommodate City in such activities even though Airline's own operations may be inconvenienced or partially impaired.

d. In the event City elects to exercise its rights under this Section 11.03 to close any portion of the Terminal Complex directly affecting the Continental Special Facilities, it shall use Best Efforts to give Airline not less than 60 days notice (except in the case of an emergency in which case City shall provide Airline with such prior written notice as is reasonable under the circumstances) of City's intent to temporarily close any such portion of the Terminal Complex, which portion shall be described in such notice (hereinafter the "Affected Space"). Airline may request alternative space to accommodate Airline's operations by giving City written notice of its election within 10 days of receipt of City's notice. If Airline's operations at the Airport would be substantially and materially impaired without the provision of adequate alternative space, City agrees to use Best Efforts to provide such alternative space during the period of interruption.

If adequate alternative space is not provided as described in the immediately preceding paragraph, and if the Affected Space encompasses a Jet Gate, and:

(i) if the period of interruption is more than 14 days and no more than two years, Bond Rent shall not abate and Airline shall pay, in lieu of any Basic Rent for such Affected Space, an amount equal to debt service on the GARBs allocable to such Affected Space for such period of interruption; or

(ii) if the period of interruption exceeds two years, (1) City shall pay Airline during such period of interruption such semiannual amounts, payable prior to each Interest Payment Date for the Bonds, equal to the principal and interest that would be payable during such period on the portion of the Bonds allocable to such Affected Space, calculated based on the Bonds having been issued payable on the Assumed Amortization terms, and (2) Airline shall be entitled to an abatement of the portion of the Basic Rent allocable to such Affected Space for such period of interruption; or

(iii) if Airline has consented to the permanent closure of a Jet Gate so encompassed, (1) City shall pay Airline the Demolition Payment described in Section 11.03(f), provided that all references therein to demolished facilities shall instead refer to the Affected Space, (2) Airline shall be entitled to an abatement of the portion of the Basic Rent allocable to such Affected Space for

the period of time after such permanent closure, and (3) City shall reimburse Airline for the unamortized costs incurred by Airline to construct the Affected Space, to the extent the applicable improvements were approved by City and the costs thereof were not paid from proceeds of the Bonds, as of the date upon which Airline is deprived of use of such Affected Space, accounting for the period of time after Airline is deprived of use of such Affected Space.

e. Notwithstanding any provision of this Agreement to the contrary, at any time after the first 20 years of the term of this Agreement, City shall have the right to alter or reconfigure the Concourse D Special Premises and the Concourse C Expansion Special Premises to accommodate future Airport expansion; provided, however, that no such alteration or reconfiguration shall materially interfere with Airline's operations or Airline's rights under this Agreement, and under no circumstances will any costs for such alteration or reconfiguration be paid for with any of Airline's rates and charges without Airline's express written consent.

f. Notwithstanding any provision of this Agreement to the contrary, if, at any time after the first 20 years of the Concourse D Term, Airline shall fail to utilize the Concourse D Jet Gates at an average rate of at least two jet turns per Jet Gate per day during the preceding 12-month period, except due to events of Force Majeure or regulatory interruptions, City shall have the right to demolish Concourse D to accommodate future Airport expansion plans. In such event, (a) City shall pay Airline the Demolition Payment described below (along with any other costs arising by reason of the occupancy of such areas), and (b) Airline shall have no responsibility with respect to ongoing costs associated with the areas so demolished. However, prior to any demolition, City must facilitate the relocation of Airline to replacement facilities at locations and on cost terms reasonably acceptable to Airline. Under no circumstances will the costs of demolition be paid for by any of Airline's rates and charges without Airline's express written consent.

The Demolition Payment shall be, at the City's election, either (i) an amount equal to the principal that would be outstanding as of the demolition date if the Bonds had been issued payable on the Assumed Amortization terms, on that portion of the Bonds allocable to payment of costs of construction of the facilities to be demolished, plus interest on that principal amount at the Assumed Amortization terms to the earliest date that such amount of the Bonds may be paid at stated maturity or by redemption without penalty or premium, or (ii) to the extent that the Bonds allocable to the facilities may remain outstanding without adversely affecting the exclusion under the Code of the interest on the Bonds from gross income of the holders of the Bonds, such semiannual amounts, payable prior to each Interest Payment Date for the Bonds occurring on or after the demolition date, equal to the principal and interest that would be payable on the portion of the Bonds allocable to payment of costs of construction of the facilities to be demolished, calculated based on the Bonds having been issued payable on the Assumed Amortization terms.

(End of Article XI)

ARTICLE XIII - DEFAULTS

12.01 Events of Default

Time is of the essence in this Agreement.

a. From the Effective Date of this Agreement to the end of the Construction Period any substantial and material breach of a substantial and material obligation under this Agreement which occurs during such period of time and remains uncured following the 60-day notice and cure period described in Section 5.14(a) hereof shall constitute a "Construction Period Event of Default." Before the issuance date of the Bonds, the Construction Period Events of Default constitute the only events of default under this Agreement; provided that if the Bonds are not issued before the end of the Construction Period, no Construction Period Events of Default shall be deemed to arise after the expiration of the Construction Period. On and after the issuance date of the Bonds, those Events of Default described in Section 12.01(b)(1), (3), (4), (5), and (8) hereof shall also constitute events of default under this Agreement; provided that if the Bonds are not issued before the end of the Construction Period, said Events of Default shall constitute events of default under this Agreement after the end of the Construction Period.

b. Airline agrees that, after the end of the Construction Period, each of the following circumstances or conditions shall constitute an "Event of Default" under this Agreement and, taken together, such Events of Default shall constitute the only events of default hereunder arising during such time period:

1. if (i) Airline shall be in default in the payment of Bond Rent (which shall mean failure to pay Bond Rent to the Trustee within two business days after it is due and payable), or (ii) Airline shall be in default in the payment of Basic Rent, Additional Rent, or Additional Bond Rent or any other rentals or other payments to be made by it to City pursuant to this Agreement for 10 days after specific notice of such default shall have been made therefor by City or the Trustee; or

2. if Airline shall neglect, violate, be in default under, or fail to perform or observe any of the other covenants, agreements, terms or conditions contained in this Agreement on its part to be performed and shall not have remedied, or commenced action which will promptly remedy same which action is thereafter diligently pursued, within 15 business days after specific written notice thereof given by City; or

3. if any material execution or attachment shall be issued against Airline in connection with its operation at the Continental Special Facilities and such execution or attachment shall not be discharged or stayed within 90 days after levy or seizure thereunder; or

4. if the Continental Special Facilities shall be occupied by someone other than Airline, its subsidiaries, or entities providing commuter services for Airline, other than as permitted under Article XIII hereof, and same is not remedied within ten days of specific written notice thereof given by City to Airline (except where same has occurred twice within the previous 12 months, in which case an Event of Default shall arise immediately upon said occurrence, without the necessity of notice); or

5. if the Continental Special Facilities shall be deserted or vacated (which terms shall not mean mere failure to use so long as no other Construction Period Event of Default or Event of Default then exists hereunder); or

6. if Airline shall violate any provision of any of the insurance policies referred to herein so that such policy shall be void or unenforceable in whole or in part and Airline shall not, within ten days after being specifically required in writing by City so to do, either cure such violation and cause such policy to be reinstated or procure other insurance of the same amount, which shall conform to the provisions for insurance referred to herein, and shall be enforceable; or

7. if Airline shall in any way fail to perform and satisfy the requirements of any insurance policy referred to herein, and shall continue in such failure for ten days after being required in writing by City to conform to such requirements; or

8. if any of the following events shall have occurred:

(i) the filing by Airline of a voluntary petition in bankruptcy or for an arrangement or any assignment for benefit of creditors of all or any part of Airline's assets; or

(ii) the adjudication of Airline as a bankrupt pursuant to

any involuntary bankruptcy proceedings; or

(iii) the taking of jurisdiction by a court of competent jurisdiction of Airline or its assets pursuant to proceedings brought under the provisions of any federal reorganization act; or

(iv) the appointment of a receiver or trustee of Airline's assets by a court of competent jurisdiction or a voluntary agreement with Airline's creditors.

12.02 Remedies

a. Whenever a Construction Period Event of Default shall have occurred and be continuing, the non-breaching party is entitled only to the applicable termination rights and other default remedies described in Article V of this Agreement.

b. Notwithstanding any provision of this Agreement to the contrary, (i) whenever an Event of Default described in Section 12.01(b)(1), (3), (4), (5), or (8) shall have occurred on or after the issuance date of the Bonds, and be continuing, or (ii) whenever any Event of Default described in Section 12.01(b) shall have occurred after the end of the Construction Period and before the Termination Date, and be continuing, City may, in either case, take any one or more of the following remedial steps:

1. City shall have the right, with or without terminating this Agreement, to re-enter the Continental Special Facilities and take possession of the same by summary proceedings, re-entry or otherwise, and remove all persons and/or property from the Continental Special Facilities (which property may be removed and stored in a public warehouse or elsewhere at the cost and for the account of Airline), without being liable to indictment, prosecution or damages therefor, and without prejudice to any other rights which City may have by reason of such Event of Default.

2. City shall have the right to terminate this Agreement and all rights of Airline hereunder by 60 days written notice of such termination to Airline and the Trustee, subject to the limitations set forth in this Section 12.02, and provided that the Event of Default is not cured within such 60-day period.

Upon exercise of any one or more of such remedial steps, City shall exercise Best Efforts to relet the Continental Special Facilities and to maximize rentals, charges and fees collected from any such reletting; provided, however, that if the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises, or the Hydrant Fueling System Special Premises cannot be relet at a rental rate sufficient to fully cover the incremental operation and maintenance costs in excess of minimum operation and maintenance costs upon such reletting of the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises, or the Hydrant Fueling System Special Premises, respectively, City shall not undertake such reletting. Amounts paid to City under leases or other agreements regarding the reletting or use of the Continental Special Facilities will be paid, first, to the Basic Rent Reserve Fund to cover any deficiency therein; second, to the payment of Basic Rent that would have been payable under this Agreement by Airline; third, to the payment of any Additional Rent required to be paid pursuant to this Agreement; fourth, to the payment of any Additional Bond Rent; fifth, so long as the Bonds are outstanding under the Indenture, to the payment of Bond Rent; and sixth, in the event that the Bonds have been paid (or provision made for their payment in accordance with the Indenture), to the payment to Airline of an amount equal to the principal of the Bonds which would have been outstanding on the date of termination of this Agreement if the Bonds had been issued payable on the Assumed Amortization terms.

12.03 Effect of Termination

Notwithstanding any provision of this Agreement to the contrary: In case of termination of this Agreement pursuant to Section 12.02 hereof, and subject to any right of the Trustee under the Indenture to declare all Bond Rent to be immediately due and payable in connection with a declaration of acceleration of the Bonds (a) all payments to be made by Airline to City (other than Bond Rent and Additional Bond Rent) pursuant to this Agreement shall be prorated for the portion of the current calendar year prior to the time of such termination and shall become due and payable forthwith, and (b) Airline shall also pay to City any deficiencies between (i) the Basic Rent which would have been payable by Airline to City through the Expiration Date, and (ii) the Basic Rent collected from any subsequent users of the Continental Special Facilities. Any such payments shall be made in monthly installments by Airline as determined upon statements rendered by City to Airline, and any lawsuit brought to collect the amount of deficiency for any month shall not prejudice in any way the rights of City to collect the deficiency for any subsequent month by a similar proceeding. Airline shall also remain liable

for any loss, cost, damage or expense, including reasonable attorneys' fees, which City may sustain by reason of the happening of any such event, except that in no event shall Airline be liable to City for: (a) any special, incidental, indirect, punitive, reliance or consequential damages (including without limitation lost profits, revenues, or economic or business development opportunities), whether foreseeable or not, as a result of any breach of any of the provisions of this Agreement; (b) any of City's internal administrative expenses incurred, or any interest on any funds expended, in connection herewith; or (c) any amounts other than actual out-of-pocket expenses incurred by City as a direct result of the breach and such termination resulting therefrom.

12.04 Additional Rights

In the event of a Construction Period Event of Default or Event of Default by Airline or City of any of the covenants or provisions hereof, City or Airline, respectively, shall have the right to injunction and the right to invoke any remedy allowed at law or in equity as if re-entry, summary proceedings and other remedies were not herein provided for. A party's choice of any particular remedy shall not preclude it from any other remedy, in law or in equity.

(End of Article XII)

ARTICLE XIII - ASSIGNMENT AND SUBLETTING

13.01 Assignment or Sublease

a. Airline covenants that it will not assign, transfer, convey, sublet, sell, mortgage, pledge or encumber this Agreement, the Continental Special Facilities or any part thereof, or any rights of Airline hereunder, or allow the use of the Continental Special Facilities hereunder by any other person or entity, except to the Trustee in accordance with the Indenture or as otherwise provided in this Agreement, without in each instance having first obtained written consent from the Board of Control of City; provided, however, that, without such consent:

1. Airline may assign its rights under this Agreement to any corporation with which Airline may merge or consolidate or which may succeed to all or substantially all of the business of Airline;

2. Airline may assign its rights under this Agreement to, sublease the Continental Special Facilities or any part thereof to, or allow the use of the Continental Special Facilities hereunder by, Continental Express, Inc., or any corporation with which Continental Express, Inc., may merge or consolidate or which may succeed to all or substantially all of the business of Continental Express, Inc., provided that Airline remains responsible for all obligations, covenants and liabilities under this Agreement and the provisions of Section 13.05 below shall be fully applicable to such merged, consolidated or successor entity; and

3. Subject to any applicable provisions of the Indenture, Airline may grant a security interest in its leasehold interest in the Continental Special Facilities by means of mortgage, pledge or assignment, in order to secure Airline's future financing(s); provided, however, that (a) such security interest shall be subordinate to Airline's obligations hereunder to City and any party claiming by or through City, (b) the secured party shall not be an entity engaged in the business of providing air transportation services, (c) the foreclosure of such security interest shall not entitle the secured party to occupy or use any of the premises leased hereunder or to direct or restrict City or any other party as to the use, lease, or other disposition of the Continental Special Facilities, and (d) the documentation creating such security interest shall be subject to the prior written approval of the Director of Law of City, which approval shall not be unreasonably withheld, conditioned or delayed.

With respect to any assignment, transfer, subletting, mortgage, pledge or encumbrance which does not require the consent of City's Board of Control or the Director of Law of City, Airline shall provide City with notice thereof not later than contemporaneously with any public announcement thereof. With respect to any assignment, transfer, conveyance, subletting, sale, mortgage, pledge or encumbrance which does require the consent of City's Board of Control, City's administration shall exercise Best Efforts to ensure that such consent shall not be unreasonably withheld, conditioned or delayed. Consent by the Board of Control to any type of transfer described in this paragraph or elsewhere in this Agreement shall not in any way be construed to relieve Airline from obtaining authorization from the Board of Control for any subsequent transfer otherwise requiring consent as provided above.

b. In the event of any assignment or sublease pursuant hereto of all or any portion of the Continental Special Facilities, the rental (i.e., Basic Rent equivalent) reserved in the assignment or sublease may not exceed the rental or pro rata portion of the Basic Rent, as the case may be, for such space reserved in this Agreement, plus an excess amount representing Airline's associated costs (e.g., the Bond Rent allocable to such rented space for the applicable time period, an amount equal to the principal amount of the Bonds allocable to such rented space that would be retired during the applicable time period if level debt service payments from the date of issuance of the Bonds to the scheduled Defeasance Date were assumed, operation and maintenance costs of Airline that are not encompassed by Basic Rent and that are allocable to such rented space for the applicable time period, an amount equal to the pro rata share (taking into account the duration of the rental period in proportion to the useful life of the applicable facilities) of Airline's costs of improvements to the applicable facilities not paid by the proceeds of the Bonds or the GARBs, and reasonable, associated administrative costs of Airline), which excess amount Airline may retain.

13.02 Requests for Assignment or Sublease

Any and all requests by Airline for authorization to make any transfer described in Section 13.01 shall be made in writing by certified mail to the Director of Port Control and shall include copies of the proposed documents of transfer.

13.03 Filing of Assignment or Sublease

If and when the Board of Control of City authorizes any transfer as described in Section 13.01, the instrument or document of authorization together with the instrument or document of transfer shall be filed with the Director of Port Control and attached to this Agreement. The instruments and documents shall not be effective without the prior approval of the Director of Law of City endorsed thereon. Airline shall remain primarily liable for the payment of rentals hereunder and the performance of all terms, conditions, covenants and conditions hereof, notwithstanding the authorization of any transfer, assignment, conveyance, subletting, sale, mortgage, pledge or encumbrance hereunder by the Board of Control of City.

13.04 Application of Rent

If this Agreement be assigned or if the Continental Special Facilities be sublet or occupied by any party other than by Airline, or should any other transfer of interest or rights of any nature prohibited by Section 13.01 occur other than to the Trustee in accordance with the Indenture without authorization of the Board of Control of City, City may collect rent from any assignee, sublessee or transferee and in such event shall apply the net amount collected to the rents payable by Airline hereunder, but such action by City shall not constitute a waiver of the covenant contained in Section 13.01, or acceptance of such assignee, sublessee, or transferee by City, or a release of Airline from this Agreement or any of its obligations hereunder.

13.05 Insufficient Utilization of Concourse D Gates by Assignee

If, following any assignment by Airline of its interest in Concourse D without the consent of City's Board of Control to any corporation into which Airline may merge or consolidate, or which may succeed to all or substantially all of the business of Airline, such assignee shall fail to utilize the Concourse D Jet Gates so assigned at an average rate of at least two jet turns per day during any consecutive 12-month period, except due to events of Force Majeure or regulatory interruptions, City shall have the right (notwithstanding any other provision hereof), but only within 12 months following the end of such 12-month period, to permanently recapture such number of Jet Gates (each of which shall include a pro rata share of all associated holdrooms, loading bridges, operational support areas, and associated administrative support areas in the Terminal Complex, including but not limited to applicable ticket counter space) in Concourse D as will reduce the remaining number of Concourse D Jet Gates which are subject to this Agreement to a level such that there shall have been an average rate of at least two jet turns per such remaining Jet Gate per day during such 12-month period. In such event, the particular Concourse D Jet Gates to be recaptured shall be mutually agreed upon by City and such assignee based upon the legitimate operational needs of both such parties, and such assignee shall have no responsibility with respect to ongoing costs associated with the areas so recaptured. As a condition to any such Concourse D Jet Gate recapture, City shall pay to such assignee a cash price equal to the original amount of the actual costs previously incurred by Airline or such assignee in connection with the construction and/or renovation of such recaptured areas less the amount of depreciation of such costs through the date of recapture based upon a straight-line depreciation method utilizing as the depreciation period the useful economic life (as determined in accordance with applicable tax law) of the applicable improvements. To the extent that Bonds are outstanding, such assignee shall promptly remit such amounts to the Trustee, which amounts shall be used to redeem Bonds in accordance with the terms of the Indenture. Under no circumstances will the costs of any such Concourse D Jet Gate recapture or any renovation or reutilization of such areas be paid for by any of such assignee's rates and charges without such assignee's express written consent. At no time shall the number of Concourse D Jet Gates be deemed to be less than 12, regardless of the actual configuration of Concourse D. Recaptured facilities shall no longer be deemed part of the Continental Special Facilities leased hereunder.

13.06 Assignments by City

City shall not assign its rights hereunder (other than to the Trustee as may be provided in the Indenture) to the extent that any such assignment would cause interest on the Bonds to be taxable for federal income tax purposes.

(End of Article XIII)

ARTICLE XIV - AIRLINE'S RIGHT TO TERMINATE; REMEDIES

14.01 Airline's Right to Terminate and Remedies upon Breach

a. Airline may terminate this Agreement only at the time, under the conditions and in the manner permitted in this Agreement.

b. From and after the Effective Date of this Agreement, City shall not participate in the planning, development, funding, financing or operations of any commercial service passenger airport (other than Burke Lakefront Airport in substantially its current configuration) within a 50-mile radius of the Airport, the construction of which would commence within 15 years following the commencement date of the Concourse D Term. In the event that a new commercial passenger airport (except any such airport with respect to which City shall not have participated in the planning -- which, for this purpose, shall not include merely coordinating with a third party developing a competing airport and not acting on behalf of City -- development, funding, financing or operations) within such radius of the Airport shall be opened for operations during the Concourse D Term, Airline shall have the right to terminate this Agreement, the MOU, and any subsequent agreements relating to the 1997 Concourse Expansion or implementing the MOU, upon 45 days notice to City, the Mayor of City, and City Council. If City participates in such planning, development, funding, financing or operations of such commercial service passenger airport, it shall provide Airline with notice within 30 days thereof. City acknowledges and agrees that the damages incurred by Airline as a result of any breach of obligations under this paragraph are not readily ascertainable, that money damages or other legal relief will not adequately compensate Airline for any such breach, and that Airline is entitled to injunctive relief compelling the specific performance of the obligations under this Section 14.01(b).

c. With respect to matters arising after the end of the Construction Period, and subject to the restrictions in this Agreement and Airline's obligations to pay rentals, fees and charges under this Agreement, Airline shall be entitled to make use of any remedy that might be available to it under this Agreement, at law or in equity in the event City shall neglect, violate, be in default under, or fail to perform or observe any of the covenants, agreements, terms or conditions contained in this Agreement on its part to be performed and shall not have remedied, or commenced action which will promptly remedy same which action is thereafter diligently pursued within 15 business days after specific written notice thereof given by Airline to City and the Mayor of City. Notwithstanding the foregoing, in no event shall City be liable to Airline for: (a) any special, incidental, indirect, punitive, reliance or consequential damages (including without limitation lost profits, revenues, or economic or business development opportunities), whether foreseeable or not, as a result of any breach of any of the provisions of this Agreement; (b) any of Airline's internal administrative expenses incurred, or any interest on any funds expended, in connection herewith; or (c) any amounts other than actual out-of-pocket expenses incurred by Airline as a direct result of the breach and such termination resulting therefrom.

(End of Article XIV)

ARTICLE XV - DELIVERY OF POSSESSION

Except as otherwise may be required under Section 6.03(c) of this Agreement with respect to the Hydrant Fueling System Special Premises only, Airline agrees to yield and deliver to City possession of each particular element of the Continental Special Facilities (i.e., the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises, and the Hydrant Fueling System Special Premises) at the termination of the applicable Term herein, by expiration or otherwise, or of any applicable renewal or extension, in good condition in accordance with its express obligations hereunder, except for damage or loss due to reasonable wear and tear or fire or other casualty.

(End of Article XV)

ARTICLE XVI - HOLDING OVER

If Airline shall, with the consent of City, hold over after the expiration or earlier termination of any Term contained in this Agreement as applicable to any element of the Continental Special Facilities (i.e., the Concourse D Special Premises, the Concourse C Expansion Special Premises, the Deicing Pad Special Premises, and the Hydrant Fueling System Special Premises), the resulting tenancy shall, unless otherwise mutually agreed, be for an indefinite period of time on a month-to-month basis. During such month-to-month tenancy, Airline shall pay to City the same rate of Basic Rent as in effect at the expiration of the final Additional Term and thereafter as subsequently adjusted as herein provided, unless a different rate shall be agreed upon, and shall be bound by all of the additional provisions of this Agreement insofar as they may be pertinent.

(End of Article XVI)

ARTICLE XVII - MISCELLANEOUS PROVISIONS

17.01 Employment Opportunities

With respect to Airline jobs created by the operation of the 1997 Concourse Expansion, Airline shall use Best Efforts to adopt and pursue a City residency hiring goal of 50%, a minority hiring goal of 30%, and a female hiring goal of 35%, taking into account appropriate qualifications and reasonable nondiscriminatory hiring and recruiting practices. These goals shall not apply to Airline's flight crews.

17.02 No Personal Liability

No elected official, director, officer, agent or employee of either party shall be charged personally or held contractually liable by or to the other party under any term or provision of this Agreement or because of any breach thereof or because of its or their execution or attempted execution.

17.03 Taxes

Airline shall pay, but such payment shall not be considered part of Basic Rent, Bond Rent or any other rent payable hereunder, all taxes, assessments and charges of a like nature, if any, imposed upon or with respect to the Continental Special Facilities which at any time during the term of this Agreement may be levied or become a lien by virtue of any levy, assessment or charge by the federal government, the State of Ohio, any municipal corporation, any governmental successor in authority to the foregoing, or any other tax or assessment levying bodies, in whole or in part, upon or in respect to the Continental Special Facilities or in respect to or upon any personal property belonging to Airline situated on the Continental Special Facilities. Payment of such taxes, assessments and charges, when and if levied or assessed, shall be made by Airline directly to the taxing or assessing authority charged with collection thereof in accordance with applicable law, and Airline shall be responsible for obtaining bills for all of said taxes, assessments and charges and promptly providing City with evidence of payment therefor. If any tax, assessment or like levy in the nature of a real estate tax chargeable to the Continental Special Facilities is not separately stated and billed by the taxing authority, but is included in a larger area billing or assessment, upon receipt of such billing or assessment by City, City shall bill Airline for and Airline shall pay to City its share of said larger area tax billing. Airline's share shall be determined by multiplying the amount of such larger area tax billing by a fraction the numerator of which is the Basic Rent realized from the Continental Special Facilities, and the denominator of which is the income realized from all property comprising the tax billing, such determination to be made by City after consultation with the parties involved in such billing.

Airline may, at its expense, contest the amount or validity of any tax or assessment against the Airport System, or the inclusion of the Continental Special Facilities as taxable or assessable property, directly against the taxing or assessing authority, after providing such security to City as the Director of Law of City reasonably deems adequate to cover any delinquency, penalty and interest charges that may arise from such contest. Airline shall indemnify City from all taxes, penalties, cost, expense and attorneys' fees incurred by City resulting directly or indirectly from all such tax contests.

Upon any termination of this Agreement, all taxes then levied or a lien upon any of such property or taxable interest therein for which Airline is responsible pursuant to this Section 17.03 shall be paid in full without proration by Airline forthwith, or as soon as a statement thereof has been issued by the tax collector if termination occurs during the interval between the attachment of the lien and issuance of the statement.

17.04 Interpretation of Agreement

This Agreement shall be deemed to have been made in, and be construed in accordance with the laws of, the State of Ohio.

17.05 Notices, Requests and Other Communications

Except as herein otherwise expressly provided, all notices, requests and other communications under this Agreement shall be in writing and shall be deemed given (a) when made by personal delivery, (b) one day after being sent by a nationally recognized overnight courier for next-day delivery, or (c) three days after being sent by U.S. registered or certified mail, postage prepaid, return receipt requested, in any such case addressed as follows:

If to Airline:

Continental Airlines, Inc.
Suite 1401
2929 Allen Parkway
Houston, TX 77019
Attn: Vice President
Corporate Real Estate

with a copy to:

Continental Airlines, Inc.
Suite 2010
2929 Allen Parkway
Houston, TX 77019
Attn: Chief Financial Officer
General Counsel

If to City:

City of Cleveland
Department of Port Control
Cleveland Hopkins International Airport
5300 Riverside Drive
Cleveland, Ohio 44135-3193
Attn: Director

with a copy to:

City of Cleveland
Department of Law
Cleveland City Hall
Room 106
601 Lakeside Avenue
Cleveland, Ohio 44114
Attn: Director

and a copy (until the end of the Construction Period) to:

City of Cleveland
Department of Port Control
Cleveland Hopkins International Airport
5300 Riverside Drive
Cleveland, Ohio 44135-3193
Attn: Project Manager of CAL CLE Program

If to Director of Port Control:

City of Cleveland
Department of Port Control
Cleveland Hopkins International Airport
5300 Riverside Drive
Cleveland, Ohio 44135-3193
Attn: Director

If to City Project Manager:

City of Cleveland
Department of Port Control
Cleveland Hopkins International Airport
5300 Riverside Drive
Cleveland, Ohio 44135-3193
Attn: Project Manager of CAL CLE Program

If to Fiscal Officer:

City of Cleveland
Department of Finance
Cleveland City Hall
601 Lakeside Avenue
Cleveland, Ohio 44114
Attn: Director

If to the Properties Division of the Department of Port Control:

City of Cleveland
Department of Port Control
Cleveland Hopkins International Airport
5300 Riverside Drive
Cleveland, Ohio 44135-3193
Attn: Properties

If to City's Department of Community Development:

City of Cleveland
Department of Community Development
Cleveland City Hall
601 Lakeside Avenue
Cleveland, Ohio 44114

If to the Mayor of City:

City of Cleveland
Cleveland City Hall
601 Lakeside Avenue
Cleveland, Ohio 44114
Attn: Mayor

If to City Council:

City of Cleveland
Cleveland City Hall
601 Lakeside Avenue
Cleveland, Ohio 44114
Attn: Clerk of Council

If to Project Counsel:

Squire, Sanders & Dempsey L.L.P.
4900 Key Tower, 127 Public Square
Cleveland, Ohio 44114-1304
Attn: Frederick R. Nance, Esq.

If to Airline's Director of Corporate Real Estate (Design and Construction):

Continental Airlines, Inc.
Suite 1401
2929 Allen Parkway
Houston, TX 77019
Attn: Director of Corporate Real Estate (Design
and Construction)

If to the Trustee, at the address set forth in the Indenture.

The parties to this Agreement, or either of them, may designate in writing from time to time any changes in addresses or any addresses of substitute or supplementary persons in connection with said notices. The effective date of service of any such notice shall be the date such notice is received by Airline or by City. Except as otherwise expressly provided herein, any provision herein that one party shall notify the other of some matter is to be construed as a requirement that notice is to be given in accordance with the provisions of this Section 17.05.

Where notice of payment due is to be given by City to Airline under this Agreement, such notice shall be accompanied by, or given in the form of, an invoice.

17.06 Entire Agreement; Amendment

This Agreement constitutes the entire agreement between the parties hereto with respect to the 1997 Concourse Expansion and supersedes all other representations or statements heretofore made, oral or written, except as otherwise herein provided; provided, however, that certain agreements of the parties relating to the 1997 Concourse Expansion as expressed in the MOU may remain in force as described in Section 3.02(b) of this Agreement. This Agreement may be amended only in writing, and executed by duly authorized representatives of the parties hereto in connection with the issuance of the Bonds and, thereafter, only in accordance with the terms as may be set forth in the Indenture (so long as it remains in effect), provided that the description of the 1997 Concourse Expansion facilities set forth herein may be revised from time to time on the written request of Airline approved in writing by the Director of Port Control on behalf of City, provided that no such revision materially alters the 1997 Concourse Expansion facilities as initially contemplated hereunder.

17.07 Waiver

No waiver of default by either party of any of the terms, covenants and conditions hereof to be performed, kept and observed by the other party shall be construed as, or operate as, a waiver of any subsequent default of any of the terms, covenants or conditions herein contained, to be performed, kept and observed by the other party.

17.08 Non-Discrimination

Airline for itself, its heirs, personal representatives, successors in interest, and assigns, as a part of the consideration hereof, does hereby covenant and agree "as a covenant running with the land" that in the event facilities are constructed, maintained, or otherwise operated on the said property described in this Agreement for a purpose for which a U.S. Department of Transportation program or activity is extended or for another purpose involving the provision of similar services or benefits, Airline shall maintain and operate such facilities and services in compliance with all other requirements imposed pursuant to Title 49, Code of Federal Regulations, Part 21, Nondiscrimination in Federally Assisted Programs of the Department of Transportation, and as said Regulations may be amended.

Airline for itself, its personal representatives, successors in interest, and assigns, as a part of the consideration hereof, does hereby covenant and agree "as a covenant running with the land" (1) that no person on the grounds of race, color, gender, sexual orientation, or national origin shall be excluded from participation in, denied the benefits of, or be otherwise subjected to discrimination in the use of said facilities, (2) that no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination in the construction of any improvements on, over, or under such land and the furnishing of services thereon, and (3) that Airline shall use the premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Part 21, Nondiscrimination in Federally Assisted Programs of the Department of Transportation, and as said Regulations may be amended.

If Airline shall breach any of the above non-discrimination covenants and shall not have remedied, or commenced action which will promptly remedy same which action is thereafter diligently pursued, within 15 business days after specific written notice thereof given by City, City shall have the right to terminate this Agreement and to re-enter and repossess said land and the facilities thereon in accordance with Article XII hereof.

17.09 Force Majeure

Neither City nor Airline shall be deemed in violation of this Agreement if it is prevented from performing any of the obligations hereunder by reason of strikes, boycotts, labor disputes, embargoes, shortage of material, acts of God, acts of the public enemy, acts of superior governmental authority, weather conditions, riots, rebellion, sabotage, or any other circumstances for which it is not responsible or which is not within its reasonable control; provided, however, that these provisions shall not excuse Airline from its obligation to pay the rentals specified in Sections 7.02, 7.03 and 7.05 promptly when due or to procure insurance. City agrees to use its Best Efforts to restore as soon as practicable any interrupted utilities or services which it is obligated to furnish or provide under this Agreement but Airline shall not be entitled to any abatement of rental payments or discharge of rental obligations in the event of any interruption or cessation of any utilities or services.

17.10 Severability

In the event any covenant, condition or provision herein contained is held to be invalid by a court of competent jurisdiction, the invalidity of any such covenant, condition or provision shall in no way affect any other covenant, condition or provision herein contained, provided the invalidity of any such covenant, condition or provision does not materially prejudice either City, Trustee, owners of Bonds, or Airline in their respective rights and obligations contained in the valid covenants, conditions and provisions of this Agreement.

17.11 Headings

The headings of the several Articles and Sections of this Agreement are inserted only as a matter of convenience and for reference, in no way define, limit or describe the scope or intent of any provisions of this Agreement and shall not be construed to affect in any manner the terms and provisions hereof or the interpretation or construction thereof.

17.12 Non-Exclusivity

Nothing herein contained shall be deemed to grant to Airline any exclusive right or privilege within the meaning of Section 30 of the Federal Aviation Act for the conduct of any activity on the Airport, except that, subject to the terms and provisions hereof, Airline shall have the right to exclusive possession of the Continental Special Facilities and any other exclusive use rights expressly provided for hereunder.

17.13 Approvals

Whenever the approval of City or of Airline is required herein, no such approval shall be unreasonably withheld, conditioned or delayed. Unless otherwise specified herein all approval shall be in writing.

17.14 Binding Nature

All of the terms, provisions, covenants, stipulations, conditions and considerations in this Agreement shall extend to, inure to the benefit of, and bind the legal representatives, successors, sublessees and assigns of the respective parties hereto.

17.15 Incorporation of Exhibits

All exhibits referred to herein (except Exhibit H) and any appendices, exhibits or schedules which may, from time to time, be referred to in any duly executed amendment hereto are (and with respect to future amendments, shall be) by such reference incorporated herein and shall be deemed a part of this Agreement as fully as if set forth herein.

17.16 Memorandum of Lease

In the event that either party so requests, the other party shall execute, attest, acknowledge and deliver for recording with the Recorder of Cuyahoga County a short form Memorandum of Lease of this Agreement and Lease, to be executed pursuant hereto in the form and content prescribed by Section 5301.251 of the Ohio Revised Code.

17.17 No Agency

Notwithstanding any provisions hereof, this Agreement does not constitute an appointment of Airline as an agent or representative of City for any purpose whatsoever, and neither a partnership nor a joint venture is created hereby.

17.18 Counterparts

This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument.

17.19 Rights and Obligations as to Rates and Charges

The parties agree that the provisions of this Agreement shall not modify or limit the parties' rights and obligations as to the rates and charges procedures in any other agreements, which agreements remain in full force and effect in accordance with their terms.

17.20 Accommodation of 1997 Concourse Expansion

On the basis of the description of the 1997 Concourse Expansion elements in Exhibits B and J hereto, such elements described therein have been coordinated with City to ensure that they can be accommodated within City's overall, long-term development plan for the Airport, and City acknowledges that, subject to any required federal or state governmental approvals, they can be so accommodated.

17.21 Letter Agreement

Certain agreements of City and Airline with respect to the method of funding the GARB Improvements and other capital improvements at the Airport and with respect to certain other matters relating to the 1997 Concourse Expansion are set forth in the Letter Agreement attached as Exhibit K hereto.

17.22 Special Obligation of City; Subject to Laws

This Agreement constitutes a special obligation of City. The obligations of City under this Agreement shall be payable solely from revenues derived by City from its ownership and operation of the Airport. This Agreement shall not constitute a general obligation or pledge of the full faith and credit of City, and Airline shall have no right to have taxes levied by City for the payment of City's obligations under this Agreement.

The performance by City under this Agreement is subject to the Charter of City and all applicable laws of the State of Ohio.

(End of Article XVII)

STATE OF OHIO)
)SS:
COUNTY OF CUYAHOGA)

Before me _____, a
Notary Public in and for said County, personally appeared Martin
Carmody, known to me to be the person who, as Director of Finance
of the City of Cleveland, executed the above and foregoing
Agreement and acknowledged that, being duly authorized by Ordinance
of the Council of the City of Cleveland, he signed said Agreement
for and on behalf of the said City as its free and voluntary act,
and as his own free and voluntary act.

IN WITNESS WHEREOF, I have hereunto set my hand and notarial
seal this _____ day of _____, 19__.

Notary Public

My commission expires:

STATE OF OHIO)
)SS:
COUNTY OF CUYAHOGA)

Before me _____, a
Notary Public in and for said County, personally appeared William
F. Cunningham, Jr., known to me to be the person who, as Director
of Port Control of the City of Cleveland, executed the above and
foregoing Agreement and acknowledged that, being duly authorized by
Ordinance of the Council of the City of Cleveland, he signed said
Agreement for and on behalf of the said City as its free and
voluntary act, and as his own free and voluntary act.

IN WITNESS WHEREOF, I have hereunto set my hand and notarial
seal this _____ day of _____, 19__.

Notary Public

My commission expires:

STATE OF _____)
) SS:
COUNTY OF _____)

Before me _____, a Notary Public in and for said County, personally appeared Holden Shannon, known to me to be the person who, as Vice President, Corporate Real Estate, of Continental Airlines, Inc., executed the above and foregoing Agreement and Lease and acknowledged that, being duly authorized by Resolution of the Board of Directors of said Corporation, he signed said Agreement for and on behalf of the said Corporation as its free and voluntary act and as his own free and voluntary act.

IN WITNESS WHEREOF, I have hereunto set my hand and notarial seal this _____ day of _____, 1997.

Notary Public

My commission expires:

Exhibit A
Original Lease

Exhibit B

Continental Special Facilities

(The following general descriptions of the Continental Special Facilities, as well as the attached diagrams, are subject to change through the normal course of submission and approval of plans and specifications pursuant to this Agreement.)

Concourse D Special Premises

(Concourse D Generally. A proposed Concourse D (of approximately 170,000 gross square feet) is to be constructed parallel to Concourse C and to accommodate up to 12 EMB 145 regional jets and up to 24 turbo-prop aircraft for the Continental Express, Inc., operation. The new Concourse D will include passenger facilities, airline operation support, building support, and concessions, including all necessary furniture, equipment, and utilities. Concourse D is to be configured with a central two-story component providing concourse-level jetbridge loading of the regional jets. The ramp level of this component will house Airline operations and building support.)

Concourse D Special Premises. The Concourse D Special Premises consist of the following exclusive use areas and facilities of Concourse D: holdroom, passenger and related space, concourse office and operations space, a ramp control tower, and furniture, equipment, and other moveable personal property necessary or appropriate for the use of Concourse D. In addition, the Concourse D facilities leased to Airline will include nonexclusive use rights with respect to the building support facilities funded in part with the proceeds of the Bonds. The diagrams on following two pages depict the approximate dimensions and proposed locations of the various elements of the Concourse D Special Premises.

Concourse C Expansion Special Premises

(Concourse C Expansion Generally. Improvements to the existing Concourse C are to include a new approximately 10,548 square-foot Presidents Club (an airline lounge) on the concourse level, removal of the existing Presidents Club (to allow for holdroom expansion), jetbridge reconfiguration for revised aircraft layout, improvements of operations areas at the ramp level, and construction, installation or relocation of all necessary utilities.)

Concourse C Expansion Special Premises. The exclusive use areas comprising the Concourse C Expansion Special Premises will include the new Presidents Club as well as all necessary or appropriate furniture, equipment, and other moveable personal property. The diagram on the following page is attached for the purpose of generally depicting the proposed location of the new Presidents Club.

Deicing Pad Special Premises

One new pad (of approximately 3.7 acres) is to be constructed for remote parking of seven turbo-prop aircraft and winter deicing. This pad, also known as "Pad 2," is to be specifically constructed for conversion to a deicing facility where effluent can be collected for treatment and disposal when tied into an Airport-wide deicing master plan. The diagram on the following page is attached for the purpose of generally depicting the proposed location of Pad 2.

Hydrant Fueling System Special Premises

A new in-ground hydrant fueling system is to be constructed for use by aircraft on both the existing Concourse C and the new Concourse D. This system will be fed from tank farm facilities to the south of the Taxilane J extension. The diagram on the following page is attached for the purpose of generally depicting the proposed location of the Hydrant Fueling System Special Premises.

Exhibit C

Cost Allocation Policy

GARB-Related Costs

- All costs associated with the connector tunnel between Concourses C & D, including its vertical transportation components, moving sidewalks, structure, mechanical, electrical, and plumbing systems, and architectural fit-up
- All site and ramp costs for the area five feet outside of the Concourse D building perimeter (concourse-level floor plate projected downward) and beyond
- Costs of constructing and installing utilities in that area which is five feet outside of the Concourse D building perimeter (concourse-level floor plate projected downward) and beyond
- Costs of relocating underground utilities in public areas or preferential use areas
- Within the footprint of Concourse D, all costs associated with non-exclusive spaces, such as:
 - All retail and concession areas
 - Certain building support areas/systems
 - Public toilet rooms
 - Public circulation
 - Drive-through lanes (2)
 - Drive-through triturator
- All costs associated with the permanent rental car relocation
- All costs associated with the outbound bag room, bag claim and security check point expansion in the Terminal Building

Bond-Related Costs

- All site and ramp costs of the area extending from the face of the Concourse D building at ramp level (note five-foot overhang of concourse level) to a point 10 feet outward
- Costs of constructing and installing utilities in Airline's Concourse D leasehold, including costs of constructing and installing utilities in the area extending from the face of the Concourse D building at ramp level to a point 10 feet outward
- All costs associated with the Hydrant Fueling System Special Premises and the Deicing Pad Special Premises ("Pad 2")
- All costs associated with the airline lounge ("Presidents Club") on Concourse C
- Within the footprint of Concourse D, all costs associated with exclusive use spaces, such as:
 - Airline operations areas:
 - Ramp control tower
 - Dedicated communications rooms
 - Jetbridges and other equipment
 - Cart staging
 - GSE parking
 - Airline passenger facilities:
 - Holdrooms
 - Ticketing areas
 - Service centers
- Site preparation costs associated with the interim relocation of rental car facilities for which Airline shall not receive reimbursement from other sources of funds

GARB-Related/Bond-Related Mixed Costs

- - All Costs of the Facilities not directly allocable to GARB-related costs or Bond-related costs in accordance with the foregoing provisions of this Cost Allocation Policy shall be allocated as follows:
 - Concourse D
 - 64.58% to Bonds
 - 35.42% to GARBs
 - (based on the ratio of exclusive use square footage (103,460 square feet) to non-exclusive use/non-"shared" square footage (56,753 square feet, representing 75,779 square feet of non-exclusive use space minus 19,026 square feet of "shared" building support systems space - see below))
 - Ground Service Equipment Paving
 - 09.23% to Bonds
 - 90.77% to GARBs
 - (based on the ratio of square footage under the Concourse D building and within five feet outside of the Concourse D building perimeter (concourse-level floor plate projected downward) (10,860 square feet) to the square footage more than five feet outside of the Concourse D building perimeter (106,740 square feet))
 - Site Paving
 - 00.91% to Bonds
 - 99.09% to GARBs
 - (based on the ratio of square yardage within five feet outside of the Concourse D building perimeter (concourse-level floor plate projected downward) (1,200 square yards) to the square yardage more than five feet outside of the Concourse D building perimeter (131,100 square yards))
 - Direct Costs
 - 38.59% to Bonds
 - 61.41% to GARBs
 - (based on the ratio of the Bond-related portions of the 1997 Concourse Expansion Budget (\$52,812,093) to the GARB-related portions of said Budget (\$84,034,642); the parties agree that these percentages are subject to change to reflect Bond-funded items not listed on the 1997 Concourse Expansion Budget (Exhibit I))
 - Building Support Systems for Concourse D
 - Costs of certain elevators, fire stairs and dedicated egress, MEP systems distribution, and dumpster locations shall be allocated according to the percentages specified under "Concourse D" above. The diagrams on the following two pages depict the location of the 19,026 square feet of "shared" building support systems space subject to such allocation.

- Relocation of Utilities within Exclusive Leased Areas
 - 50.00% to Bonds
 - 50.00% to GARBs

Exhibit F

Maintenance and Repair Responsibilities

Responsibility Center	Definition or Reference Item	Responsible Party
Air Conditioning/Heating: Central System	1 a to h 1 i	City City
Air Distribution	2 a to g to lease line 2 a & b within leasehold 2 c to g within leasehold	City City Airline
Domestic Hot Water; Circulating Hot Water Heat; Chilled Water Distribution System	3 a & b to lease line 3 a & b within leasehold	City Airline
Temperature Controls which includes:	4 a to e to lease line 4 a to e within leasehold	City Airline
Water & Sewerage: Main & Rough-In Lines	to lease line within leasehold	City City
Fixtures	to lease line within leasehold	City Airline
Rough-In Stoppages (which may include use of diagnostic cameras to identify such stoppages) Fixture Stoppages		City Airline
Storm Drains	to lease line within leasehold	City City
Power Supply: Line side Main Feed Circuit Panels	to lease line within leasehold	City City City Airline
Fire Protection System	5 a, c, e 5 b, d	City Airline
Building Structure Interior Interior Exterior Exterior	6 a to g to leasehold 6 a to g within leasehold 6 a, e, f 6 b, c, d, g, h	City Airline Airline City
Cleaning	7 a to j within leasehold	Airline
Extermination	within leasehold	Airline
Window Washing Interior Interior Exterior Exterior Exterior	within leasehold to lease line within leasehold (ramp level) within leasehold (boarding level) to lease line	Airline City Airline City City
Loading Bridges/Mech Systems	8 a & b	Airline
Electrical Interior Interior Exterior Exterior Exterior Exterior	9 a to g within leasehold 9 a to g to lease line 9 a, d, f 9 b to lease line 9 b, c, e within leasehold 9 g	Airline City City City Airline Airline
Plumbing & Fixtures Within leasehold Public Area	10 a to f 10 a to f	Airline City
Preferential Ramp & Apron	11 a to e, g, h 11 f, i	Airline City

Security Access Points and Associated Controls	12 a within leasehold 12 b	Airline City
Environmental	13 a to d	Airline
Miscellaneous		
Public Address System	14 a	City
F.I.D.S.	14 b	Airline
Airline Finishes & Improvements	14 c	Airline
Elevators/Escalators	14 d	City
Speedwalks	14 e	City
Stairwells	14 f	Airline
	14 g	City
Triturator	14 h	City

DEFINITIONS AND REFERENCES

1. Air Conditioning/Heating

Central Systems within apron-level mechanical rooms which serve public areas and Airline leasehold within the terminal which includes:

- a. Air Handlers
- b. Heating and Ventilating Units
- c. Exhaust Fans
- d. Perimeter/Reheat Convertor Systems
- e. Pneumatic Compressors and Filtration Systems
- f. High/Low Pressure Reducing Stations
- g. Circulating Hot Water Heat and Condensate Distribution System from Valve Room II to Penthouse Mechanical Rooms
- h. Chilled Water Supply and Return from Valve Room II to Penthouse Mechanical Rooms
- i. Heating and ventilating units, unit heaters, exhaust fans and associated controls, both electric and pneumatic, which serve exclusive use premises

2. Central Systems Air Distribution which includes:

- a. Supply, return and exhaust duct work in ceiling space of tenant areas
- b. Associated hardware with duct work such as: Volume dampers and diverting vanes
- c. Repair and cleaning of all ceiling diffusers for supply, return and exhaust air
- d. Balancing of system
- e. Air distribution as listed above on zones off existing systems back to the main supply air duct and return air duct
- f. Cleaning of coil face annually
- g. Associated dampers, linkage filters and motors (Mixed Boxes)

3. Domestic Hot Water, High Pressure Steam, Chilled Water Distribution Systems:

- a. Associated piping, valves and strainers back to the main supply and return connection
- b. All pipe covering in ceiling back to the main supply and return connections

4. Temperature Controls which include:

- a. All thermostats pneumatic or electric maintenance and calibration
- b. All wiring and pneumatic control tubing from thermostats to operating device to ceiling
- c. Pneumatic control and electric control valves, including diaphragms, valve stem and seat
- d. Thermostats and maintenance and repair of other unit heaters
- e. All temperature controls and associated systems listed above connecting to existing systems back to the main connections

5. Fire Protection System

- a. Sprinklers
- b. Fire Hoses
- c. Fire Alarms
- d. Fire Extinguishers
- e. Hydrants

6. Building Structure

Interior

- a. Maintenance and repair of walls and columns such as painting, plastering, wall papering and cove base
- b. Maintenance and repair of metal and wooden doors and associated hardware such as hinges, door knob assemblies, locks and latch assemblies
- c. Maintenance and repair of any glass panels or door glass
- d. Maintenance and repair to plaster, dropped or metal ceilings and associated framework
- e. Maintenance and repairs to ceramic tile, wooden and carpeted floors
- f. Maintenance, repairs and cleaning of signs
- g. Maintenance and repair of ticket counters and holdroom furniture/fixtures

Exterior:

- a. Painting, maintenance and repair of exclusive area such

- as overhead doors, window and door frame work
- b. Caulking of walls, windows, panels and framework
- c. Masonry and carpentry repairs to architectural facades or building skin
- d. Roof drains to remain free of debris
- e. All attached enclosures such as canopies and conveyor housing
- f. Maintenance, repairs and cleaning of tenant signs
- g. Cleaning and repairs to glass
- h. Roof maintenance

7. Cleaning

Cleaning of demised premises which includes:

- a. Walls
- b. Ceilings
- c. Floors
- d. Windows
- e. Fixtures
- f. Furniture
- g. Ceiling Diffusers
- h. Trash Removal including dumpsters in accordance with City specifications
- i. Equipment storage areas
- j. Holdroom areas

8. Loading Bridges/Mechanical Systems

- a. Daily maintenance and repair of loading bridges. Maintenance and repair of mechanical support equipment, including inbound and outbound baggage conveyor systems, scales, etc., by acceptable contractor or by Airline's maintenance personnel.
- b. ADA-required lift for jetways/commuter walkways

9. Electrical

Interior:

- a. Cleaning of fixtures and shades
- b. Replacement of burnt bulbs
- c. Replacement of burnt ballasts and starters
- d. Repairs to wall outlets and wall switches
- e. All associated wiring within Airline's space
- f. Replacement of burnt bulbs and ballast for signs
- g. Airline installed panels

Exterior:

- a. Maintenance, repairs and cleaning of perimeter flood, apron and obstruction lighting and associated wiring and conduit
- b. Maintenance and repairs to weatherproof outlets, electrical panels, transformers, local disconnects and associated wiring and conduit
- c. Maintenance and repairs to luminated tenant signs
- d. Fixed pole ramp lighting
- e. Ground power system
- f. Electrical panels and transformers for public areas and fixed pole ramp lighting
- g. Tenant-installed lighting

10. Plumbing

- a. All water closets, lavs, urinal and associated piping and hardware such as flushometers, faucets and soap dispensers
- b. Sanitary napkin dispensers
- c. Towel dispensers and trash containers
- d. Partitions and hardware such as hinges, door latch assembly and coat hooks
- e. Water fountains piping and refrigeration compressors and controls
- f. Floor drains are to have proper catch basin with strainer to keep drain free of debris

11. Preferential Ramp and Apron

- a. Daily FOD inspection and removal of debris, grease, oil, fuel or other foreign material on ramp or apron areas
- b. Cleaning with degreasing solvent on a routine basis consistent with usage
- c. Maintenance and repairs to bumpers, rails or other guides
- d. Striping for parking of aircraft and ground equipment in accordance with approved City procedures
- e. Ramp and apron drains to be cleaned of debris on a scheduled basis
- f. Minor pavement repairs
- g. Sweeping
- h. Snow removal, ice removal, and sanding
- i. Operation and maintenance of snow melters; structural pavement repairs and rehabilitation

12. Security Access

- a. Door hardware, i.e.: latches, locksets, hinges, closures, door frames, thresholds and panic hardware
- b. All electronic components i.e.: card reader, keypad, push buttons, audio visual units, door strikes and magnetic locks

13. Environmental Health and Safety

- a. Storage Tank Systems (if applicable)
 - 1. Maintenance, testing, management, removal and remediation, (if required), compliance with regulations and associated documentation for any storage tanks located on leased premises including responsibility for releases and remedial actions
 - 2. Compliance with all applicable Federal, State, and City Rules and Regulations
- b. Oil, gas, grease, sand, and any other similar interceptors and or separators (if applicable)
 - 1. Required maintenance and associated documentation to ensure efficient operation and proper disposal of any residual per applicable regulations
- c. Spill Prevention and Control Countermeasures (SPCC) (if applicable)
 - 1. Maintenance of and compliance with a current certified SPCC Plan, which is reviewed annually and updated and re-certified by a professional engineer every 3 years
 - 2. Reporting of releases which exceed Reportable Quantities to appropriate Federal and State Agencies and City personnel
- d. Environmental Health and Safety
 - 1. Compliance with all applicable Federal, State and City Regulations including LSP Services pertaining to all environmental health and safety issues

14. Miscellaneous

- a. Maintenance of existing public address system
- b. Maintenance of tenant's flight information display systems (F.I.D.S.)
- c. Airline installed finishes and improvements
- d. Maintenance of elevators/escalators
- e. Speedwalks
- f. Stairwells leading to exclusive use premises (4)
- g. Stairwells leading to mechanical room used by City or freight elevator used by City and Airline (2 -- col. lines 7.1 and 8, and 21 and 21.9)
- h. Triturator

Exhibit G

Equal Opportunity Clause

(Section 187.11(B) C.O.)

During the performance of this contract, the contractor agrees as follows:

1. The contractor shall not discriminate against any employee or applicant for employment because of race, religion, color, sex, sexual orientation, national origin, age, disability, ethnic group or Vietnam-era or disabled veteran status. The contractor shall take affirmative action to insure that applicants are employed and that employees are treated during employment without regard to race, religion, color, sex, sexual orientation, national origin, age, disability, ethnic group, or Vietnam-era or disabled veteran status. As used herein, "treated" means and includes without limitation the following: recruited, whether by advertising or other means; compensated, whether in the form of rates of pay or other forms of compensation; selected for training, including apprenticeship, promoted, upgraded, demoted, downgraded, transferred, laid off and terminated. The contractor agrees to and shall post in conspicuous places, available to employees and applicants for employment, notices to be provided by the hiring representatives of the contractor setting forth the provisions of this nondiscrimination clause.

2. The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that the contractor is an equal opportunity employer.

3. The contractor shall send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract, or understanding, a notice advising the labor union or worker's representative of the contractor's commitments under the equal opportunity clause, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. It is the policy of the City that business concerns owned and operated by minority persons and/or women shall have every practicable opportunity to participate in the performance of contracts awarded by the City.

5. The contractor shall permit access by the Director or his designated representative to any relevant and pertinent reports and documents to verify compliance with the Business Enterprise Code, and with the regulations of the Office of Equal Opportunity. All such materials provided to the Director or his designated representative by the contractor shall be considered confidential.

6. The contractor will not obstruct or hinder the Director or his designated representative in the fulfillment of the duties and responsibilities imposed by the Business Enterprise Code.

7. The contractor agrees that each subcontract will include this Equal Opportunity Clause, and the contractor will notify each subcontractor, materialman and supplier that the subcontractor must agree to comply with and be subject to all applicable provisions of the Business Enterprise Code. The contractor shall take any appropriate action with respect to any subcontractor as a means of enforcing the provisions of the Code.

Exhibit H
Blacklined MOU

MEMORANDUM OF UNDERSTANDING FOR PROPOSED EXPANSION OF
CONTINENTAL AIRLINES FACILITIES AT CLEVELAND HOPKINS
INTERNATIONAL AIRPORT

March 26, 1997

The City of Cleveland ("City") and Continental Airlines, Inc. ("CAL") propose the following business terms as a framework for the preparation of definitive agreements covering the design, financing, construction, and operation of the proposed program for the expansion of CAL's facilities ("CAL's CLE Program") at Cleveland Hopkins International Airport ("Airport"). This Memorandum of Understanding shall be binding upon the parties after approval by Cleveland City Council and by CAL's Board of Directors. It is the intention of the parties to engage in good faith negotiations leading to the execution of such definitive agreements consistent with this Memorandum of Understanding.

No tax abatement or General Fund monies of City shall be utilized to provide funding for CAL's CLE Program. However, the parties acknowledge that CAL has obtained commitments for, and expects to receive, incentives for CAL's CLE Program from various state and local programs as described in Attachment A attached hereto.

I. DESCRIPTION OF PROPOSED EXPANSION OF CAL FACILITIES

A. CAL'S CLE PROGRAM

1. "CAL's CLE Program" shall consist of the following project elements:

a. Construction of a new regional jet concourse, currently denominated as Concourse D (including a connector tunnel with moving walkways between existing Concourse C and Concourse D);

b. Aircraft ramp expansion;

c. Improvements to existing Concourse C, including President's Club, holdroom expansion, jetbridge reconfiguration, reconfigurations and improvements of ramp level operations areas, vertical access to the connector tunnel to Concourse D, utility work and any other improvements to Concourse C mutually agreed upon by CAL and City (collectively, the "Expansion Premises");

d. Rental car facilities relocation (interim and permanent);

e. New employee parking lot;

f. Deicing pads;

g. Hydrant fuel system and pits for Concourses C and D; and

h. Construction of such other improvements as mutually may be agreed upon by CAL and City.

A more detailed description of CAL's CLE Program is provided in Attachment B attached hereto and incorporated herein by this reference.

B. REGIONAL JET LINE MAINTENANCE BASE

1. In addition to the elements of CAL's CLE Program described above, City and CAL agree that CAL shall locate a regional jet line maintenance base at the Airport based upon (and subject to CAL's actually receiving the satisfactory approvals for and funding of the various incentive programs as described in) the agreements and representations set forth in the two letters between Kenneth G. Silliman, Executive Assistant, Development, Office of the Mayor of the City, and Holden Shannon, Staff Vice President, Corporate Real Estate and Environmental Affairs of CAL, dated March 25, 1997 and March 26, 1997, which are attached hereto as Attachment C and incorporated herein by this reference. Provided that the conditions set forth in this Section I.B. are satisfied and CAL and City enter into appropriate definitive agreements in a timely manner (a) such regional jet line maintenance base shall be established no later than December 31, 2000, subject to force majeure and/or regulatory delays, and (b) City shall have the right to obtain specific performance of CAL's obligation so to establish such regional jet line maintenance base at the Airport, CAL hereby acknowledging that in the event CAL breaches this obligation City shall have no adequate remedy at law.

2. Notwithstanding the foregoing, CAL and City agree that the establishing by CAL of such regional jet line maintenance base at the Airport also is subject to the mutual agreement of CAL and the City as to the location thereof, whether within the existing United Hangar or within a new facility to be

constructed on another mutually agreeable site located on Airport property east of the Airport runways. The availability of the existing United Hangar for such purpose, and the duration of any such availability, shall be determined by the joint ingress/egress study described in Section II.A.2.c. below. Any such new facility shall be designed and constructed by CAL, which activities shall be subject to reasonable City approvals.

3. In the event that the existing United Hangar is to be utilized for the regional jet line maintenance base, a long-term exclusive use lease for such facility shall be negotiated in good faith by City and CAL; provided, however, that such lease shall be subject to cancellation if during the term thereof City demonstrates a need to utilize the site of the United Hangar for improvements required for efficient Airport operations and provides to CAL on mutually agreeable terms a mutually agreeable site located east of the Airport runways for construction of a new facility for the regional jet line maintenance base. The costs associated with converting the United Hangar for use as the regional jet line maintenance base shall be financed in a manner mutually agreed upon by CAL and City.

4. In the event that a new facility is constructed for the regional jet line maintenance base, a long-term exclusive use lease for such facility shall be negotiated in good faith by the City and CAL, and the costs associated with such facility (other than typical landlord costs, including without limitation utilities, which shall be financed with GARBs (as hereinafter defined)) shall be financed with SRBs (as hereinafter defined).

C. JOB CREATION

1. CAL estimates that its City-based work force will increase by the equivalent of approximately 524 full-time jobs over the next five years as CAL adds employees to support the increased flights which will be accommodated by the new regional jet concourse and staffs the regional jet line maintenance base. The foregoing estimate is based upon the following approximate numbers of new employees being required: 240 in flight operations, 100 in in-flight, 100 in customer service, 50 in aircraft maintenance, 25 in catering, 5 in facilities maintenance, 2 in management and 2 in clerical services. In the event that the foregoing estimated numbers of jobs are not actually achieved, there shall be a commensurate reduction, in the manner set forth in the letter from Kenneth Silliman to Holden Shannon attached hereto as Attachment C, in the incentives provided to CAL, but the same shall not constitute a default by CAL hereunder or entitle City to exercise any other remedy.

II. AIRPORT LAYOUT PLAN ("ALP") AND 5-YEAR CAPITAL IMPROVEMENT PROGRAM ("CIP")

A. CAL SUPPORT

1. CAL is in support of the ALP which the City submitted to the FAA in 1996, with the exception of any improvements to support expansion of commercial air service at Burke Lakefront Airport. However, it is understood that CAL's support for the ALP extends only to FAA coordination. CAL does not at this time commit to majority-in-interest ("MII") support for the ALP except for those items outlined below.

2. The CIP is appended hereto as Attachment D-1. CAL commits its MII endorsement for the implementation and financing of the following projects comprising a portion of the CIP, which endorsed projects are described in Attachment D-2 appended hereto:

- a. New 6,450' runway and associated environmental and site development construction related to the runway project.
- b. After completion of the foregoing 6,450' runway, a runway extension mutually agreed upon by CAL and City sufficient to provide nonstop commercial service between the Airport and the Pacific Rim, and associated environmental and site development construction related to the runway extension. The parties will mutually agree upon which runway shall be so extended and the exact length of such extension.
- c. Vehicle ingress and egress for the terminal building as mutually agreed upon by City and CAL, subject to CAL's approval of the project costs (which approval shall not be unreasonably withheld) and the results of a joint ingress/egress study which currently is underway.
- d. CAL's CLE Program (as described in Section I.A. above).

e. Permanent rental car facilities relocation, provided that the City intends to obligate the rental car companies or the third-party tenant or other users of such facilities to pay for all reasonably assignable project costs in connection therewith; all such project costs which are not reasonably assignable to such parties shall be assigned to the Airport's parking and roadway cost center. However, CAL shall actively participate and provide input in the discussions regarding the rental car facilities relocation project.

f. Those other CIP projects which are listed on Attachment D-2.

Such MII endorsement by CAL is conditioned upon (i) the costs of the foregoing projects not exceeding one hundred ten percent (110%) of the costs thereof set forth in the CIP, and (ii) City exercising in good faith its best efforts to maximize the level of Airport Improvement Project ("AIP") funds available to fund those projects which are eligible for AIP funding (which AIP funds City currently contemplates will be in an amount equal to the lesser of fifty percent (50%) of the costs of such projects or the maximum level of funding for which the particular project element is eligible); provided, however, that (A) CAL shall support City's applications to obtain such AIP funding, and (B) if City exercises in good faith such best efforts but is unable to achieve such levels of AIP funding, CAL's MII endorsement set forth above shall not be affected, the same shall not constitute a default by City hereunder and CAL shall not be entitled to exercise any other remedy.

3. In addition to AIP funds, City shall reasonably maximize the level of Passenger Facility Charges available to fund a portion of the costs of the projects included in the CIP, subject to the reasonable operational and capital needs of the Airport.

B. COORDINATION WITH CITY ON CAL'S CLE PROGRAM

1. On the basis of the description of CAL's CLE Program contained in Attachment B hereto, the elements of CAL's CLE Program described therein have been coordinated with the City to ensure that they can be accommodated within the City's overall long-term development plan for the Airport, and the City acknowledges that, subject to any required federal or state governmental approvals, they can be so accommodated.

2. Any material revision(s) to such project elements of CAL's CLE Program shall require City approval, which approval shall be delivered on a timely basis (consistent with the construction schedule and the approval process for plans and specifications outlined in Section IV.E. below) and shall not be unreasonably withheld, conditioned or delayed.

C. GENERAL

1. CAL agrees to work cooperatively and reasonably with City to evaluate the other projects in the CIP, including but not limited to wastewater treatment as part of the Airport-wide deicing, glycol collection and treatment project (subject to CAL's approval of the project costs and scope).

2. CAL shall support the City's proposed Settlement Agreement with the City of Brook Park once final costs are determined and deemed acceptable to CAL in its reasonable discretion as they affect Airport rates and charges; provided, however, that such pledge of support by CAL is conditioned upon (a) the Settlement Agreement which is the subject of Ordinance No. 203-97 pending before City Council receiving final approval prior to November 1, 1997, or (b) a settlement agreement substantially similar to the above-described Settlement Agreement subsequently being entered into and finalized.

III. FINANCING ARRANGEMENTS FOR CAL'S CLE PROGRAM

A. UPFRONT FUNDING OF PROGRAM COSTS

1. Because CAL's CLE Program is proceeding on an expedited basis, CAL will be responsible, subject to being reimbursed in the manner set forth in this Memorandum of Understanding, to provide the upfront funding for the implementation of CAL's CLE Program.

B. PERMANENT FINANCING OF PROGRAM COSTS

1. Notwithstanding the fact that CAL is providing the upfront funding therefor as described above, CAL and City agree that the costs of CAL's CLE Program (including all costs of compliance with environmental requirements, other than any remediation or clean-up costs, allocable to each project

element) ultimately are to be financed with a combination of tax-exempt Special Revenue Bonds ("SRBs"), General Airport Revenue Bonds ("GARBs"), and City/third-party tenant funds, as follows:

Project Element	CAL SRBs	GARBs	City, Third-Party Tenant or Other
Concourse D exclusive CAL leased premises	X		
Concourses C and D concession and public areas (including connector tunnel)		X	
Utilities to lease line for CAL's CLE Program		X	
Aircraft ramp construction		X	
Concourse C Expansion Premises	X		
Interim rental car facilities relocation			X
Permanent rental car facilities relocation		X	X
New employee parking lot		X	
Deicing pads	X		
Hydrant fueling system and pits	X		

2. City has introduced an inducement resolution to City Council to provide for the reimbursement to CAL for its eligible upfront financing costs from the proceeds of SRBs and GARBs. City and CAL currently contemplate passage of such resolution by April 7, 1997. In any event, City agrees to take all reasonable steps necessary to protect for reimbursement out of the tax-exempt GARB or SRB proceeds, as applicable, all eligible funds expended by CAL with respect to CAL's CLE Program. If such inducement resolution is not passed by June 2, 1997, or if such eligible funds expended are not so protected, CAL shall have the right to terminate this Memorandum of Understanding, in which event the provisions of Section VII.B.3. below shall apply.
3. City shall work cooperatively with CAL to issue SRBs in accordance with CAL's scheduling needs to finance and reimburse CAL's upfront and other project expenditures in connection with those elements of CAL's CLE Program which are intended to be funded by SRBs as set forth in this Section III.B. CAL shall have the financial responsibility to pay debt service on such SRBs.
4. In the event that City shall fail to take any action reasonably necessary to cause the SRBs to be issued by the date which is six (6) months following CAL's written request for such bonds to be issued, despite CAL having taken reasonably in advance of such date all actions necessary on its part in connection with such bond issuance, and provided that CAL shall not then be in default under this Memorandum of Understanding as described in Section VII.A.1. below, CAL shall have the right to terminate this Memorandum of Understanding, in which event the provisions of Section VII.B.3. below shall apply.

5. The SRBs will not be secured by any assets of City, and the SRB issuance shall be subject to the following constraints:

Bond Amount: An amount sufficient to cover all eligible costs associated with those elements of CAL's CLE Program which are intended to be funded by SRBs as set forth in this Section III.B., but not to exceed \$225 million.

Term: The maximum maturity permitted by federal tax law requirements and the length of the terms of the applicable leases set forth in Section V below.

6. In the event the cost to complete those improvements constituting a portion of CAL's CLE Program which are intended to be financed with SRBs hereunder exceeds that portion of the net proceeds of the SRBs which is available to be utilized for such improvements, at CAL's request CAL and City shall work cooperatively and reasonably to issue additional SRBs (to the extent legally permissible) to complete those portions of CAL's CLE Program. If additional SRBs cannot be issued, CAL and City shall work cooperatively to reduce the scope of those elements of CAL's CLE Program which are to be funded by SRBs (the plans and specifications for which scope reduction shall be prepared and submitted by CAL for City's approval in accordance with Section IV.E. below) so that the same may be completed within the net proceeds of the SRBs or to reach another mutually acceptable course of action.
7. In the event the cost to complete those improvements constituting a portion of CAL's CLE Program which are intended to be financed with GARBs hereunder exceeds that portion of the net proceeds of the GARBs which is available to be utilized for such improvements, CAL and City shall work cooperatively and reasonably to agree upon a supplemental financing plan (based upon a mutually agreed revised budget) involving issuance of additional GARBs (to the extent legally permissible) or other funding sources (other than SRBs or CAL credit) to complete those portions of CAL's CLE Program. If no such supplemental financing plan can be implemented, CAL and City shall work cooperatively to reduce the scope of those elements of CAL's CLE Program which are to be funded by GARBs (the plans and specifications for which scope reduction shall be prepared and submitted by CAL for City's approval in accordance with Section IV.E. below) so that the same may be completed within the available net proceeds of the GARBs or to reach another mutually acceptable course of action.
8. The principal of, interest on, and any premiums associated with the SRBs shall not be payable from any funds of City.
9. City and CAL will negotiate in each such party's reasonable discretion mutually agreeable terms regarding the financial structure of the SRBs. Without limiting the foregoing, City and CAL will work cooperatively to structure the SRB financing so as to minimize the bond interest rates and provide for reletting and other provisions that are consistent with current market practices and City's operating needs.
10. City will be reimbursed from the proceeds of the SRBs for its actual, reasonable out-of-pocket and direct dedicated labor costs (for up to 10 full-time dedicated employees) to the extent related to the issuance of the SRBs and the implementation of those portions of CAL's CLE Program which are to be funded by SRBs hereunder, including legal, construction inspection and other consultant fees, all as documented by City and provided to CAL; provided that City will request such reimbursement from the SRB proceeds only to the extent that such costs are directly associated with such portions of CAL's CLE Program. CAL will be reimbursed from the proceeds of the SRBs for all costs and expenses of whatever nature which legally may be financed by tax-exempt SRBs relating to those portions of CAL's CLE Program which are to be funded by SRBs hereunder.

CAL will be reimbursed from the proceeds of the GARBs for its actual out-of-pocket expenses and direct dedicated labor costs (for up to 10 full-time dedicated employees) to the extent related to those portions of CAL's CLE Program which are to be funded by GARBs hereunder.

City and CAL each shall be entitled to conduct reasonable audits of the other party's costs and expenses described in this Section III.B.10.

11. Continuing disclosure obligations on SRBs with respect to CAL and its operations will be CAL's responsibility. CAL shall pay arbitrage rebate amounts with respect to the SRBs to the extent required by law.

12. City shall authorize the GARBs contemplated hereby to be offered for sale no later than October 31, 1997, subject to timely MII approval and execution by CAL and City of any applicable special facilities leases, and shall take all steps reasonably necessary to cause the timely issuance thereof to occur. CAL shall provide such information with respect to the cost of CAL's CLE Program as reasonably shall be required in order for City to issue the GARBs, including a budget to be submitted by CAL and approved by City, which approval shall not be unreasonably withheld, conditioned or delayed.
13. CAL will select an underwriter for the issuance of SRBs with such selection being coordinated with (but not expressly subject to the approval of) City. City will select an underwriter for the issuance of GARBs with such selection being coordinated with (but not expressly subject to the approval of) CAL.
14. City will select bond counsel for the issuance of SRBs with such selection being coordinated with (but not expressly subject to the approval of) CAL. CAL shall retain its own company counsel for the issuance of the SRBs.
15. All improvements financed with GARBs and SRBs will be the property of City upon completion of construction, but CAL shall have the use rights thereto set forth in this Memorandum of Understanding. CAL will not take depreciation deductions on such improvements financed with tax-exempt debt.
16. City shall have the right, on terms acceptable to City and CAL in their respective reasonable discretions, to purchase from CAL the rights to CAL's hydrant fueling system if City incorporates the same into a larger fuel distribution system for the Airport, in which event CAL shall pay for its fair share of such larger system based upon system cost and use. CAL shall not be obligated to participate in any manner in the cost of a hydrant fueling system for Concourse A and/or Concourse B unless City shall so purchase CAL's hydrant fueling system and incorporate it into such a larger system.

C. REIMBURSEMENT OF CAL

1. City will reimburse CAL for CAL's upfront expenditures, in accordance with Section III.B. above, within 60 days of the applicable bond issuance.
2. With respect to those portions of CAL's CLE Program which are to be funded by GARBs, such reimbursement of CAL's upfront expenditures shall, regardless of the actual date of issuance of the GARBs, occur no later than December 31, 1997. If such reimbursement of CAL is not made by December 31, 1997, and provided that CAL is not then in default under this Memorandum of Understanding as described in Section VII.A.1. below, CAL shall have the right to terminate this Memorandum of Understanding, in which event the provisions of Section VII.B.3. below shall apply. Nothing in this paragraph shall diminish City's obligation to issue GARBs or SRBs for CAL's CLE Program.
3. After the issuance of the GARBs, CAL shall be reimbursed for its ongoing costs and expenses relating to those portions of CAL's CLE Program which are to be funded by GARBs hereunder, consistent with approved plans and specifications submitted by CAL pursuant to Section IV.E. below and any budgets agreed upon by City and CAL from time to time, within 30 days of submission of invoices to City's Director, Department of Port Control and to Project Counsel at the addresses set forth in Section VIII below. Each such invoice shall be accompanied by documentation reasonably sufficient to support the applicable expenditures(s) and the allocation thereof to the GARB proceeds.
4. After the issuance of the SRBs, CAL shall be reimbursed for its ongoing costs and expenses relating to those portions of CAL's CLE Program which are to be funded by SRBs hereunder upon submission of invoices to the Trustee.
5. For all contracts related to CAL's CLE Program which are to be funded through a combination of SRB's and GARB's, the City and CAL shall mutually agree upon an appropriate allocation of costs. This methodology shall reflect the respective costs of construction for each particular area. Upon completion of CAL's CLE Program, CAL shall perform an accounting with respect to all such allocation matters.
6. CAL and City each shall have the right to reasonably review the books and records of the other party relating to the various costs described in this Section III which are to be reimbursed from GARB proceeds (including the allocations described in Section III.C.5. above), provided that no such review shall delay the construction schedule or unreasonably

delay the receipt by CAL of reimbursement payments from the proceeds of the GARBs or the SRBs.

IV. COORDINATION, DESIGN AND CONSTRUCTION OF CAL'S CLE PROGRAM

A. ENVIRONMENTAL COMPLIANCE

1. City and CAL will coordinate to obtain any legally necessary environmental approvals, which may include the following (the financial responsibility for these costs to be allocated in accordance with Section III.B. above):
 - a. An employee parking lot relocation air quality study shall be contracted for by CAL but coordinated closely with and submitted to the appropriate governmental agencies by City;
 - b. A permanent rental car facilities relocation air quality study shall be contracted for by CAL but coordinated closely with and submitted to the appropriate governmental agencies by City;
 - c. A Concourse D air quality study (along with any other legally required environmental studies) and an environmental assessment, if required, shall be contracted for by CAL but coordinated closely with and submitted to the appropriate governmental agencies by City; and
 - d. An ALP update will be contracted by City (but closely coordinated with CAL) and submitted to the FAA by City.
 2. Upon mutual agreement on scope and cost, CAL will participate in the Airport-wide glycol collection and treatment program. City is currently working on, and is responsible for coordinating with Ohio EPA to define, an acceptable program within the consent decree imposed on the Airport by Ohio EPA. City will work cooperatively and reasonably with CAL to define a solution to CAL's operating plans as soon as practicable within the context of the Airport-wide glycol collection and treatment program.
 3. Notwithstanding anything herein to the contrary, CAL shall not be responsible for any environmental contamination discovered in connection with CAL's CLE Program to the extent that the presence of the material resulting in the environmental contamination was not caused by CAL's acts. City shall as soon as reasonably practicable remediate any such environmental contamination and charge the costs thereof to the appropriate Airport cost center (e.g., to the cost center for the rental car companies if the contamination relates to a rental car site). In such event City shall exercise, promptly and in good faith, diligent efforts to recover such costs from the party or parties responsible for such contamination and restore the same to the affected cost center.
 4. City promptly shall enforce to their fullest extent all rights which City has against the rental car companies with respect to the removal of storage tanks from, and the remediation of any environmental contamination associated with, such companies' sites.
 5. Notwithstanding any provision of this Memorandum of Understanding to the contrary, in the event that any of the environmental studies reveals materially adverse conditions, or if any other circumstances outside of CAL's reasonable control relating to the Airport property or the construction thereon of CAL's CLE Program are discovered, which would substantially and materially impact the cost of, or delay the scheduled completion by more than 18 months of, CAL's CLE Program, CAL shall have the right to terminate this Memorandum of Understanding and any subsequent agreements relating to CAL's CLE Program, in which event the provisions of Section VII.B.1. below shall apply.
 6. Each party shall provide to the other party copies of all environmental and engineering studies, inspection reports and correspondence with state and federal governmental agencies relating to environmental matters in connection with CAL's CLE Program.
- ##### B. FAA COORDINATION
1. CAL shall prepare Form 7460-1 (Notice of Proposed Construction or Alteration) and City shall submit the same to the FAA.
 2. CAL shall prepare the FAA safety phasing plan and City shall submit the same to the FAA.
 3. Upon receipt of the FAA's response to the version of the ALP which currently is under review, City shall request an update to the ALP (which update shall be consistent with CAL's CLE

Program).

4. CAL shall contract for (and coordinate with City on) any required air quality studies, and City shall submit the same to the appropriate governmental agencies.

C. OHIO DOT COORDINATION

1. City shall be responsible for coordinating all highway signage matters (including those relating to the rental car facilities) with Ohio DOT.
2. City or a third-party tenant, as appropriate, shall be responsible for the rental car traffic impact study.
3. City shall be responsible for all other issues involving Ohio DOT.

D. REGULATORY DELAYS

1. If any non-City regulatory delay substantially and materially impacts the cost of, or delays (or is jointly anticipated by CAL and City in the exercise of each such party's reasonable discretion to delay) the scheduled completion by more than one year (18 months in the case of any required environmental impact statement) of, CAL's CLE Program, CAL and City each shall have the right to terminate this Memorandum of Understanding and any subsequent agreements relating to CAL's CLE Program, in which event the provisions of Section VII.B.1. below shall apply.
2. Without limiting any other rights which CAL may have under this Memorandum of Understanding, if any City regulatory delay not resulting from CAL's failure to comply with this Memorandum of Understanding substantially and materially (which, for purposes of this Section IV.D.2., shall mean by 12% or more) impacts the cost of, or delays (or is anticipated by CAL in the exercise of its reasonable discretion to delay) the scheduled completion by more than one year of, CAL's CLE Program, CAL shall have the right to terminate this Memorandum of Understanding and any subsequent agreements relating to CAL's CLE Program, in which event the provisions of Section VII.B.3. below shall apply.

E. APPROVAL OF PLANS AND SPECIFICATIONS

1. Two blue-line sets and one electronic copy (in Autocad 12 Windows format) of all detailed plans and specifications for each material element of CAL's CLE Program must be submitted to City's Department of Port Control and approved by City prior to beginning construction, which approval shall not be unreasonably withheld, conditioned or delayed. City shall either approve such plans and specifications or provide specific written objections thereto within 30 days following submission. If the City shall fail so to respond within such 30 day period then, in addition to any other remedies which may be available to CAL, all aspects of such plans and specifications which are not specifically subject to the Ohio Basic Building Code shall be deemed to have been approved by City.
2. Each such submission shall include information reasonably sufficient to permit City to evaluate the impact of the proposed element on CAL's CLE Program as a whole.
3. If City does so object to such a submission by CAL, the parties shall negotiate in good faith to reach a mutually acceptable resolution within no more than 60 days of the original submission.
4. Any material revision(s) to plans and specifications which have been approved or deemed to have been approved by City shall require further City approval, which approval shall be delivered on a timely basis (consistent with the construction schedule and the process outlined in this Section IV.E.) and shall not be unreasonably withheld, conditioned or delayed.
5. City shall hire an appropriately qualified full-time individual who shall be dedicated exclusively to managing the implementation by City of CAL's CLE Program, including without limitation the City process of reviewing and responding to plans and specifications submitted by CAL. The entire salary paid by City to such individual shall be reimbursed to City out of the proceeds of the SRBs in accordance with Section III.B.10. above.

F. AVAILABILITY OF CONSTRUCTION SITE TO CAL

1. City and CAL expect to adhere to the following schedule for the delivery to CAL of the site necessary for the construction of CAL's CLE Program:

- a. With respect to those areas which are not occupied by rental car company tenants, CAL shall have continuous access for construction purposes, subject to Section IV.G.3. below.
- b. With respect to those areas which presently are occupied by rental car company tenants:

CAL shall make available the interim rental car facilities in operational condition by April 15, 1997;

City shall cause those rental car company tenants which are to be relocated to the interim rental car facilities to vacate their existing premises by April 15, 1997;

City shall deliver full possession of such existing premises to CAL by May 6, 1997, with all improvements (including without limitation all aboveground and underground storage tanks) demolished and/or removed in accordance with all applicable laws (the foregoing being referred to herein as "Interim Site Availability"), and thereafter CAL shall have continuous access to those areas for construction purposes, subject to Section IV.G.3. below;

City shall cause the permanent rental car facilities to be made available in operational condition by November 1, 1997;

City shall cause all of the rental car company tenants which were not relocated to the interim rental car facilities to vacate their existing premises by November 1, 1997; and

City shall deliver full possession of such existing premises to CAL by November 22, 1997, with all improvements (including without limitation all aboveground and underground storage tanks) demolished and/or removed in accordance with all applicable laws (the foregoing being referred to herein as "Permanent Site Availability"), and thereafter CAL shall have continuous access to those areas for construction purposes, subject to Section IV.G.3. below.

2. In the event that Interim Site Availability or Permanent Site Availability does not occur by the applicable date set forth in Section IV.E.1.b. above, the dates set forth in Sections IV.G.5.c. and V.E.1. below shall be extended by the number of days beyond such applicable date that it takes for such event actually to occur.
3. In the event that Interim Site Availability does not occur by the date which is 5 months following the date on which CAL makes available the interim rental car facilities in operational condition, CAL shall have the right to terminate this Memorandum of Understanding, in which event the provisions of Section VII.B.1. below shall apply. In the event that Permanent Site Availability shall not occur by June 1, 1998 (subject to (a) CAL having performed all actions required of it under this Memorandum of Understanding in connection with the permanent rental car facility, (b) force majeure, (c) non-City regulatory delays, and (d) any binding court order precluding the delivery of such site to CAL), CAL shall have the right to terminate this Memorandum of Understanding, in which event the provisions of Section VII.B.3. below shall apply.

G. CONSTRUCTION ACTIVITIES

1. CAL will be responsible for the design and, other than the permanent rental car facilities, the construction of CAL's CLE Program, including utilities to the site and concession space. The contract which CAL enters into for the design of the permanent rental car facilities shall be assignable to City at no additional cost to City. CAL shall include in the design team for any concourse improvements which constitute a portion of CAL's CLE Program a design consultant designated by City to ensure the consistency of design with the other Airport concourses.
2. City will be responsible for the construction of the permanent rental car facilities.
3. CAL's construction activities shall not unreasonably interfere with the business operations of other tenants at the Airport without City's prior consent. Notwithstanding the foregoing, City and CAL acknowledge that the interim and permanent relocation of the rental car company tenants will by their nature necessarily result in some interference with such

tenants' business operations.

4. The quality of the interior elements of CAL's CLE Program shall be at least comparable with that of the existing interior Concourse C improvements. The exterior finish of new Concourse D shall be of a quality at least comparable to that of existing Concourses A, B and C.
5. CAL will enter into construction contracts subject to the provisions of this Memorandum of Understanding and the following conditions:
 - a. All construction plans and specifications will be subject to the review and approval of City in accordance with Section IV.E. above, which approval must be received prior to the start of construction;
 - b. CAL's contractors will post such payment and performance bonds and provide such insurance coverages as shall be reasonably specified by CAL or required by applicable law; and
 - c. All construction of Concourse D will be in accordance with a schedule established by CAL and coordinated with City, which schedule currently is contemplated to be consistent with the schedule set forth in Attachment E, but in no event shall Concourse D be completed later than December 31, 2000, subject to force majeure and/or regulatory delays.
6. City will assist CAL in obtaining all required building and other permits on an expedited basis.
7. City shall hire a representative/construction inspector and an accounting/audit consultant to work on CAL's CLE Program. Such parties shall be involved throughout construction and shall be permitted reasonable access to plans, specifications and other project information. Project progress meetings involving City's representative/construction inspector will be held on a regular basis. The cost of such parties' services shall be allocated between the proceeds of the SRBs and the GARBs in a manner consistent with this Memorandum of Understanding.
8. All construction in connection with CAL's CLE Program shall be subject to:
 - a. State of Ohio prevailing wage requirements;
 - b. City's MBE/FBE goals of 30% MBE and 10% FBE for design and construction contracts; provided, however, that contracts for goods and services for which there is no qualified MBE/FBE provider, as determined in consultation with City's Director of Office of Equal Opportunity, shall not be subject to such goals (based upon CAL's experience, CAL believes that contracts which will be so excluded from such goals will include, by way of example and not limitation, those for passenger loading bridges and baggage conveyor systems);
 - c. The Competitive Bidding Procedures for Public and Nonpublic Areas set forth in Attachment F attached hereto and made a part hereof by this reference;
 - d. City's Equal Opportunity Clause (Section 187.11 of the Codified Ordinances); and
 - e. A City residency goal of 35% for construction new hires.
9. With respect to utilities:
 - a. CAL will construct and install all utilities required on Airport property for CAL's CLE Program, including HVAC, electrical connections, water facilities and sanitary sewer facilities;
 - b. CAL will be financially responsible (subject to reimbursement from SRBs) for the costs for all utilities within its leasehold and City will be responsible for the costs to bring the utilities to the leasehold site; and
 - c. CAL will be responsible for relocating all underground utilities affected by CAL's CLE Program; these costs will be paid for 100% by GARBs for any such relocation in preferential leased areas and will be paid for 50% by GARBs and 50% by SRBs for any such relocation within exclusive leased areas.
10. The cost of any modifications to facilities or building maintenance systems on Concourse C needed to accommodate Concourse D shall be funded through a combination of SRBs and

GARBs and shall be allocated in accordance with Section III.C.5. above. City and CAL will mutually agree upon the standards of such improvements.

11. CAL shall indemnify and hold harmless City for all loss, cost, damage, or expense, including reasonable attorneys fees, arising out of claims for personal injury or property damage arising out of or relating in any way to the construction of CAL's CLE Program by CAL or CAL's employees, agents or contractors, except to the extent caused by the acts or omissions of City or its agents or contractors.

V. CAL/CITY LEASE MATTERS

A. CAL LEASED PREMISES

1. CAL's leased premises at the Airport relating to CAL's CLE Program shall consist of:
 - a. Existing Premises: CAL's existing Agreement and Lease (City Contract No. 38171) dated as of May 15, 1987 (as the same has been amended, the "Original Agreement") covering certain portions of the Airport (the "Existing Premises") shall remain in full force and effect and is not modified or extended by implication by this transaction.
 - b. Existing Special Facilities Premises: The Special Facilities Lease covering certain portions of the Airport (the "Existing Special Facilities") shall remain in full force and effect and is not modified or extended by implication by this transaction.
 - c. Expansion Premises: The Expansion Premises to be financed by SRBs shall be leased to CAL on an exclusive basis on a term coterminous with the existing Special Facilities Lease Agreement dated as of December 1, 1989 governing certain facilities financed with Special Revenue Bonds, Series 1990 (the "Special Facilities Lease") or such shorter period as may be mandated by federal tax law.
 - d. Concourse D Premises: A satellite Concourse D which will be constructed by CAL and leased to CAL on an exclusive basis (with the exception of any public areas or concession facilities), as more fully described in Section V.E. below.
 - e. Other Premises: All other elements of CAL's CLE Program which are contemplated hereunder to be financed with SRBs shall be leased to CAL on an exclusive basis for the maximum lease term permitted by federal tax law.

B. USE OF CAL'S CLE PROGRAM IMPROVEMENTS

1. Any uses permitted within the Original Agreement will be allowed under the same terms and conditions.
2. Any uses not permitted under the Original Agreement will be negotiated in good faith by CAL and City to be consistent with CAL's planned hub growth and City's reasonable need to plan and manage the Airport in a prudent manner.
3. It is understood that Concourse D will be used primarily in connection with passenger operations. Any material deviations to such primary use must first be mutually agreed upon by CAL and City.
4. Subject to the terms of this Memorandum of Understanding, City will control use of all facilities financed by GARBs; provided, however, that there shall be no unreasonable interference with CAL's access to or use of such facilities or in connection with CAL's access to and use of its exclusive leased areas.

C. RENT FOR CAL'S CLE PROGRAM IMPROVEMENTS

1. Rent payable by CAL for CAL's CLE Program improvements shall consist of:
 - a. "Bond Rent" for the new exclusive use facilities sufficient to pay debt service and related costs on the SRBs;
 - b. with respect to Concourse D and the Expansion Premises, "Basic Rent" consistent with the rate making methodology contained in the Original Agreement; and
 - c. also with respect to Concourse D and the Expansion Premises, commencing with the commencement of the term of the Concourse D lease (as described in Section V.E.1. below) a rates and charges reserve fund deposit in a manner consistent with the Special Facilities Lease (e.g., not including any SRB rent).

D. MAINTENANCE AND REPAIR OF CAL'S CLE PROGRAM IMPROVEMENTS:

1. The division of responsibilities for maintenance and repair of the improvements resulting from CAL's CLE Program will be consistent with Airport cost allocation methods as set forth in the Original Agreement; provided, however, that in no event shall total collections from all Airport tenants (including CAL) for the costs thereof at any time exceed actual Airport maintenance and repair costs.
2. If maintenance and repair responsibilities arise out of CAL's CLE Program which are not covered by the Original Agreement, those responsibilities will be negotiated in good faith by CAL and City for the purpose of allocating appropriately those maintenance and repair costs among the various parties engaged in operations at the Airport.
3. CAL will be responsible for the maintenance and repair of its hydrant fueling system; provided, however, that if City elects to purchase from CAL the rights to CAL's hydrant fuel system in accordance with Section III.B.16. above CAL no longer shall be solely responsible for the ongoing maintenance and repair of such system.

E. SPECIFIC CONCOURSE D LEASE TERMS

1. The term of the special facilities lease for Concourse D shall be 30 years from date of beneficial occupancy (in no event later than December 31, 1999, subject to force majeure, regulatory delays and the provisions of Section IV.F.2. above) or such shorter period as may be mandated by federal tax law.
2. The Concourse D lease shall provide to CAL (a) access to the aircraft apron adjacent to Concourse D on a preferential basis throughout the term of the Concourse D lease and in a manner consistent with the Original Agreement, and (b) preferential use of the new employee parking lot for so long as CAL shall continue to use it for such purpose. It is understood that CAL shall retain exclusive rights to the Concourse D gates (excluding aircraft apron) and exclusive lease areas and, so long as CAL is not in default under the Concourse D lease remaining uncured following the giving of required notices and the expiration of applicable cure periods, CAL shall not be obligated to make such gates available to any other carriers during the term of the Concourse D lease. This provision shall not include aircraft apron, with respect to which CAL shall retain preferential rights.
3. After the first 20 years of the term of the Concourse D lease, City shall have the right to alter or reconfigure Concourse D and the Expansion Premises to accommodate future Airport expansion; provided, however, that no such alteration or reconfiguration shall materially interfere with CAL's operations or CAL's rights under the Concourse D lease. Under no circumstances will any costs for such alteration or reconfiguration be paid for with any of CAL's rates and charges without CAL's express written consent.
4. If at any point after the first 20 years of the term of the Concourse D lease CAL shall fail to utilize the Concourse D jet gates at an average rate of at least 2 jet turns per jet gate per day during the preceding 12 month period, except due to events of force majeure or regulatory interruptions, City shall have the right to demolish Concourse D to accommodate future Airport expansion plans. In such event, (a) City shall assume (and fully release CAL with respect to) the obligation to pay at its sole cost the outstanding bond principal and interest on the portion of the areas to be demolished (along with any other costs arising by reason of the occupancy of such areas), and (b) CAL shall have no responsibility with respect to ongoing costs associated with the areas so demolished. However, prior to any demolition City must facilitate the relocation of CAL to replacement facilities at locations and on cost terms reasonably acceptable to CAL. Under no circumstances will the costs of the demolition be paid for by any of CAL's rates and charges without CAL's express written consent.
5. No assignment or subleasing of all or any portion of Concourse D will be permitted without the consent of City's Board of Control; provided, however, that without such consent CAL may assign its rights to any corporation into which CAL may merge or consolidate or which may succeed to all or substantially all of the business of CAL; provided further, however, that following any such permitted assignment made without the consent of City's Board of Control, the provisions of Section V.E.6. below shall become applicable. With respect to any assignment or subletting which does require consent of City's Board of Control, City's administration shall exercise its best efforts to ensure that such consent shall not be unreasonably withheld, conditioned or delayed. Consent by

City's Board of Control to any assignment or subletting shall not in any way be construed to relieve CAL from obtaining such consent to any subsequent assignment or subletting otherwise requiring consent as described above.

6. If, following any assignment by CAL of Concourse D without the consent of City's Board of Control to any corporation into which CAL may merge or consolidate or which may succeed to all or substantially all of the business of CAL, such assignee shall fail to utilize the Concourse D jet gates at an average rate of at least 2 jet turns per jet gate per day during any consecutive 12 month period, except due to events of force majeure or regulatory interruptions, City shall have the right, but only within 12 months following the end of such 12 month period, to recapture such number of jet gates (each of which shall include its pro rata share of all holdrooms, loading bridges, operational support areas, and associated administrative support areas in the terminal and concourse areas, including but not limited to applicable ticket counter space) in Concourse D as will reduce the remaining number of jet gates which are subject to the Concourse D lease to a level such that there shall have been an average rate of at least 2 jet turns per such remaining jet gate per day during such 12 month period. In such event, the particular jet gates to be recaptured shall be mutually agreed upon by City and such assignee based upon the legitimate operational needs of both such parties, and such assignee shall have no responsibility with respect to ongoing costs associated with the areas so recaptured. As a condition to any such gate recapture, City shall pay to such assignee a cash price equal to the original amount of the actual costs previously incurred by CAL or such assignee in connection with construction and/or renovation of such recaptured areas less the amount of depreciation of such costs through the date of recapture based upon a straight-line depreciation method utilizing as the depreciation period the useful economic life (as determined in accordance with applicable tax law) of the applicable improvements. Under no circumstances will the costs of any such gate recapture or any renovation or reutilization of such areas be paid for by any of such assignee's rates and charges without such assignee's express written consent. For purposes of this Section V.E.6. and Section V.E.4. above (a) the term "jet gate" shall mean an aperture in the wall of Concourse D specifically designed to accommodate a jet loading bridge (provided, however, that a single such aperture to which a dual-loading capable jet bridge is connected shall constitute only 1 jet gate for such purposes), and (b) at no time shall the number of jet gates in Concourse D be deemed to be less than 12, regardless of the actual configuration of Concourse D.
7. City shall not participate in the planning, development, funding, financing or operations of any commercial service passenger airport (other than Burke Lakefront Airport in substantially its current configuration) within a 50 mile radius of the Airport the construction of which would commence within 15 years following the commencement date of the term of the special facilities lease for Concourse D. In the event that a new commercial passenger airport (except any such airport with respect to which the City shall not have participated in the planning (which for this purpose shall not include merely coordinating with a third party developing a competing airport and not acting on behalf of the City), development, funding, financing or operations) within such radius of the Airport shall be opened for operations during the term of the Concourse D lease, CAL shall have the immediate right to terminate the Concourse D lease.
8. Upon termination of the Original Agreement on December 31, 2005, CAL may continue to occupy and use such facilities in the Airport's terminal building as are necessary for CAL to continue to conduct its operations on Concourse D, as follows: from and after the termination of the Original Agreement and until the earlier of (i) the date on which CAL and City shall have entered into a subsequent lease or other agreement providing for CAL's occupancy and use of such facilities in the terminal building, or (ii) the date on which the special facilities lease for Concourse D terminates, CAL will be entitled to occupy such facilities in the Airport's terminal building (including, without limitation, ticket counters, operational areas and offices, but excluding holdrooms and passenger departure lounges) as City reasonably determines are necessary for CAL to utilize Concourse D fully. CAL agrees that such right does not apply to any particular facilities and that City reserves the right and discretion (subject to the following sentence) to fulfill this obligation by permitting CAL to use and occupy facilities other than those actually used and occupied by CAL prior to the termination of the Original Agreement and to change the facilities which CAL is permitted to so use and occupy from time to time. The terms on which CAL shall be entitled to such occupancy and use

shall be those agreed upon by CAL and City at the time, provided that, in the absence of such agreement, the terms shall be no less favorable than those which City has offered to any other scheduled airline for such occupancy and use at the time, including without limitation terms that will not impose unreasonable costs upon CAL to refit any such other facilities to make the same comparable to the facilities occupied and used by CAL prior to the termination of the Original Agreement. This Section V.E.6. shall not modify by implication the Special Facilities Lease.

F. EMPLOYMENT OPPORTUNITIES

1. CAL shall adopt and pursue a City residency hiring goal of 50%, a minority hiring goal of 30% and a female hiring goal of 10% for the incremental jobs (currently estimated to be the equivalent of approximately 524 full-time jobs) created by CAL's CLE Program. These goals shall be pursued in good faith, but shall not apply to CAL flight crews.

G. GENERAL

1. City and CAL agree to cooperate reasonably to incorporate other provisions in the leases associated with CAL's CLE Program to the extent such other provisions (i) relate to the financing terms set forth in the bond documents, (ii) are not inconsistent with the express provisions hereof, and (iii) are customary in similar transactions or are otherwise reasonably requested by either party.

VI. CONCOURSE A GATES

City shall approve (a) the assignment of Gates A-2, A-4, A-6, A-9 and A-11 from US Air to CAL, and (b) immediately thereafter (subject to the terms of this Section VI), the assignment of Gates A-2, A-4 and A-6 from CAL to TWA. The use rights assigned to TWA with respect to such gates shall extend through the duration of the term of, and generally shall be consistent with the provisions contained in, the US Air lease agreement which currently covers such gates. The assignment to TWA may be subject to the satisfaction of such conditions and requirements as may be imposed by City. CAL shall not have any continuing interest in or rights with respect to the gates so assigned to TWA.

VII. DEFAULT; TERMINATION OF MEMORANDUM OF UNDERSTANDING; REMEDIES

A. DEFAULT

1. If a substantial and material default by either party occurs with respect to a substantial and material obligation under this Memorandum of Understanding and the defaulting party fails to cure the default within 60 days following receipt of written notice from the non-defaulting party specifically describing the default, the non-defaulting party shall as its sole remedy be entitled to terminate this Memorandum of Understanding and exercise the remedies set forth in (a) Section VII.B.2. below if City is the non-defaulting party, and (b) Section VII.B.3. below if CAL is the non-defaulting party. Notwithstanding the provisions of Section VIII below, any notice of default given by CAL to City pursuant hereto shall be sent by U.S. registered or certified mail, postage prepaid, return receipt requested and, in addition to the addresses set forth in Section VIII below, any such notice also shall be sent to:

Mayor Michael R. White
City of Cleveland
Cleveland City Hall
601 Lakeside Avenue
Cleveland, OH 44114

2. In the event of a termination of this Memorandum of Understanding by CAL, CAL shall not withhold MII approval to the extent required for City to be able to reimburse CAL in the manner set forth in Section VII.B.1. or Section VII.B.3. below, as applicable.

B. TERMINATION OF MEMORANDUM OF UNDERSTANDING

1. In the event that this Memorandum of Understanding is terminated for any reason other than a default by CAL or City hereunder, CAL shall be reimbursed by City for the costs to CAL (including all out-of-pocket expenses and direct dedicated labor costs) of all improvements constituting a portion of CAL's CLE Program which are contemplated to be funded by GARBs hereunder (the "GARB Improvements"), but CAL shall not be entitled to reimbursement for the costs to CAL of those improvements constituting a portion of CAL's CLE Program which are contemplated to be funded by SRBs hereunder (the "SRB Improvements").

If GARBs shall have been issued at the time of such termination, City shall to the fullest extent legally possible reimburse CAL for such costs of the GARB Improvements from the proceeds of the GARBs. If GARBs shall not yet have been issued at the time of such termination, such reimbursement of CAL by City with respect to the GARB Improvements shall be made from the Airport Improvement Fund, which shall be dedicated exclusively to that purpose (as evidenced by documentation acceptable to CAL in its reasonable discretion) until such time as full reimbursement of CAL shall have been made. In the event that the Airport Improvement Fund shall cease to exist prior to CAL being fully reimbursed with respect to the GARB Improvements, City shall so dedicate another source of Airport funds from which City shall continue to make to CAL reimbursement payments at a level not less than the level of payments which previously had been made to CAL from the Airport Improvement Fund. Until such time as full reimbursement shall have been made to CAL with respect to the GARB Improvements, City shall grant to CAL the right to exclusive use of the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which CAL shall to the fullest extent allowed by law receive a first priority security interest, subject to any security interest required to be created pursuant to the existing Trust Indenture governing City's GARB issuances, in the income stream therefrom evidenced by such documentation as CAL reasonably may request).

Upon any such termination, City also shall grant to CAL exclusive use rights with respect to the SRB Improvements for the useful economic life (as determined in accordance with applicable tax law) of the SRB Improvements. At any time during such CAL exclusive use period, City may repurchase such exclusive use rights from CAL at a cash price equal to the original amount of such costs to CAL less the amount of depreciation of such costs through the date of repurchase based upon a straight-line depreciation method utilizing as the depreciation period the useful economic life (as determined in accordance with applicable tax law) of the SRB Improvements. City shall not be entitled to repurchase from CAL such exclusive use rights with respect to any portion of the SRB Improvements without at the same time also repurchasing from CAL such exclusive use rights with respect to the remainder of the SRB Improvements (other than CAL's hydrant fueling system).

2. In the event that this Memorandum of Understanding is terminated by City as the result of a default by CAL hereunder, CAL shall not be entitled to reimbursement for the costs of the GARB Improvements or the SRB Improvements. To the extent that CAL shall have been reimbursed from GARB proceeds prior to the date of such termination, CAL shall pay or cause to be paid on or before December 31, 2005 the allocable portion of the GARBs the proceeds of which shall have been so disbursed to CAL. Upon any such termination, City shall grant to CAL exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which CAL shall to the fullest extent allowed by law receive a first priority security interest, subject to any security interest required to be created pursuant to the existing Trust Indenture governing City's GARB issuances, in the income stream therefrom evidenced by such documentation as CAL reasonably may request) and the SRB Improvements for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the SRB Improvements, as applicable. At any time during such CAL exclusive use period, City may repurchase such rights from CAL at a cash price equal to the original amount of such costs to CAL less the amount of depreciation of such costs through the date of repurchase based upon a straight-line depreciation method utilizing as the depreciation period the useful economic life (as determined in accordance with applicable tax law) of the applicable improvements. City shall not be entitled to repurchase from CAL such exclusive use rights with respect to any portion of the SRB Improvements or the GARB Improvements without at the same time also repurchasing from CAL such exclusive use rights with respect to the remainder of the SRB Improvements (other than CAL's hydrant fueling system) and the GARB Improvements.

3. In the event that this Memorandum of Understanding is terminated by CAL as the result of a default by City hereunder, City shall reimburse CAL for all of the costs (including all out-of-pocket expenses and direct dedicated labor costs) incurred by CAL in connection with the GARB Improvements and the SRB Improvements. Upon any such termination, City shall grant to CAL exclusive use rights with respect to the GARB Improvements (other than the interim and permanent rental car facilities, with respect to which CAL

shall to the fullest extent allowed by law receive a first priority security interest, subject to any security interest required to be created pursuant to the existing Trust Indenture governing City's GARB issuances, in the income stream therefrom evidenced by such documentation as CAL reasonably may request) and the SRB Improvements for the useful economic life (as determined in accordance with applicable tax law) of the GARB Improvements and the SRB Improvements, as applicable. At any time during such CAL exclusive use period, City may repurchase such rights from CAL at a cash price equal to the original amount of such costs to CAL less the amount of depreciation of such costs through the date of repurchase based upon a straight-line depreciation method utilizing as the depreciation period the useful economic life (as determined in accordance with applicable tax law) of the applicable improvements. City shall not be entitled to repurchase from CAL such exclusive use rights with respect to any portion of the SRB Improvements or the GARB Improvements without at the same time also repurchasing from CAL such exclusive use rights with respect to the remainder of the SRB Improvements and the GARB Improvements.

If GARBs shall have been issued at the time of such termination by CAL, City shall to the fullest extent legally possible reimburse CAL for such costs of the GARB Improvements and the SRB Improvements from the proceeds of the GARBs.

If GARBs shall not yet have been issued at the time of such termination by CAL, City shall to the fullest extent legally possible proceed promptly to issue GARBs and reimburse CAL for such costs of the GARB Improvements and the SRB Improvements from the proceeds thereof. Until such time as City shall have fully reimbursed CAL, reimbursement payments with respect to the GARB Improvements and the SRB Improvements shall be made by City to CAL from the Airport Improvement Fund, which shall be dedicated exclusively to reimburse CAL (as evidenced by documentation acceptable to CAL in its reasonable discretion) until such time as full reimbursement of CAL shall have been made. In the event that the Airport Improvement Fund shall cease to exist prior to CAL being fully reimbursed with respect to the GARB Improvements and the SRB Improvements, City shall so dedicate other sources of Airport funds from which City shall continue to make to CAL reimbursement payments at a level not less than the level of payments which previously had been made to CAL from the Airport Improvement Fund.

C. LIMITATION OF DAMAGES

1. In no event shall either party be liable to the other party for any special, incidental, indirect, punitive, reliance or consequential damage (including without limitation lost profits, revenues, or economic or business development opportunities), whether foreseeable or not, as a result of any breach of any of the provisions of this Memorandum of Understanding.
2. In the event of a termination of this Memorandum of Understanding, neither party shall be liable to the other party for (a) any of the other party's internal administrative expenses incurred, or any interest on any funds expended, in connection herewith, or (b) any amounts other than actual out-of-pocket expenses incurred by the non-defaulting party as a direct result of the breach and such termination resulting therefrom.

D. GENERAL

1. The foregoing provisions of this Section VII shall survive the termination of this Memorandum of Understanding, unless definitive agreements are executed as contemplated hereby, in which event the terms thereof shall control.
2. For purposes of this Memorandum of Understanding, the term "preferential use" shall mean use by CAL on a priority basis over all other users in connection with all of CAL's airline-wide scheduled and associated irregular operations.

VIII. NOTICES

All notices, requests and other communications under this Memorandum of Understanding shall be in writing and shall be deemed given (a) when made by personal delivery, (b) one day after being sent by a nationally recognized overnight courier for next day delivery, or (c) three days after being sent by U.S. registered or certified mail, postage prepaid, return receipt requested, in any such case addressed as follows:

If to CAL: Continental Airlines, Inc.
Suite 1401
2929 Allen Parkway

Houston, TX 77019
Attn: Holden Shannon
Staff Vice President
Corporate Real Estate

with a copy to: Continental Airlines, Inc.
2929 Allen Parkway, Suite 2010
Houston, TX 77019
Attn: Chief Financial Officer
General Counsel

If to City: William F. Cunningham, Jr.
Director, Department of Port Control
Cleveland Hopkins International Airport
5300 Riverside Drive
Cleveland, OH 44135

with a copy to: Sharon Sobol Jordan, Esq.
Director, Department of Law
Cleveland City Hall
Room 106
601 Lakeside Avenue
Cleveland, OH 44114

and a copy to: Frederick R. Nance, Esq.
Project Counsel
Squire, Sanders & Dempsey
Society Center
127 Public Square
Suite 4900
Cleveland, OH 44114

IX. NO THIRD PARTY BENEFICIARIES

1. This Memorandum of Understanding is for the sole benefit of CAL and City and their respective permitted successors and assigns, and shall not be construed as granting rights to any person or entity other than those parties or as imposing upon either such party any obligation to any person or entity other than the other party hereto.

X. COUNTERPARTS

1. This Memorandum of Understanding may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute the same instrument.

Exhibit I

1997 Concourse Expansion Budget

Exhibit J

GARB Improvements

(The following general descriptions of the GARB Improvements, as well as the attached diagrams, are subject to change through the normal course of submission and approval of plans and specifications pursuant to this Agreement.)

Exhibit J-1

Concourses C & D Public Areas
and
Concourse D Concession Areas

The proposed Concourse D will include certain space for concessions (currently estimated to be approximately 3,739 square feet), public circulation, public toilet rooms, drive-through lanes, and certain building support systems. (See Exhibit C for the allocation of the costs of certain building support systems as between Bonds and GARBs.)

The proposed public tunnel, currently estimated to be approximately 27,450 square feet and to include moving sidewalks, will be constructed between the existing Concourse C and the proposed Concourse D.

The following three pages are attached for the purpose of generally depicting the dimensions and locations of the above-described improvements.

Certain Utilities

New underground utility feeds will be required for Concourse D and the tunnel between Concourses C & D. Certain utility lines will be relocated to accommodate construction. Plans for utility construction and relocation are currently contemplated to include the following:

- - Water - A 12' water line and a 6' water line will be relocated to accommodate the construction of the tunnel. The 12' line will provide service for the new concourse. The water systems will take adequate account of fire protection.
- - Gas - An existing 4' gas service line will be disturbed during construction and will be replaced. An 8' gas line on S.R. 237 will provide gas service for the new Concourse D.
- - Sanitary Sewer - A 6' sanitary force main will be relocated to accommodate the construction of the tunnel. The sanitary outlet for Concourse D will be connected to this relocated main.
- - Storm Sewer - A 56' to 72' storm sewer will be relocated for the construction of the tunnel. The relocated pipe will be installed and constructed to meet FAA requirements and applicable drainage, spillage and storage requirements.
- - Electrical - New feeders and necessary duct work will be provided for the new Concourse D. Electrical capacity (in number of feeders) will be a minimum of twice the connected load so that a redundant feed is in operation.

The following two pages are attached for the purpose of generally depicting the dimensions and locations of the utilities improvements.

Aircraft Ramp & Other Aircraft Paving

The existing taxilane and apron areas adjacent to Concourse C will be expanded north to the exit road, east to S.R. 237 and south to Five Points Road. The C Concourse Ramp Taxilane will be widened to incorporate what is currently known as "Pad 3" (which pad is also part of this GARB Improvement) and a single taxilane for regional jets will be constructed to the south and east of Concourse D. The following page is attached for the purpose of generally depicting the location of Pad 3 and the relevant ramp areas and taxilanes.

Permanent Rental Car Facilities

Consolidated rental car facilities will be constructed on the "North Properties" area of the Airport and will be designed to accommodate those rental car companies offering rental car services at the Airport. The following three pages are attached to depict the general design of the proposed consolidated rental car facilities.

New Employee Parking Lot

An approximately 1200-space paved parking area will be built on the west side of the airfield known as the "Sundorph" site. The facility will be equipped with asphalt paving, fencing, lighting, access control, and bus shelters. The following two pages are attached to depict the general design and approximate location of the proposed lot.

Triturator

A triturator, sized comparably in capacity to that on Concourse C, will be built on the apron level of Concourse D, with appropriate access, connections, accessories, and vehicle door openings. Access will be from the west side, between Concourses C & D. The following page is attached to depict the proposed location of the triturator.

Exhibit J-7

Outbound Bag Room, Bag Claim & Security Check Point Expansion
in the Terminal Building

As depicted on the following two pages, improvements located in the Terminal Building are proposed to include an outbound bag room (of approximately 9,600 square feet), additional expansion above the bag room (of approximately 2,800 square feet), bag claim expansion (of approximately 6,000 square feet), and security check point expansion (of approximately 3,600 square feet).

Exhibit K

Letter Agreement

October 28, 1997

VIA TELECOPIER

Holden Shannon, Vice President
Corporate Real Estate
Continental Airlines, Inc.
2929 Allen Parkway
P.O. Box 4607
Houston, Texas 77210-4607

Re: CAL MII Approvals in Consideration of City AIP
and PFC Funding Commitments, Cleveland Hopkins
International Airport

Dear Holden:

This letter is to memorialize the agreements between the City of Cleveland and Continental Airlines, Inc. (CAL) with respect to capital projects to be undertaken by the City, the funding of those projects, and related matters.

PFC Funding

The City has agreed that it will apply 40% of the revenues from passenger facility charges (PFCs) collected at Cleveland Hopkins International Airport ("Hopkins") from the year 2000 through the year 2019 to the payment of debt service on the City's general airport revenue bonds (GARBs) issued for the capital projects identified in the attached Exhibit A and Exhibit B. The City will allocate those PFC revenues to eligible airfield project costs identified in Exhibit A and Exhibit B. Those collections will be accumulated during each year and deposited in the subsequent year to offset the expense that would otherwise be payable from airline landing fees.

On the basis of passenger forecasts provided by CAL, we currently project the 40% PFC collections over twenty years to amount to approximately \$197 million, assuming a \$3 PFC and subject to the City electing to apply for such funds, the FAA actually approving their collection, and the eligibility of projects for PFC funding. The actual amount of PFC collections may be higher or lower than the projected \$197 million; the commitment is for 40% of actual collections from the amount of PFCs actually imposed, regardless of the PFC level per passenger that is actually charged.

In the event the Special Facilities Lease Agreement is terminated, the City's agreement to apply PFC revenues to the payment of debt service, as described above, shall cease.

MII Support

In consideration of this PFC commitment by the City, CAL has agreed to unconditionally provide MII approval for the following projects (collectively, the "Capital Projects"), subject to the 110% cap on the Phase II projects (as described below): (i) the capital projects listed in Exhibit A under the caption "1997 MII Request" and approved by Continental on August 11, 1997 in response to the June 27, 1997 MII submission to CAL and the other signatory airlines presented at the July 31, 1997 meeting (the "1997 MII Request"), then estimated to cost approximately \$266,188,000; (ii) two projects identified subsequent to the 1997 MII Request that the City seeks to include in the 1997 GARB financing, consisting of the runway lighting improvements and CAL outbound baggage expansion described in Exhibit B (the "1997 Supplemental MII Request"), estimated to cost \$8,726,000; (iii) the additional capital projects listed in Exhibit A under the caption "Phase 2 CIP (partial list)", estimated to cost approximately \$132,446,000, (the "Phase II projects"); (iv) expenditures from the Airport Improvement Fund of up to \$20 million beginning in 1998 for new infrastructure improvements (the "Infrastructure Improvements") and (v) 22% for construction management and contingency for the Phase II projects and Infrastructure Improvements. CAL agrees that it will take such actions as may be requested by the City to implement CAL's support of the 1997 Supplemental MII Request projects, the Phase II projects, and the Infrastructure Improvements under the procedures required by Section 8.07 of the Agreement and Lease between the City and Airline dated as of May 15, 1987 (the "Original Agreement"), including the timely delivery of its vote in support of those projects.

The City acknowledges that CAL's support for the Phase II

projects is subject to an aggregate cap of 110% for all the Phase II projects. In the event the cost to complete these projects exceed such 10% cap, the City will advise CAL and seek CAL's input on its plans to reduce the costs of the Phase II projects.

AIP Funding

The City will exercise in good faith its best efforts to maximize the Airport Improvement Program (AIP) funds available to support projects eligible for AIP funding to a level equal to the lesser of (i) 50% of the aggregate costs of the projects eligible for AIP funding, or (ii) the maximum level of AIP funding for which the projects are eligible. Such AIP eligibility shall be determined in accordance with the Airport Improvement Program Handbook promulgated by the FAA or as otherwise determined by the FAA. To implement these efforts, the City has agreed to reduce the principal amount of GARBs issued in 1997 by an amount approximating the amount of AIP grants that CAL believes the City might obtain (\$44,876,000) for the 1997 MII Request projects. Specifically, the City will defer the issuance of GARBs from 1997 to early 1999 for the following projects: new runway construction (\$28,653,000); ROW/CEI powerline (\$11,907,000); and design of Pacific Rim runway (\$4,330,000). The City also will defer a major portion of the new roadway construction.

While the City remains committed to aggressively seeking AIP funding for eligible projects and has already initiated discussions with the FAA regarding a Letter of Intent, we do not expect to be entirely successful in obtaining this level of AIP grants in the context of the current federal funding environment. Therefore, in the event the City does not receive this projected level of AIP funding (approximately \$45 million for the 1997 MII Request projects), it will be necessary to issue additional bonds (probably in early 1999) to complete the financing. This subsequent bond issue will not require additional MII approval because Continental provided its approval to proceed with all projects in the 1997 MII Request on August 11, 1997. The City will endeavor to finance such subsequent project costs in a consolidated bond issue, currently anticipated for 1999, rather than with a special, separate financing.

As you know, the City must certify that it has no deposit funds sufficient to pay amounts owed under a contract before the City can enter into a contract. It typically takes a minimum of three months for the City to complete a general airport revenue bond issue. Consequently, in order that construction of the approved projects not be delayed, it may be necessary for the City to undertake issuing another series of bonds before a final notification of AIP funding has been received.

As noted earlier, the City has already initiated the AIP lobbying process and has received the following guidance and feedback from the FAA's Detroit Airport District Office and Great Lakes Region:

1. The FAA suggested that instead of submitting multiple applications at 50% AIP participation for each eligible project, the City should instead apply for 75% AIP funding (the maximum permitted for Hopkins) for "big ticket" projects and, in essence, get to the same level of AIP funding. The FAA discouraged the City from processing numerous applications for "extraneous" eligible projects, many of which would have low ranking under AIP criteria and therefore a low probability for funding.

2. The FAA wants the City to apply for a Letter of Intent (LOI) for the three runway projects - the new 6,450-foot runway, the extension of the 6,450-foot runway, and the Pacific Rim runway - and bundle together the various elements of each project. These bundled projects will receive the highest priority for AIP funding based on the FAA's ranking criteria. The City left open the possibility of adding more big ticket projects to the LOI request, including the new roadway project.

3. The FAA is considering an LOI with a minimum term of ten years whereby the City would obligate all of its entitlement grants over this period (estimated to be about \$25 million if the AIP program continues in its current form) with the balance coming from discretionary grants.

In light of AIP eligibility restrictions and the AIP ranking criteria which favor runway projects, we believe that the City's changes of securing AIP funding for the 1997 MII Request would be maximized under the FAA's preferred approach to request 75% funding for high priority projects as illustrated below for just the three runway project elements under the 1997 MII Request.

Project/Element	Total Cost	AIP @ 75%
1. New 6,450-foot runway	\$51,374,000	\$38,531,000
2. Extension of 6,450-foot runway (Phase I)	13,365,000	10,024,000

3. Pacific Rim Runway design	4,330,000	3,248,000
Total - 1997 MII Request elements	\$69,069,000	\$51,803,000
CAL AIP goal		\$44,876,000
Excess over CAL AIP goal		\$ 6,927,000

CAL agrees to support the City's application to obtain such AIP funding.

Location of Concourse D

The location proposed by CAL for the new Concourse D, as depicted on the informational drawing A2SI1 last revised September 2, 1997 and attached as Exhibit C is acceptable to the City, subject to confirmation of the scale and location shown in that drawing by a licensed surveyor retained by the City.

Once again, I wish to thank you and your team for the hard work you have performed in reaching these agreements. We certainly appreciate the investment in Cleveland that these agreements represent.

Please indicate CAL's acceptance and agreement as to the matters herein by signing on behalf of CAL in the space provided below and returning this letter to me.

Sincerely,

William F. Cunningham, Jr., A.A.E.
Director of Port Control

Holden Shannon,
Vice President
Continental Airlines, Inc.

cc: Mayor Michael R. White (w/enc.)
Kenneth G. Silliman, Esq. (w/enc.)
Eric N. Waldron, A.A.E. (w/enc.)
Rachel Nigro Scalish, Esq. (w/enc.)
Frederick Nance, Squire, Sanders & Dempsey (w/enc.)
Wayne Herndon, Continental Airlines, Inc. (w/enc.)

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 20, 1999 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, 1998 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 Company's Registration Statement on Form S-3 (No. 333-07899) relating to the Company's 6-3/4% Convertible Subordinated Notes and the related Offering Circular;
- (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; and
- (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.

/s/ Ernst & Young LLP

Houston, Texas
February 23, 1999

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, 1998 (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 17, 1999

By: /s/ Gordon M. Bethune
Print Name: Gordon M. Bethune

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, 1998 (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 17, 1999

By: /s/ Lawrence W. Kellner
Print Name: Lawrence W. Kellner

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 17, 1999

By: /s/ Michael P. Bonds
Print Name: Michael P. Bonds

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 17, 1999

By: /s/ Thomas J. Barrack, Jr.
Print Name: Thomas J. Barrack, Jr.

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 17, 1999

By: /s/ Lloyd M. Bentsen, Jr.
Print Name: Lloyd M. Bentsen, Jr.

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 17, 1999

By: /s/ David Bonderman
Print Name: David Bonderman

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 17, 1999

By: /s/ Gregory D. Brenneman
Print Name: Gregory D. Brenneman

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 17, 1999

By: /s/ Patrick Foley
Print Name: Patrick Foley

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 17, 1999

By: /s/ Douglas McCorkindale
Print Name: Douglas

McCorkindale

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 17, 1999

By: /s/ George G.C. Parker
Print Name: George G.C. Parker

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 17, 1999

By: /s/ Richard W. Pogue
Print Name: Richard W. Pogue

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 17, 1999

By: /s/ William S. Price III
Print Name: William S. Price III

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 17, 1999

By: /s/ Donald L. Sturm
Print Name: Donald L. Sturm

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 17, 1999

By: /s/ Karen Hastie Williams
Print Name: Karen Hastie Williams

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 17, 1999

By: /s/ Charles A. Yamarone
Print Name: Charles A. Yamarone

12-MOS
DEC-31-1998
DEC-31-1998
1,399
0
449
22
166
2,354
3,065
803
7,086
2,442
0
111
0
1
1,192
7,086
7,951
0
7,250
0
178
648
248
387
0
4
0
383
6.34
5.02

CONTINENTAL AIRLINES, INC.
DEFERRED COMPENSATION PLAN TRUST AGREEMENT

TABLE OF CONTENTS

ARTICLE I	: GENERAL TRUST PROVISIONS	I-1
ARTICLE II	: GENERAL DUTIES OF THE PARTIES	II-1
ARTICLE III	: INVESTMENT, ADMINISTRATION AND DISBURSEMENT OF TRUST FUND	III-1
ARTICLE IV	: SETTLEMENT OF ACCOUNTS	IV-1
ARTICLE V	: TAXES, EXPENSES AND COMPENSATION OF TRUSTEE	V-1
ARTICLE VI	: FOR PROTECTION OF TRUSTEE	VI-1
ARTICLE VII	: INDEMNITY OF TRUSTEE	VII-1
ARTICLE VIII	: RESIGNATION AND REMOVAL OF TRUSTEE . . .	VIII-1
ARTICLE IX	: DURATION AND TERMINATION OF TRUST AND AMENDMENT	IX-1
ARTICLE X	: CLAIMS OF COMPANY'S CREDITORS	X-1
ARTICLE XI	: ADOPTING ENTITIES	XI-1
ARTICLE XII	: MISCELLANEOUS	XII-1

CONTINENTAL AIRLINES, INC.
DEFERRED COMPENSATION PLAN TRUST AGREEMENT

THIS AGREEMENT AND DECLARATION OF TRUST, made this _____ day of December, 1998, by and between (i) CONTINENTAL AIRLINES, INC. (hereinafter referred to as the "Company") and (ii) CHASE BANK OF TEXAS, N.A. (hereinafter referred to as the "Trustee").

WHEREAS, the Company has established the CONTINENTAL AIRLINES, INC. DEFERRED COMPENSATION PLAN (hereinafter referred to as the "Plan") for the benefit of certain individuals who are eligible for benefits under the terms of the Plan (such individuals being referred to herein as the "Members"), which Plan provides for the payment of certain deferred compensation benefits (the "Benefits") to the Members and the beneficiaries of the respective Members who may become entitled to any payments under the terms of the Plan in the event of the Member's death ("Beneficiaries"); and

WHEREAS, the Plan contemplates that the Company will pay the entire cost of the Benefits from its general assets; and

WHEREAS, the Company desires to adopt the CONTINENTAL AIRLINES, INC. DEFERRED COMPENSATION PLAN TRUST AGREEMENT (the "Trust Agreement") establishing a trust (the "Trust") to aid the Company in meeting its obligations under the Plan; and

WHEREAS, the Trust is intended to be a "grantor trust" with the corpus and income of the Trust treated as assets and income of the Company for federal income tax purposes; and

WHEREAS, the Company intends that the assets of the Trust shall at all times be subject to the claims of general creditors of the Company as provided in Article X; and

WHEREAS, the Company intends that the existence of the Trust shall not alter the characterization of the Plan as "unfunded" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and shall not be construed to provide income to any Member prior to actual payment of Benefits under the Plan; and

WHEREAS, other adopting entities have adopted the Plan and other adopting entities may adopt the Plan in the future, and the Company desires to permit such entities to adopt separate subtrusts hereunder that are substantially similar to the Trust; and

WHEREAS, under the Trust, the Trustee covenants that it will hold all property which it may receive hereunder, IN TRUST, for the uses and purposes and upon the terms and conditions hereinafter stated;

NOW, THEREFORE, the parties hereto establish the Trust, effective January 1, 1999, and agree, as follows:

ARTICLE I

General Trust Provisions

1.1 Establishment of Trust. The Company hereby adopts this Trust Agreement. The Trust shall consist of such sums of money and other property acceptable to the Trustee as from time to time shall be paid or delivered to the Trustee by the Company. All such money and other property, all investments and reinvestments made therewith or proceeds thereof and all earnings and profits thereon, less all payments and charges as authorized herein, shall constitute the "Trust Fund." The Trust Fund shall at all times be subject to the claims of general creditors of the Company as provided in Article X. No Member or Beneficiary shall have any preferred claim to, or any beneficial ownership interest in, any assets of the Trust Fund prior to the time such assets are paid to such Member or Beneficiary as Benefits.

1.2 Separate Sub-Trusts. Contrary provisions of the Trust notwithstanding, except as provided in Article XI, the provisions of the Trust shall apply separately and equally to the Company and to each adopting entity that has entered into this Trust Agreement pursuant to Article XI. The Company and each such adopting entity shall bear the cost of providing Benefits for its own Members and their Beneficiaries, and the portion of the Trust Fund attributable to the contributions of the Company and each such adopting entity shall be available to provide benefits only to the Company's or such adopting entity's (as applicable) Members and their Beneficiaries or to satisfy claims of the Company's or such adopting entity's (as applicable) Bankruptcy Creditors in the event the Company or such adopting entity (as applicable) become Insolvent (as such terms are defined in Section 10.1).

1.3 Trust Irrevocable. The Trust shall be irrevocable and shall be held for the exclusive purpose of providing benefits under the Plan to Members and their Beneficiaries and defraying expenses of the Trust in accordance with the provisions of this Trust Agreement. Except as provided in Sections 3.6(c) and 3.6(d) and Articles IX and X hereof, no part of the income or corpus of the Trust Fund shall be recoverable by or for the Company.

1.4 Non-Alienation. No right or interest to receive benefits from the Trust may be assigned, sold, anticipated, alienated or otherwise transferred by any Member or Beneficiary.

1.5 Acceptance by Trustee. The Trustee accepts the Trust established under this Trust Agreement on the terms and subject to the provisions set forth herein, and it agrees to discharge and perform fully and faithfully all of the duties and obligations imposed upon it under this Trust Agreement.

ARTICLE II

General Duties of the Parties

2.1 General Duties of the Company and the Trustee.

(a) The Company has provided or will provide the Trustee with a copy of the Plan and shall provide the Trustee with a copy of any amendment to the Plan promptly upon its adoption. The Plan, as of the date of execution of this Trust Agreement, is hereby incorporated by reference into and shall form a part of this Trust Agreement as fully as if set forth herein verbatim. Any amendment to the Plan shall also be incorporated by reference into and form a part of this Trust Agreement, effective as of the effective date of such amendment. As soon as administratively practicable after December 31, 1999, the Company shall prepare and deliver to the Trustee a schedule (the "Benefit Schedule," as amended from time to time as provided herein) setting forth as of such date (1) the name and mailing address of each Member entitled to receive Benefits, (2) the Beneficiaries, if any, designated by each Member, and (3) the aggregate balance of each Member's Account (as such term is defined in the Plan) and subaccount thereof. The Company shall be responsible for notifying the Trustee of any changes in the information set forth on the Benefit Schedule, including, but not limited to, the addition of new Members and a change in the mailing address of a Member.

(b) Subject to the provisions of Section 2.1(c), beginning in the year 2001, (1) prior to the occurrence of a Change in Control (as such term is defined in Section 12.4), the Company shall prepare and deliver to the Trustee by March 31 of each year a completely updated Benefit Schedule as of the preceding December 31, and (2) from and after the occurrence of a Change in Control, the Trustee shall keep the Benefit Schedule accurate and current, including but not limited to, preparing by March 31 of each year a completely updated Benefit Schedule as of the preceding December 31 with such assistance from the Company and third parties as may be necessary in order to permit distributions from the Trust Fund to be made in accordance with the provisions of Section 3.6. The Company shall keep accurate books and records with respect to the eligibility of individuals to participate in the Plan and the Benefits payable under the Plan, and shall provide such information to the Trustee and any third party referred to in the immediately preceding sentence and shall also provide access to such books and records at such time or times as the Trustee shall reasonably request.

(c) If, at any time, the Company fails or refuses to give the Trustee an updated Benefit Schedule or, if applicable, data or access to such books and records in accordance with Section 2.1(b), the Trustee shall deliver a written request to the Company to provide such Benefit Schedule or, if applicable, access to books and records of the Company and to provide such data as required in accordance with Section 2.1(b) for the Trustee to keep the Benefit Schedule accurate and current. If the Company fails or refuses to comply with the Trustee's written request pursuant to the preceding sentence prior to the expiration of thirty days from the date of delivery thereof by the Trustee, the Trustee shall, after ten days written notice to the Company, immediately pay to each Member an amount equal to such Member's aggregate account balance ("Account Balance") as set forth on the most recent Benefit Schedule, reduced by any taxes to be withheld pursuant to Section 3.6. Such payment shall be made in accordance with the provisions of Section 3.6. For this purpose, the Company shall be deemed to have complied with the Trustee's written request if, in the Trustee's judgment, it shall have substantially complied at the end of the thirty-day period and is endeavoring in good faith to complete compliance without delay.

(d) The administrative committee charged with the general administration of the Plan (the "Committee") shall notify each Member and Beneficiary of a then deceased Member in writing of any changes in the Benefit Schedule with respect to such Member or Beneficiary.

(e) It is intended that Benefits payable to Members shall be determined under the provisions of the Plan and shall be calculated under the provisions of the Plan as of the date of payment. Payment of Benefits shall be based upon the amounts set forth on the Benefit Schedule only under the circumstances set forth in Section 2.1(c). If the actual Benefits payable to a Member under the provisions of the Plan exceeds the amount set forth on the Benefit Schedule which is paid pursuant to Section 2.1(c), the Company shall be liable for payment of the remaining portion of such Benefits.

(f) Trust provisions to the contrary notwithstanding, the Company shall have the right at any time, and from time to time, in its sole discretion, to substitute marketable securities

of equal fair market value for any asset held by the Trust. This right is exercisable by the Company in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity.

(g) As soon as administratively practicable after each date upon which an amount is credited to a Member's "Account" under the Plan pursuant to Section 3.1 of the Plan, the Company shall contribute an equivalent amount to the Trust.

2.2 Additional General Duties of Trustee. The Trustee shall manage, invest and reinvest the Trust Fund as the Trustee may determine in the exercise of its fiduciary duties hereunder, consistent with the provisions of Article III. The Trustee shall collect the income on the Trust Fund, and make distributions therefrom, all as hereinafter provided.

ARTICLE III

Investment, Administration and Disbursement of Trust Fund

3.1 Investment of Trust Fund. The following provisions shall apply with respect to the investment of the Trust Funds:

(a) At any time prior to the occurrence of a Change in Control, the Trustee shall invest and reinvest the assets of the Trust Fund in accordance with the written directions received from time to time by the Trustee from the Committee. Specifically, but not by way of limitation, the Committee may, in its discretion, direct the Trustee to follow the deemed investment directions of each Member or Beneficiary of a deceased Member, whether written or telephonic, with respect to a portion of the Trust Fund assets equal in value to the Account Balance maintained under the Plan on behalf of such individual, within parameters established by, and as agent for, the Committee;

(b) To the extent that the Trustee is directed by the Committee, the Trustee may invest in securities (including stock or rights to acquire stock) or obligations issued by the Company;

(c) To the extent that the Trustee is directed by the Committee, the Trustee may establish one or more separate investment accounts within the Trust Fund, each separate account being hereinafter referred to as a Fund. Except as otherwise provided, the Trustee shall transfer to each such Fund such portion of the assets of the Trust Fund as the Committee directs. The Trustee shall be under no duty to question, and shall not incur any liability on account of following, any direction of the Committee. The Trustee shall be under no duty to review the investment guidelines, objectives, and restrictions established, or the specific investment directions given by the Committee for any Fund, or to make suggestions to the Committee in connection therewith. To the extent that directions from the Committee to the Trustee represent deemed investment elections of the Members, the Trustee shall have no responsibility for such investment elections and shall incur no liability on account of investing the assets of the Trust Fund in accordance with such directions. All interest, dividends, and other income received with respect to, and any proceeds received from the sale or other disposition of securities or other property held in, a Fund shall be credited to and reinvested in such Fund. All expenses of the Trust Fund which are allocable to a particular Fund shall be so allocated and charged. The Committee may direct the Trustee to eliminate a Fund or Funds, and the Trustee shall thereupon dispose of the assets of such Fund and reinvest the proceeds thereof in accordance with the directions of the Committee; and

(d) From and after the occurrence of a Change in Control, or if the Committee fails to provide the Trustee with such written directions, the Trustee shall have, with respect to the Trust Fund, power in its discretion to invest and reinvest such assets in (i) common and preferred stocks, bonds, notes (whether secured or unsecured) and debentures (including convertible stocks and securities but not including any stock, debt instruments, or other securities of the Company, the Trustee or their affiliates) which are readily marketable and listed on a United States national securities exchange or the NASDAQ national market, (ii) interest-bearing deposit accounts or certificates of deposit maturing within one year after acquisition thereof, entered into or issued by a United States national or state bank or trust company having capital, surplus and undivided profits, at the holding company level, of at least \$75 million, (iii) direct obligations of, and obligations fully guaranteed by, the United States of America or any agency of the United States of America which is backed by the full faith and credit of the United States of America (so long as such obligations shall mature within one year after acquisition thereof), (iv) any common, collective or commingled fund, including a fund maintained by the Trustee, established and maintained primarily for the purpose of investing and reinvesting in assets of the type described in (i), (ii) or (iii) above, and (v) insurance contracts issued by one or more insurance companies. Further, notwithstanding the provisions of the preceding sentence, after the occurrence of a Change in Control or in the event the Committee fails to provide the Trustee with written directions pursuant to the preceding provisions of this Section 3.1, the Trustee shall have the power in its discretion to retain, maintain, continue, sell, or take any other actions relative to any assets then held in the Trust Fund (including, without limitation, to take actions in accordance with investment directions obtained directly from

a Member or Beneficiary of a deceased Member with respect to a portion of the Trust Fund assets equal in value to the Account Balance maintained under the Plan on behalf of such individual).

3.2 Valuation of Trust Fund. As soon as practicable after the last day of each calendar year and as of such other dates as may be specified by the Company or the Committee, the Trustee shall report to the Company and the Committee the assets held in the Trust Fund as of such day and shall determine and include in such report the fair market value as of such day of each such asset. In determining such fair market values, the Trustee shall use such market quotations and other information as are available to it and may in its discretion be appropriate. The report of any such valuation shall not constitute a representation by the Trustee that the amounts reported as fair market values would actually be realized upon the liquidation of the Trust Fund. The Trustee shall not be accountable to the Company or to any other person on the basis of any such valuation, but its accountability shall be in accordance with the provisions of Article IV hereof.

3.3 Additional Investment Powers of Trustee. Subject to the provisions of Sections 3.1, 3.6 and 9.2 hereof, the Trustee shall have, with respect to the Trust Fund, the power in its discretion:

(a) To retain any property at any time received by it;

(b) To sell, exchange, convey, transfer or dispose of, and to grant options for the purchase or exchange with respect to, any property at any time held by it;

(c) To register and carry any securities or any other property in the name of the Trustee, or in the name of the nominee of the Trustee (or to hold any such property unregistered) without increasing or decreasing the fiduciary liability of the Trustee, and to exercise any option, right or privilege to convert any convertible securities, including shares or fractional shares of the Trustee so long as the conversion privilege is offered pro rata to all shareholders;

(d) To cause any securities to be held in book-entry or in bearer form;

(e) To hold property for investment that may be unproductive of income; and

(f) To hold uninvested at any time, without liability for interest thereon for a reasonable period of time, any money received by the Trustee until the same shall be reinvested or disbursed.

3.4 Administrative Powers of Trustee. The Trustee shall have the power in its discretion:

(a) To exercise all voting and other rights with respect to the shares of stock held in the Trust Fund and to grant proxies, discretionary or otherwise; provided, however, that, prior to the occurrence of a Change in Control, (1) the Committee shall direct the Trustee with respect to all such matters other than with respect to stock issued by the Company or its affiliates, and (2) the Trustee shall exercise all voting and other rights with respect to stock issued by the Company or its affiliates;

(b) To cause any shares of stock to be registered and held in the name of one or more of its nominees, or one or more nominees of any system for the central handling of securities, without increase or decrease of liability;

(c) To collect and receive any and all money and other property due to the Trust Fund and to give full discharge therefor;

(d) Subject to the provisions of Section 3.6 hereof: to settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Trustee; to commence or defend suits or legal proceedings to protect any interest of the Trust; and to represent the Trust in all suits or legal proceedings in any court or before any other body or tribunal;

(e) To organize under the laws of any state a corporation or limited liability company for the purpose of acquiring and holding title to any property which it is authorized to acquire under this Trust Agreement and to exercise with respect thereto any or all of the powers set forth in this Trust Agreement;

(f) To determine how all receipts and disbursements shall be credited, charged or apportioned as between income and principal;

(g) To determine the amount and time of Benefit payments in accordance with Section 3.6;

(h) To employ and compensate such attorneys, counsel, brokers or other agents or employees and to delegate to them such of the duties, rights and powers of the Trustee as may be deemed advisable in handling and administering the Trust; and

(i) Generally to do all acts, whether or not expressly authorized, which the Trustee may deem necessary or desirable for the protection of the Trust Fund.

3.5 Dealings with Trustee. Persons dealing with the Trustee shall be under no obligation to see to the proper application of any money paid or property delivered to the Trustee or to inquire into the Trustee's authority as to any transaction.

3.6 Distributions from Trust Fund.

(a) Except as set forth in Section 3.6(c), Section 3.6(d), Section 9.2 and Article X hereof, distributions from the Trust Fund shall be made by the Trustee to the Members and Beneficiaries at the times and in the amounts determined in accordance with the provisions of the Plan and, to the maximum extent permitted by applicable law, the Trustee shall be fully protected in so doing. Any amounts so paid shall be reduced by the amount of any federal, state, or local income or other taxes that may be required by law to be withheld or paid by the Trustee or the Company. To the extent required by applicable law, the Trustee shall withhold, pay, and report such amounts to the appropriate governmental authorities. To the extent the withholding and reporting obligations belong to the Company and not to the Trustee, the Trustee shall pay to the Company the appropriate withholding amount. The Company, the Committee, the Members, and the Beneficiaries shall provide the Trustee with all of the information necessary for the Trustee to determine the amount of such taxes required to be withheld or paid by the Trustee or the Company, and the Trustee shall be fully protected in relying upon such information. Notwithstanding any provision of this Trust Agreement to the contrary, the Company shall be obligated to pay the Benefits. To the extent that the Trust Fund is not sufficient to pay any Benefit when due, the Company shall pay such Benefit directly. In the event Benefits are due to more than one Member or Beneficiary on the same date and the Trust Fund is not sufficient to pay all such Benefits, the Trust Fund shall be applied pro rata among such Members and Beneficiaries on the basis of the Benefits due to be paid such individuals on such date. Nothing in this Trust Agreement shall relieve the Company of its liabilities to pay Benefits except to the extent such liabilities are met by application of Trust Fund assets.

(b) Prior to the occurrence of a Change in Control, the Committee shall direct the Trustee in writing as to the time and amount of Benefits to be distributed to the Members and Beneficiaries. From and after the occurrence of a Change in Control, a Member or Beneficiary who believes that he or she is entitled to Benefits may apply in writing directly to the Trustee for payment of such Benefits. Such application shall advise the Trustee of the circumstances which entitle such Member or Beneficiary to payment of such Benefits. The Trustee shall, in such case, reach its own independent determination as to the Member's or Beneficiary's entitlement to Benefits, even though the Trustee may be informed from another source (including the Company or the Committee) that payments are not due under the Plan. If the Trustee so desires, it may, in its sole discretion, make such additional inquiries and/or take such additional measures as it deems necessary in order to enable it to determine whether Benefits are due and payable, including, but not limited to, interviewing appropriate persons, requesting affidavits, soliciting oral or written testimony under oath, or holding a hearing or other proceeding. After the occurrence of a Change in Control, the Trustee shall determine whether Benefits are payable as promptly as possible.

(c) At any time and from time to time, the Committee may direct the Trustee in writing to distribute to the Company cash held by the Trustee as part of the Trust Fund in an amount equal to the Benefits accrued under the Plan that have been forfeited under the terms of the Plan. As soon as practicable after receipt of such a direction and, if such direction is received by the Trustee after the occurrence of a Change in Control, the Trustee's independent determination that such benefits have, in fact, been forfeited in accordance with the terms of the Plan, the Trustee shall distribute such amount to the Company.

(d) At any time and from time to time prior to the occurrence of a Change in Control, the Company may apply in writing to the Trustee for a distribution by the Trustee to the Company of assets held by the Trustee as part of the Trust Fund ("Trust Assets") in an amount (the "Refund Amount") equal to or less than

the difference, if any, between (i) the Net Fair Market Value of the Trust Assets (as such term is hereinafter defined) as of the last day of the month coincident with or immediately preceding the date of such application, and (ii) 125% of the aggregate Account Balances for all Members and Beneficiaries as of such date. Such application shall advise the Trustee of the manner in which the Refund Amount was calculated. Upon the receipt of such an application from the Company, the Trustee shall reach its own independent determination as to the Company's entitlement to the Refund Amount, even though the Trustee may be informed from another source (including a Member) that the Company is not entitled to the Refund Amount. If the Trustee so desires, it may, in its sole discretion, make such additional inquiries and/or take such additional measures as it deems necessary in order to enable it to determine whether the Company is entitled to the Refund Amount, including, but not limited to, interviewing appropriate persons, requesting affidavits, soliciting oral or written testimony under oath, or engaging such independent third parties as the Trustee may deem necessary to assist in making such determination. In addition, the Trustee may rely conclusively upon, and shall be protected in relying upon, information received from a third party engaged by the Company as the recordkeeper for the Plan with respect to the aggregate Account Balances for all Members and Beneficiaries as of the relevant date. The Trustee shall determine whether the Company is entitled to all or any portion of the Refund Amount as promptly as possible. If the Trustee determines that the Company is entitled to all or any portion of the Refund Amount, then the Trustee shall distribute such amount to the Company in cash or in kind as determined by the Trustee in its sole discretion. As used herein, the term "Net Fair Market Value of the Trust Assets" shall mean the fair market value of the Trust Assets, as determined by the Trustee in its sole discretion, reduced by all liabilities of the Trust, whether or not such liabilities are secured by any or all of the Trust Assets, other than liabilities to Members or Beneficiaries under the Plan. In determining such fair market value, the Trustee shall use such market quotations and other information as are available to it and may in its discretion be appropriate; provided, however, that the fair market value of any life insurance contract which constitutes a portion of the Trust Assets shall be its net cash surrender value. The determination of the Net Fair Market Value of the Trust Assets by the Trustee shall not constitute a representation by the Trustee that the amounts reported as fair market values would actually be realized upon the liquidation of the Trust Assets. The Trustee shall not be accountable to the Company or to any other person, including the Members or Beneficiaries, on the basis of any such valuation except as otherwise provided in this Trust Agreement.

(e) The Trustee may engage its own counsel or other experts to assist it in making any determination under Section 3.6(a), (b), (c), (d) or (g) hereof. The cost of such counsel or other expert assistance, and any other costs reasonably incurred by the Trustee in making any such determination, shall be borne by the Company. If the Company fails to pay any such costs when due or requested by the Trustee, the Trustee may use the assets of the Trust Fund to pay them as provided in Section 5.2.

(f) The Trustee shall not itself commence any legal action, whether in the nature of an interpleader action, request for declaratory judgment or otherwise, requesting a court to make a determination under Section 3.6(a), (b), (c) or (d) hereof in the Trustee's stead without first using its best efforts to make such determination.

(g) Notwithstanding any other provision of this Trust Agreement, if any amounts held in the Trust are found in a "determination" (within the meaning of Section 1313(a) of the Internal Revenue Code of 1986, as amended) to have been includible in gross income of a Member or Beneficiary prior to payment of such amounts from the Trust, the Trustee shall, as soon as practicable after receiving notice thereof, pay such amounts to such Member or Beneficiary, as applicable, (but not in excess of such Member's or Beneficiary's Account Balance at the time of such payment). For purposes of this Section 3.6, the Trustee shall be entitled to rely on an affidavit by a Member or Beneficiary, as applicable, and a copy of the determination to the effect that a determination described in the preceding sentence has occurred.

ARTICLE IV

Settlement of Accounts

The Trustee shall keep full accounts of all of its receipts and disbursements. The Trustee's books and records with respect to the Trust Fund shall be open to inspection by the Company, any Member, or any Beneficiary of a deceased Member, or their representatives at all times during business hours of the Trustee. Within sixty days after December 31 of each year (or such other date as may be agreed to by the Company and the Trustee), or any termination of the duties of the Trustee, the Trustee shall prepare, sign and mail to the Company and the Committee an account of its acts and transactions as Trustee hereunder. If, within sixty days after the mailing of the account or any amended account, the Company and the Committee have not filed with the Trustee notice of any objection to any act or transaction of the Trustee, the account or amended account shall become an account stated. If any objection has been filed, and if the objecting party is satisfied that it should be withdrawn or if the account is adjusted to the objecting party's satisfaction, the objecting party shall in writing filed with the Trustee signify its approval of the account and it shall become an account stated. When an account becomes an account stated, such account shall be finally settled, and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee, the Company and the Committee were parties. The Trustee, the Company or the Committee shall have the right to apply at any time to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as hereinabove provided. In any such action or proceeding it shall be necessary to join as parties the Trustee, the Company and the Committee and any judgment or decree entered therein shall be conclusive upon all such parties.

ARTICLE V

Taxes, Expenses and Compensation of Trustee

5.1 Taxes. The Company agrees that all income, deductions, and credits of the Trust Fund belong to it as owner for income tax purposes and will be included on the Company's income tax returns. The Company shall from time to time pay taxes (references in this Trust Agreement to the payment of taxes shall include interest and applicable penalties) of any and all kinds whatsoever which at any time are lawfully levied or assessed upon or become payable in respect of the Trust Fund, the income or any property forming a part thereof, or any security transaction pertaining thereto. To the extent that any taxes levied or assessed upon the Trust Fund are not paid by the Company or contested by the Company pursuant to the last sentence of this Section 5.1, the Trustee shall pay such taxes out of the Trust Fund and the Company shall upon demand by the Trustee deposit into the Trust Fund an amount equal to the amount paid from the Trust Fund to satisfy such tax liability. If requested by the Company, the Trustee shall, at Company expense, contest the validity of such taxes in any manner deemed appropriate by the Company or its counsel, but only if it has received an indemnity bond or other security satisfactory to it to pay any expenses of such contest. Alternatively, the Company may itself contest the validity of any such taxes, but any such contest shall not affect the Company's obligation to reimburse the Trust Fund for taxes paid from the Trust Fund.

5.2 Expenses and Compensation. The Trustee shall be paid compensation by the Company as the Company and the Trustee may from time to time agree. The Trustee shall be reimbursed by the Company for its reasonable expenses of management and administration of the Trust, including reasonable compensation of counsel and any agent engaged by the Trustee to assist it in such management and administration. In the event that the Company shall fail or refuse to pay such compensation or make such reimbursement within sixty days of demand, the Trustee may satisfy such obligations out of the assets of the Trust Fund; in that event, the Company shall immediately upon demand by the Trustee deposit into the Trust Fund a sum equal to the amount paid by the Trust Fund for such fees and expenses.

ARTICLE VI

For Protection of Trustee

6.1 Communications with the Company, the Committee and the Members.

(a) The Company shall certify to the Trustee the name or names of any person or persons authorized to act for the Company and for the Committee. Such certification shall be signed by an officer of the Company. Until the Company notifies the Trustee, in a similarly signed notice, that any such person is no longer authorized to act for the Company or for the Committee, as applicable, the Trustee may continue to fully rely upon the authority of such person.

(b) The Trustee may fully rely upon any certificate, notice or direction of the Company or the Committee which the Trustee reasonably believes to have been signed by a duly authorized officer or agent of the Company or the Committee, as applicable.

(c) Communications to the Trustee shall be sent in writing to the Trustee at 600 Travis Street, Tenth Floor, Houston, Texas 77002, or to such other address as the Trustee may specify. No communication shall be binding upon the Trust Fund or the Trustee until it is received by the Trustee and unless it is in writing and signed by an authorized person.

(d) Communications to the Company shall be sent in writing to the Company at 1600 Smith Street, Dept. HQSEO, Houston, Texas 77002, Attention: General Counsel, or to such other address as the Company may specify in writing to the Trustee. Communications to the Committee shall be sent in writing to the Company's address, Attention: Deferred Compensation Plan Administrative Committee. Communications to a Member or Beneficiary shall be sent in writing to the address of such person as stated on the Benefit Schedule, or to such other address as such person may specify in writing to the Trustee. No communication shall be binding upon the Company, the Committee, or a Member or Beneficiary until it is received by such person.

6.2 Advice of Counsel. The Trustee may consult with any legal counsel with respect to the construction of this Trust Agreement, its duties hereunder or any act which it proposes to take or omit, and shall not be liable for any action taken or omitted in good faith pursuant to such advice. Expenses of such counsel shall be deemed to be expenses of management and administration of the Trust within the meaning of Section 5.2 hereof.

6.3 Fiduciary Responsibility.

(a) The Trustee shall discharge its duties under this Trust Agreement in effectuating the Plan in a manner consistent with the objectives of this Trust Agreement and the Plan. The Trustee shall not be liable for any loss sustained by the Trust Fund by reason of the purchase, retention, sale or exchange of any investment in good faith and in accordance with the provisions of this Trust Agreement. The Trustee shall have no responsibility or liability for any failure of the Company to make contributions to the Trust Fund or for any insufficiency of assets in the Trust Fund to pay Benefits when due. The Trustee shall not be liable hereunder for any act taken or omitted to be taken in good faith, except for its own negligence or misconduct.

(b) No bond shall be required of the Trustee unless otherwise required by law.

(c) The Trustee's duties and obligations shall be limited to those expressly imposed upon it by this Trust Agreement.

(d) The Company at any time may employ as agent (to perform any act, keep any records or accounts, or make any computations required of the Company or the Committee by this Trust Agreement or the Plan) the individual, corporation or association serving as Trustee hereunder. Nothing done by said individual, corporation or association as such agent shall affect its responsibilities or liability as Trustee hereunder.

ARTICLE VII

Indemnity of Trustee

The Company hereby indemnifies and holds the Trustee harmless from and against any and all losses, damages, costs, expenses or liabilities (herein, "Liabilities"), including reasonable attorneys' fees and other costs of litigation, to which the Trustee may become subject pursuant to, arising out of, occasioned by, incurred in connection with or in any way associated with this Trust Agreement, except for any act or omission constituting negligence or misconduct of the Trustee. If one or more Liabilities shall arise, or if the Company fails to indemnify the Trustee as provided herein, or both, then the Trustee may engage counsel of the Trustee's choice, but at the Company's expense, either to conduct the defense against such Liabilities or to conduct such actions as may be necessary to obtain the indemnity provided for herein, or to take both such actions. The Trustee shall notify the Company within five days after the Trustee has so engaged counsel of the name and address of such counsel. If the Trustee shall be entitled to indemnification by the Company pursuant to this Article VII and the Company shall not provide such indemnification upon demand, the Trustee may apply assets of the Trust Fund in full satisfaction of the obligations for indemnity by the Company, and any legal proceeding by the Trustee against the Company for such indemnification shall be on behalf of the Trust.

ARTICLE VIII

Resignation and Removal of Trustee

8.1 Resignation of Trustee. The Trustee may resign upon sixty days' prior written notice to the Human Resources Committee of the Board of Directors of Continental Airlines, Inc. (the "Human Resources Committee") and the Committee, except that any such resignation shall not be effective until the Human Resources Committee has appointed in writing a successor trustee, which must be a bank, trust company, or an individual, and such successor has accepted the appointment in writing; provided, however, that if such appointment is to become effective at any time after the occurrence of a Change in Control, then the consent of a majority of the Members to the appointment of such successor trustee must be obtained. For all purposes of this Trust Agreement where the consent of a majority of the Members is required, the determination of majority consent shall be based upon receiving the consent of any combination of Members whose sum of Account Balances as of the time of determination is greater than fifty percent of the sum of Account Balances for all Members at such time, rather than upon receiving the consent of a majority of the number of Members. For purposes of this determination, Beneficiaries of deceased Members shall be considered Members. The Human Resources Committee shall make a good faith effort, following receipt of notice of resignation from the Trustee, to find and appoint a successor Trustee who will adhere to the obligations imposed on such successor under the terms of this Trust Agreement, and in particular, but without limitation, the obligation to exercise judgment independent of the Company in the circumstances described in Section 3.6 hereof. The appointment of a successor trustee shall also be conditioned upon obtaining from such successor a written statement that the successor has read the Trust Agreement and understands its obligations thereunder. If the consent of a majority of the Members is required for the appointment of a successor Trustee, then the Trustee shall be responsible for securing such Member consents in a timely fashion and, unless ordered by a court of competent jurisdiction, shall not reveal to the Human Resources Committee, the Company, the Committee or any other person any information concerning such consents, except whether the required majority has been achieved. Any notice sent to Members by the Trustee canvassing the Members as to their consent to a successor trustee shall include the name and address of the proposed successor trustee. Any consent of a Member required under this Section 8.1 shall be deemed given if no written objection is received by the Trustee from such Member within fourteen days after request for such consent is sent postpaid by United States registered or certified mail with return receipt requested to such Member. Provisions of the Trust Agreement to the contrary notwithstanding, if the Trustee gives written notice of resignation to the Human Resources Committee and the Committee and no successor Trustee has been appointed within sixty days of receipt of such written notice, then the Trustee may apply to a court of competent jurisdiction for judicial appointment of a successor trustee.

8.2 Removal of Trustee. The Human Resources Committee may remove the Trustee upon sixty days' (or such short period as may be agreed to by the Trustee) prior written notice to the Trustee and the Committee, except that any such removal shall not be effective until (a) the close of such notice period, (b) the delivery by the Human Resources Committee to the Trustee of an instrument in writing appointing a successor trustee meeting the requirements of Section 8.1, and (c) an acceptance of such appointment in writing executed by such successor. Notwithstanding the provisions of the preceding sentence, if such appointment of a successor trustee is to become effective at any time after the occurrence of a Change in Control, then the removal of the Trustee and the appointment of a successor trustee shall not be effective until the Trustee has received the consent of a majority of the Members (as determined in accordance with the provisions of Section 8.1 hereof) to such removal and such appointment. Upon the receipt by the Trustee of a written notice of removal, the Trustee shall be responsible for securing the Member consents (if such consents are required pursuant to the preceding provisions of this Section 8.2) in a timely fashion and, unless ordered by a court of competent jurisdiction, shall not reveal to the Human Resources Committee, the Company, the Committee or any other person any information concerning such consents, except whether the required majority has been achieved. Any notice sent to Members by the Trustee canvassing the Members as to their consent to removal of the Trustee and the appointment of a proposed successor trustee, shall include the name and address of the proposed successor trustee. Any consent of a Member required under this Section 8.2 shall be deemed given if no written objection is received by the Trustee from such Member within fourteen days after request for such consent is sent postpaid by United States registered or certified mail with return receipt requested to such Member.

8.3 Successor Trustee. All of the provisions set forth herein with respect to the Trustee shall relate to each successor with the same force and effect as if such successor had been originally named as the Trustee hereunder.

8.4 Transfer of Trust Fund to Successor. Upon the resignation or removal of the Trustee and appointment of a successor, the Trustee shall transfer and deliver the Trust Fund to such successor. Following the effective date of the appointment of the successor, the Trustee's responsibility hereunder shall be limited to managing the assets in its possession and transferring such assets to the successor, and settling its final account. Neither the Trustee nor the successor shall be liable for the acts of the other.

ARTICLE IX

Duration and Termination of Trust and Amendment

9.1 Duration and Termination. The Trust is hereby declared to be irrevocable and shall continue until (a) all payments required by Section 3.6 have been made or (b) until the Trust Fund contains no assets and retains no claims to recover assets from the Company or any other person or entity, whichever shall first occur. Notwithstanding the preceding provisions of this Section 9.1, unless earlier terminated, the Trust shall terminate twenty-one (21) years after the death of the last to die of all of the Members and their issue living on the effective date of this Trust Agreement; provided, however, that if at that time the Trust may be continued in force without violating the rule against perpetuities or any other law of the State of Texas, then the Trust shall remain in effect until otherwise terminated as provided hereunder.

9.2 Distribution upon Termination. If this Trust terminates under the provisions of Section 9.1, the Trustee shall liquidate the Trust Fund and, after its final account has been settled as provided in Article IV, shall distribute to the Company the net balance of any assets of the Trust remaining after all expenses have been paid and all Benefits, whether or not due and payable under the terms of the Plan on the date of such termination, have been paid to the Members and Beneficiaries. Upon making such distribution, the Trustee shall be relieved from all further liability. The powers of the Trustee hereunder shall continue so long as any assets of the Trust Fund remain in its hands.

9.3 Amendment. The Human Resources Committee may from time to time amend, in whole or in part, any or all of the provisions of this Trust Agreement; provided, however, that (a) no amendment will be made to this Trust Agreement or the Plan which will cause this Trust Agreement, the Plan or the assets of the Trust Fund to be governed by or subject to Part 2, 3, or 4 of Title I of ERISA, (b) no such amendment shall adversely affect any Benefits to the date of such amendment in respect of any Member or Beneficiary or the amount of assets of the Trust Fund available to pay such Benefits, (c) no such amendment shall purport to alter the irrevocable character of the Trust established under this Trust Agreement, (d) no such amendment shall change the duties or responsibilities of the Trustee unless the Trustee consents thereto in writing, and (e) after the occurrence of a Change in Control, no amendment will be made to this Trust Agreement without the consent of a majority of the Members (as determined pursuant to the provisions of Section 8.1 hereof). Upon receipt of a request from the Human Resources Committee for an amendment which requires the consent of a majority of the Members, the Trustee shall be responsible for securing Member consents in a timely fashion, and unless ordered by a court of competent jurisdiction, shall not reveal to the Human Resources Committee, the Committee, the Company, or any other person any information concerning such consents, except whether the required majority has been achieved. Any consent of a Member required under this Section 9.3 shall be deemed given if no written objection is received by the Trustee from such Member within fourteen days after request for such consent is sent postpaid by United States registered or certified mail with return receipt requested to such Member. This Trust Agreement may be amended, to the extent permitted in this Section 9.3, by an instrument in writing executed on behalf of Continental Airlines, Inc. by its authorized representatives, consents to which instrument have been obtained from the required majority of Members if such consents are required.

ARTICLE X

Claims of Company's Creditors

10.1 Insolvency of Company. As used in this Article X, the Company shall be deemed to be "Insolvent" if (a) the Company is unable to pay its debts as they come due, or (b) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code (or any successor federal statute). In the event that the Company shall be deemed Insolvent, the assets of the Trust Fund shall be held for the benefit of the general creditors of the Company (hereinafter referred to as "Bankruptcy Creditors").

10.2 Trustee's Responsibilities if Company may be Insolvent.

(a) If at any time the Company or a person claiming to be a creditor of the Company alleges in writing to the Trustee that the Company has become Insolvent, the Trustee shall within thirty days independently determine whether the Company is Insolvent and, pending such determination, the Trustee shall discontinue any payment of Benefits under the Plan and this Trust Agreement and shall hold the Trust Fund for the benefit of Bankruptcy Creditors. The Trustee shall resume payments of Benefits under the Plan and this Trust Agreement in accordance with Section 3.6 hereof only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent, if the Trustee initially determined the Company to be Insolvent) or upon receipt of an order of a court of competent jurisdiction requiring such payments. The Company, by its chief executive officer and its Board of Directors, shall further be obligated to give the Trustee prompt notice in writing in the event that the Company becomes Insolvent, with the same consequences as provided in the preceding two sentences. In determining whether the Company is Insolvent, the Trustee may rely conclusively upon, and shall be protected in relying upon, court records showing that the Company is Insolvent, or a current report or statement from a nationally recognized credit reporting agency showing that the Company is Insolvent. For purposes of this Trust Agreement, knowledge and information concerning the Company which is not in the possession of the Trustee shall not be imputed to the Trustee. The Trustee shall have no duty or obligation to ascertain whether the Company is Insolvent unless and until it receives a writing that the Company is Insolvent as described in the first or third sentence of this Section 10.2(a).

(b) If the Trustee determines that the Company is Insolvent, the Trustee shall hold the assets of the Trust Fund for the benefit of the Bankruptcy Creditors, and shall disburse the assets of the Trust Fund to satisfy such claims as a court of competent jurisdiction shall direct.

(c) If the Trustee discontinues payment of Benefits pursuant to Section 10.2(a) and subsequently resumes such payments, the first payment to a Member or Beneficiary following such discontinuance shall include an aggregate amount equal to the difference between the payments that would have been made to such Member or Beneficiary, as applicable, under this Trust Agreement but for this Section 10.2 and the aggregate payments actually made to such Member or Beneficiary, as applicable, by the Company pursuant to the Plan during any such period of discontinuance. In the event that upon resumption of payments pursuant to the preceding sentence, the assets of the Trust Fund are insufficient to pay Benefits in full, Benefit payments to the affected Members and Beneficiaries shall be prorated so as to equitably apportion the assets of the Trust Fund among all affected Members and Beneficiaries in proportion to their Benefits.

10.3 Trust Recovery of Payments to Creditors. In the event that at any time an amount is paid from the Trust Fund to Bankruptcy Creditors of the Company, the Trustee shall demand that the Company deposit into the Trust Fund a sum equal to the amount paid by the Trust Fund to such Bankruptcy Creditors and, if such payment is not made within ninety days of such demand, the Trustee shall take such action as it deems prudent or advisable to recover payment.

ARTICLE XI

Adopting Entities

It is contemplated that other corporations, associations, partnerships or proprietorships that have adopted the Plan may adopt this Trust Agreement and thereby become the Company. 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 or noncorporate counterpart or of the Human Resources Committee or the Committee. As of the date hereof, the Company, Continental Express, Inc., and Continental Micronesia, Inc. have adopted the Plan and shall be deemed to be parties to this Trust Agreement. The provisions of the Trust Agreement shall apply separately and equally to the Company and each other adopting entity and their respective Members and their Beneficiaries in the same manner as is expressly provided for the Company and its Members and their Beneficiaries, except that (a) the power to appoint or otherwise affect the Trustee and the power to amend the Trust Agreement shall be exercised by the Human Resources Committee alone and (b) the determination of whether a Change in Control has occurred shall be based solely on Continental Airlines, Inc.

ARTICLE XII

Miscellaneous

12.1 Laws of Texas to Govern. This Trust Agreement and the Trust hereby created shall be construed and regulated by the laws of the State of Texas.

12.2 Titles and Headings Not to Control. The titles to Articles and headings of Sections in this Trust Agreement are placed herein for convenience of reference only and, in the case of any conflict, the text of this Trust Agreement, rather than such titles or headings, shall control.

12.3 Affiliates. As used in this Trust Agreement, the term "affiliate" as applied to the Company or to the Trustee means any person or entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company or the Trustee, as the case may be. For purposes of this definition, the term "control" as used with respect to any person or entity shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of an equity interest in such entity, by contract or otherwise.

12.4 Change in Control. For purposes of this Trust Agreement, the term "Change in Control" shall have the same meaning as is assigned to such term under the Continental Airlines, Inc. 1998 Stock Incentive Plan, as in effect on January 1, 1999. Continental Airlines, Inc., by its chief executive officer and the Human Resources Committee, shall be obligated to give the Trustee prompt notice in writing of the occurrence of a Change in Control. In the event the Trustee receives such a notice or if at any time a Member or a Beneficiary of a deceased Member alleges in writing to the Trustee that a Change in Control has occurred, the Trustee shall within thirty days independently determine whether a Change in Control has occurred and, pending such determination, the Trustee shall assume that a Change in Control has occurred for all purposes of this Trust Agreement and the Plan. The Trustee shall have no duty or obligation to ascertain whether a Change in Control has occurred unless it receives a written notice as described in either of the preceding two sentences. In determining whether a Change in Control has occurred, the Trustee may, in its sole discretion, make such additional inquiries and/or take such additional measures as it deems necessary, including, but not limited to, interviewing appropriate persons, requesting affidavits, soliciting oral or written testimony under oath, or engaging such independent third parties as the Trustee may deem necessary to assist in making such determination. Notwithstanding the foregoing, if at any time Continental Airlines, Inc.'s chief executive officer or the Human Resources Committee notifies the Trustee in writing that the Trustee should interpret this Trust Agreement and the Plan as if a Change in Control had occurred, then for all purposes of this Trust Agreement and the Plan, the Trustee shall so interpret this Trust Agreement and the Plan. Once the notice described in the preceding sentence is received by the Trustee, it may not be rescinded.

12.5 Successors and Assigns. This Trust Agreement may not be assigned by either party without the prior written consent of the other, and any purported assignment without such prior written consent shall be null and void. This Trust Agreement shall be binding upon the successors and permitted assigns of each party hereto.

12.6 Controlling Document. Should an inconsistency or conflict exist between the specific terms of this Trust Agreement and those of the Plan, then the relevant terms of this Trust Agreement shall govern and control.

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be executed as of the day and year first above written.

CONTINENTAL AIRLINES, INC.

By: _____
Name: _____
Title: _____

CHASE BANK OF TEXAS, N.A., Trustee

By: _____
Name: _____
Title: _____

OTHER ADOPTING ENTITIES
AS OF JANUARY 1, 1999:

CONTINENTAL EXPRESS, INC.

By: _____
Name: _____
Title: _____

CONTINENTAL MICRONESIA, INC.

By: _____
Name: _____
Title: _____