Continental Airlines—1992

This business is intensely, vigorously, bitterly, savagely competitive.

—Robert Crandall
CEO of American Airlines, 1992

On the evening of Thursday, November 5, 1992, Bob Ferguson, president and CEO of Continental Airlines Holdings, Inc. ("Continental Holdings"), sat in his office and reflected on recent events. Since December 1990, Continental Holdings and its subsidiaries had been operating under Chapter 11 of the U.S. Bankruptcy Code. Although the company had been positioned to leave Chapter 11 the preceding February, aggressive fare discounting by American Airlines caused Continental Holdings' revenues to fall far short of projections and forced it to withdraw its reorganization proposal. Ferguson was greatly concerned about the negative impact that the bankruptcy was having on Continental Holdings' financial resources and competitive position. Legal fees and other bankruptcy-related expenses incurred to date totaled more than $30 million and were growing by $1 million each additional month that the company remained in bankruptcy court. Moreover, a crucial element in Ferguson's strategy for turning around the company's airline operations was to increase total passenger miles flown, especially among business fliers. However, many travel agents were reluctant to book customers on flights offered by bankrupt carriers, and this problem was magnified by the public's perception that bankrupt airlines often scrimped on service and safety to conserve scarce cash.

The recent financial performance of the company had not been encouraging. After having reported positive net income of $73 million for 1986, Continental Holdings reported annual losses for each of the next four years, with a record loss of $2.3 billion for 1990. Nor did the future seem to hold much hope. The entire airline industry was in turmoil, the result of intensive price competition, rising fuel costs, and declining passenger traffic. During the past two years the commercial airline industry had lost a total of $6 billion, more than the total amount it had earned since it came into existence. At the start of 1992, almost 20% of industry capacity was operated by bankrupt airlines. If Continental Holdings could not be soon returned to profitability, it risked the same fate as Pan American World Airways and Eastern Air Lines (until

Professor Stuart C. Gilson and Research Associate Sam J. Karam prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

April 1990, a wholly owned subsidiary of Continental Holdings), both of which had been unable to leave Chapter 11 and were ultimately liquidated.

Just as its options seemed to be running out, the company received five proposals from outside investors during the summer of 1992 to infuse it with new capital, in return for a substantial ownership stake. The first of these proposals came in July. With the receipt of four additional proposals in August and September, Ferguson's main objective had been to encourage competition among the bidders to produce the highest possible price on the most favorable terms for Continental Holdings. Now, only three days remained until the company had to again go before the bankruptcy judge and present the basis of a new reorganization plan. Any outside investment in the company would have to be included as part of the plan and obtain the approval of Continental Holdings' creditors. Although the company could ask for yet another extension of its right to file a reorganization plan, any further delay carried the risk that some or all of the bidders might withdraw their offers.

The Company

Varney Speed Airlines, the company that would one day become Continental Airlines, was founded in 1934 to provide mail service between Colorado and western Texas. The company's founder, Walter T. Varney, had trained as a pilot in World War I and owned several small airlines in the United States and Mexico. The airline's first route linked Denver and El Paso with stops in Pueblo, Las Vegas (N.M.), Santa Fe, and Albuquerque. It ferried travelers and mail in four Lockheed Vega planes, each of which had only four passenger seats. In 1937 the company changed its name to Continental Airlines and moved its headquarters to Denver. During World War II, Continental participated in the war effort by modifying B-17 and B-29 bombers at its Denver facility. Around this time the company embarked on a high-growth strategy by extending its route system to more heavily populated cities, including San Antonio, Wichita, Oklahoma City, and Kansas City. In 1944 it flew 51,800 passengers, nearly four times its 1940 volume. This growth into new markets was accompanied by the purchase of larger and more sophisticated aircraft.

After the war, Continental continued to expand into other cities, including Houston, where it eventually set up its corporate headquarters. Houston's rise as an important oil center greatly contributed to Continental's growth, and soon the airline was breaking out of its traditional southwestern base. With the onset of the jet age, it added new service to California, Washington, and Florida. Service overseas followed, with charter service across both the Atlantic and Pacific. In 1968 Continental added service to the Pacific islands and Japan by acquiring an interest in the business operations of Air Micronesia. Expansion continued during most of the 1970s. But after following deregulation of the U.S. airline industry in 1978, Continental suffered several years of annual losses due to increased operating costs and more intensive competition.

In late 1980 a financially weakened Continental became the target of a hostile tender offer. Texas Air Corp., controlled by Frank Lorenzo, offered to purchase 48.5% of Continental's common stock at a significant premium over the pre-offer market price. Lorenzo had achieved phenomenal growth for his company by undercutting his competitors with low discount fares (known then as "peanuts fares"). Texas Air, through its airline subsidiary Texas International, operated out of hubs in Houston and Dallas-Fort Worth, and offered service to several western states and Mexico. It also served the northeastern market through its ownership of New York

Air, which Lorenzo had founded in 1978. Lorenzo's acquisition proposal was bitterly contested by Continental's unionized employees, who made a counteroffer for the company financed by an employee stock ownership plan. The employees' counterproposal failed, and Texas Air ended up acquiring 51% of the financially strapped carrier. About three years later, on September 24, 1983, Continental filed for Chapter 11 bankruptcy protection. Within days, the airline abrogated its union contracts, shed 65% of its workforce, and resumed flying on a much-reduced network of routes. Continental returned to profitability within a year and emerged from bankruptcy in 1986.

In the latter half of the 1980s, Texas Air embarked on an ambitious growth strategy that involved buying up other airlines. In 1985 it bid unsuccessfully for Trans World Airlines (losing to Carl Icahn) and Frontier Airlines (losing to People Express Airlines). But in 1986 it successfully acquired both People Express (including its Frontier subsidiary) and Eastern Air Lines. In 1987 Texas Air acquired all of the remaining outstanding shares of Continental Airlines in a merger. The airline operations of Texas Air were conducted mainly through its Continental Airlines and Eastern Air Lines subsidiaries. Continental Airlines was also assigned ownership of all of Texas Air's other airline assets. In June 1990 Texas Air changed its name to Continental Airlines Holdings.

The company's growth over the latter half of the decade was truly impressive. Between fiscal years 1984 and 1989, annual consolidated revenues of Continental Holdings/Texas Air increased from $1.4 billion to $6.7 billion, and total assets went up from $1.3 billion to $7.7 billion. By the end of the decade, Continental Airlines had become the fifth-largest U.S. carrier (after American, United, Delta, and Northwest), employing nearly 40,000 people and flying to dozens of cities in Europe and Asia. **Exhibit 1** presents a map of the domestic and international routes served by Continental Airlines.

Unfortunately, rapid growth and external events placed the company under increasing financial stress. It had relied heavily on high-yield, non-investment grade debt in financing its acquisition program. Over the period 1984-1989 Continental Holdings' long-term debt increased from $0.8 billion to $5.2 billion. Since it emerged from bankruptcy in 1986, debt as a percentage of total capitalization had remained well above 80%, versus an industry average of under 60%. And in 1988 and 1989 the company posted industry-record losses of $719 million and $886 million.

Lorenzo's efforts to cut costs met with particular resistance at Eastern Air Lines, where union resentment of his tactics in Continental's 1983 bankruptcy still ran high. In early 1988 the AFL-CIO launched a personal campaign against Lorenzo, citing his "unprecedented contempt" for Eastern Air Lines employees. In March 1989 Eastern's unions struck the company, and a few days later it filed for Chapter 11. In April 1990 the judge in the Eastern bankruptcy case appointed a trustee to run the company.[1] From this point onward Eastern was removed from Continental Holdings' control. Eastern ultimately eased operations in January 1991.

1. In Chapter 11, a trustee is appointed only if the judge decides there is "cause," or the "appointment is in the interests of creditors, any equity security holders, and other interests of the estate." (U.S. Bankruptcy Code, Section 323).

Continental Holdings' management also responded to the crisis by attempting to sell off assets and place new securities with outside investors. The company retained a number of investment banks to help it find buyers for its assets and devise a way of restructuring its debt. In 1988 Eastern Air Lines sold its profitable northeast shuttle to Trump Shuttle for $365 million, and in 1989 it sold $471 million of assets (including its Latin American routes) to American Airlines. During 1989 and 1990, Scandinavian Airlines System (SAS) bought a 18% equity stake in Continental Holdings (including stock owned by Lorenzo and another company officer), and received three seats on the board.

These actions were not sufficient to alleviate the company's financial crisis. In August 1990 the situation turned critical when Iraq's invasion of Kuwait caused airline fuel costs to double within three months, increasing the company's monthly fuel costs in the fourth quarter of 1990 by more than $60 million.[2] Declining passenger traffic stemming from the worsening U.S. recession and heightened fears of international travel made it impossible for the airlines to cover these higher costs by raising fares. Restructuring Continental Holdings' debt out of court was not considered feasible because the company's capital structure was exceedingly complex, involving thousands of creditors and lessors and numerous interconnected debt agreements. On December 3, 1990, Continental Holdings and its 52 subsidiaries filed for Chapter 11 bankruptcy protection in Wilmington, Delaware, listing total assets of $4.8 billion and total liabilities of $5.9 billion. Simultaneous with the filing, Continental arranged for American Airlines to purchase Continental's Seattle-Tokyo route for $150 million. **Exhibit** 2 lists the stock price history of Texas Air/Continental Holdings from 1989 through its bankruptcy filing.

Industry Background

The U.S. commercial airline industry was extremely competitive. Since the industry was deregulated in 1978, airlines had been free to set their own fares and routes.[3] Competition for passengers took a number of forms. First, and most visibly, the airlines competed fiercely on price. A number of carriers, including Southwest Airlines, People Express, and Texas International (the corporate predecessor of Texas Air), were founded on the principle of offering discount fares and no-frills service. The more established airlines also began to engage in frequent and aggressive fare discounting, especially in the first and fourth calendar quarters when travel demand was weakest (airline revenues and traffic were generally highest in the third quarter of each year). The airlines also indirectly competed on price by offering generous frequent-flier programs. Not surprisingly, over time such competition led to significant declines in average passenger yields (**Exhibit** 3, and significant increases in passenger traffic, as measured by total revenue passenger-miles flown (**Exhibit 4**).[4]

2. The national average jet fuel price increased from just over $0.60 per gallon in August to over $1.20 per gallon by the end of October.
3. President Carter signed the Airline Deregulation Act into law on October 24, 1978.
4. The *yield* is defined total revenue divided by total revenue passenger miles flown, where one *revenue passenger-mile* (RPM) equals one passenger flown one mile. One *available seat mile* (ASM) equals one seat on an aircraft flown one mile, whether or not it is occupied. The *load factor* is a measure of capacity utilization, equal to total RPMs divided by total ASMs.

For two reasons, intensive price competition caused the airlines' earnings to become much more volatile than they had been under regulation. First, by its very nature, the output produced by an airline (seats on a flight) was perishable and could not be withdrawn from or added to inventory during periods of excess demand or supply. In other industries, by contrast, such inventory adjustments served to reduce product price swings. Second, many of the inputs used by an airline were, at least in the short run, fixed in nature and did not vary with the firm's output. Thus, revenue declines brought on by a fare war tended to have a disproportionately large impact on the airlines' earnings. **Exhibit** 5 presents a breakdown of the airline industry's cost structure.

One important development in the industry during this period was the creation of powerful computer reservation systems (CRSs), which travel agents used to book flights for their customers. American Airlines and United Airlines owned the two most widely used systems (named Sabre and Apollo). Continental Holdings had its own CRS named System One. By 1991 System One employed 950 people and was the fourth-largest CRS in the country.[5] No single CRS enjoyed a market share larger than 30%, but each CRS had a monopoly in nearly every travel agency where it was used because most agencies could not afford to lease more than one system. This meant that a travel agency that used Sabre usually used *only* Sabre. By the end of the 1980s, 95% of U.S. travel agents subscribed to at least one CRS. CRS providers exacted fees from both travel agencies and competing airlines that wanted their flights listed on the most popular systems. Airlines paid a per-ticket booking fee to use another airline's CRS. Earnings from American and United's CRSs often exceeded earnings from their basic airline operations.

Airlines that either did not own a CRS or whose CRS was not widely used often felt themselves to be at a competitive disadvantage in their ability to generate bookings. A CRS typically lists the flights of the host airline as well as those of its competitors. But before 1984, providers of CRSs were often accused of listing their own flights more prominently, a practice known as "screen bias." Although this practice became illegal in 1984, screen bias was later alleged to still exist because displaying updated flight information for "guest" airlines required loading software from remote stations and took more time than obtaining flight information on the CRS's own airline.[6] CRS providers were also accused of "locking in" travel agents by levying excessive penalties on agents who switched to other CRSs, and by offering agents using their systems more generous commissions through so-called Travel Agent Commission Override (TACO) programs. Finally, although all airlines that used a CRS (including the host airline) had to be charged the same fee for using the system, the host airline's ownership of the CRS meant that it could set a higher fee without hurting its own bottom line.

5. The four dominant CRSs in the U.S. are Sabre, Apollo, WorldSpan (jointly owned by Delta, Northwest, and TWA), and System One (owned by Continental).

6. Responding to lawsuits and allegations against the big CRS-providers, the U.S. Department of Transportation proposed new CRS rules in March 1991 that would allow agents to access several CRSs from a single terminal, thereby encouraging competition among CRS providers. Each airline would then choose which CRS to list its flights on based strictly on cost. Under existing conditions before the DOT proposal, each agent could access a CRS only by using a terminal issued by that CRS. Also, each airline had to appear in all CRSs or risk losing a large part of its market by depriving hundreds of agents of its flight information (since most agents subscribed to only one CRS).

Competitive pressures to reduce costs also led to the rapid spread of the hub and spoke system. In this system, an airline's network of routes resembled a bicycle wheel, with a "hub" airport located at the center. This system allowed an airline to make more efficient use of its aircraft by breaking down a passenger's trip into two or more segments. The airline would feed passengers into its hubs during the first leg of their trip and channel them through the various spokes during the second leg. This increased load factors by allowing the carrier to service a larger number of cities with fewer aircraft. Moreover, each newly added destination could support a large number of new routes using only one or a few additional aircraft.[7]

The hub and spoke system resulted in most major airports being dominated by one or two large carriers. Given the limited availability of gates and takeoff and landing slots, it was difficult for a new carrier to provide service at an airport already dominated by other carriers. Competition among airlines tended to increase on long flights that included a change of planes; it decreased on shorter flights that had no change. Continental operated out of four hubs: Houston, Newark, Denver, and Cleveland (see **Exhibit 1**). As measured by the percentage of flights at year-end 1991, Continental was the dominant carrier at three of its four hub airports, offering 75% of all flights in and out of Houston's main airport, 48% at Newark, 47% at Cleveland, and 37% at Denver.

Competitive pressures in the airline industry continued to mount throughout the 1980s. By the latter half of the decade, fierce competition and ever-decreasing fares drove scores of smaller, poorly capitalized airlines to liquidate or merge with stronger competitors. As part of this wave of consolidation, American Airlines purchased Air California, USAir merged with Piedmont and Pacific Southwest, Delta merged with Western Airlines, TWA acquired Ozark Airlines, and Northwest bought Republic Airlines. Between 1985 and 1990, the share of total revenue passenger-miles flown by the so-called "majors" (those airlines with more than $1 billion in annual operating revenues) increased from 85% to 96% (see **Exhibit 4**), and the total number of U.S. airlines declined from 55 to 29.

But in order to increase their market share, the majors had taken on significant amounts of debt. Doubts about their ability to service this higher leverage led the ratings agencies to downgrade a number of the airlines' bonds (**Exhibit 6**). With the onset of the U.S. recession and declining traffic volume, an increasing number of airlines found themselves unable to meet interest and principal payments on their debt and were either forced into bankruptcy or liquidated. As shown in **Exhibit** 7, by the beginning of 1991 almost 20% of industry capacity was being operated by carriers in Chapter 11.

The Bankruptcy

When Continental Holdings filed for bankruptcy in December 1990, Bob Ferguson was the company's CFO. (Frank Lorenzo had been replaced as CEO a few months earlier by Hollis Harris, who had formerly worked for Delta Airlines.) Ferguson recalled vividly that the decision to file had not been easy. Management was concerned that a bankruptcy would further weaken the airline's operations. For one thing, bankruptcy was a complex legal process in which

7. For example, a hub with 20 spokes can serve 210 distinct city-pairs. Adding on just one spoke (a 5% increase) allows the airline to serve an additional 21 city-pairs (a 10% increase).

management had limited expertise. For a company of Continental Holdings' size, this would mean having to hire possibly hundreds of lawyers, investment bankers, and other financial advisors to guide the firm through its bankruptcy. These advisors often charged by the hour or month, and the process often took two or three years to complete. LTV Corp., which had filed for Chapter 11 in 1986, was still in bankruptcy and had accumulated more than $150 million in professional fees.[8] In addition, any business decision taken by a firm in Chapter 11 (such as selling off assets) had to be approved by the bankruptcy judge in the case and could be appealed by creditors. This had the potential to produce lengthy delays and distract management from the important task of turning around the business. Finally, the stigma of bankruptcy could make it more difficult for the firm to do business with suppliers or to attract travelers who had concerns over safety and service.

During 1991, the company had taken several actions to reduce its costs and improve the profitability of its airline operations. These included cutting back on flights in the off-peak season, laying off nonessential personnel, cutting or deferring capital expenditures, and putting off all scheduled wage and salary increases until the following May (the latter action produced annual savings of over $100 million). The company also considered selling off various assets to raise cash. By year-end Ferguson's turnaround strategy started to be reflected in the company's bottom line. Continental Airlines' operating losses for the fourth quarter of 1991 represented a $243-million improvement over the previous year's fourth-quarter results. For 1991, Continental Holdings reported a loss of $306 million, compared to the $2.3-billion loss it posted in 1990. **Exhibits** 8 and 9 present Continental Holdings' recent consolidated financial results.

Certain features of Chapter 11 gave the company additional financial breathing room. First, it did not have to pay or accrue interest on its unsecured debt (or on any portion of its secured debt that was undercollateralized). By the end of 1991 this saving amounted to $154 million.[9] Second, it could avail itself of "debtor-in-possession (DIP)" financing. Under Chapter 11, a bank or other financial institution that loaned money to a bankrupt company could be granted a senior claim that ranked ahead of the firm's other outstanding debts.[10] In the absence of this provision, bankrupt firms would find it considerably more difficult to obtain new financing. In July 1991, the company negotiated a $120-million secured DIP facility with The Chase Manhattan Bank, N.A., bearing interest at prime plus 2.5%.

Finally, Chapter 11 allowed a company to reject "executory" contracts, which for Continental consisted mainly of rental and lease agreements.[11] Airlines often leased rather than owned the planes they flew.[12] At year-end 1989, Continental's fleet consisted of 329

8. The firm would also have to pay for the bankruptcy-related expenses of any creditors' committees that the court appointed to represent the interests of Continental Holdings' various lenders. Committees normally consisted of the seven-largest creditors in a particular class who were willing to serve; they were empowered to hire legal and other professional help. Appointment of a committee to represent unsecured lenders was mandatory in a Chapter 11 case.

9. Company's Form 10-k 1991, p. 5.

10. See Section 364(c)(1) of the U.S. Bankruptcy Code.

11. Executory contracts are those which obligate both parties to the contract to provide future services. Standard debt contracts typically are not included in this class, because the lender has already advanced funds to the borrower, and so has discharged his or her responsibility under the contract. See Section 365 of the U.S. Bankruptcy Code.

12. Leases were often entered into under a sale-leaseback arrangement. Under this arrangement, a company could raise funds by selling an asset that it already owned to a third party and immediately lease it back from that same party. In 1989, Continental Airlines raised $252 million by selling and leasing back 21 of its aircraft, and cumulatively over a 4-year period had sold and leased back in excess of $750 million worth of aircraft (primarily

aircraft, 231 (71%) of which were leased. This meant that a substantial portion of an airline's liabilities (excluding capitalized leases) were off-balance sheet. At the end of 1989, the present value of all future lease payments owed by Continental Holdings or its subsidiaries under capital leases was \$1.1 billion while the (undiscounted) sum of all future lease payments it owed under operating leases was \$8.8 billion.[13] In contrast, total interest expense for the company for 1989 came to only \$664 million.

Under Section 365 of the U.S. Bankruptcy Code, Continental had the right to accept or reject its executory contracts within 60 days of its bankruptcy filing.[14] If a lease was rejected, the lessor's economic loss would become a general unsecured claim on the company's estate, which in practice meant it would rank below most other claims outstanding against the company. This gave a company considerable leverage to negotiate more favorable terms under its leases.

Unfortunately for Continental, a special set of rules applied to aircraft lessors. Under Section 1110 of the code, such lessors would be able to repossess their planes within 60 days if Continental stopped making payments under the original lease contracts. Nevertheless, the company challenged this rule in court and reached a settlement with its aircraft lessors under which it was able to defer \$164 million in lease payments that would otherwise have been due during 1991 and the first half of 1992. In addition, the lessors agreed to reduce lease payments by \$3.3 million per month and extend Continental \$91 million in additional financing to refurbish its aircraft.[15]

By the end of 1991, Ferguson (who had become CEO in August) saw the company's operations begin to turn around. Over the two fiscal quarters ending on March 31, 1992, Continental reported the second-best financial results of any major U.S. carrier. Ferguson and the board believed that it was time to start planning for life after Chapter 11. It was decided that the company would propose a reorganization plan in the spring.[16] The plan would assign the company's various claimholders to various "classes" and propose a separate exchange of new securities for those currently held by each class. It was expected that large amounts of new common stock would be issued, significantly diluting, if not entirely eliminating, the ownership of the existing stockholders. **Exhibit 10** lists the different claims that were outstanding when the first reorganization plan was proposed in February 1992.

For the plan to be "confirmed" by Continental Holdings' bankruptcy judge, it was necessary for a majority (two-thirds in value and one-half in number) of the claimholders in each class to vote for the plan. The plan also had to satisfy the "best interests of creditors" test, which meant the market value of new securities distributed to each class had to be at least equal to what that class would receive in a liquidation. In the latter event, each claimholder class would be paid off under the rule of "absolute priority": no class could receive anything under the plan unless

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older, Stage 2 type aircraft).

13. About half of the company's operating lease payments represented rental of various airport and terminal facilities, maintenance facilities for its aircraft, and offices.

14. This time limit applied to real nonresidential property; there was no corresponding limit for other leases.

15. The company argued that Section 1110 did *not* apply to leases entered into under a sale-leaseback arrangement. The bankruptcy judge in the case ruled for Continental, but the decision was later reversed in federal district court.

16. The bankrupt firm has the exclusive right to propose the first reorganization plan. If this plan is not filed within 120 days of the initial Chapter 11 filing, or accepted by creditors within 60 additional days, any claimholder class can propose its own plan. However, in most cases it is possible for the debtor to obtain a filing extension from the judge.

all more senior classes were paid in full. **Exhibit 11** presents a liquidation analysis of Continental Holdings' assets as of June 30, 1992. Finally, the judge had to ensure that the plan was "feasible," meaning it was unlikely that a future financial restructuring or bankruptcy would be necessary.[17] The fact that Continental had already been through Chapter 11 once before meant that the judge would probably pay special attention to this last criterion.

Continental Holdings filed its first reorganization plan on February 6, 1992. Under the plan, long-term debt would be slashed to $1.7 billion and almost all stock in the reorganized firm would be given to non-subordinated creditors; the pre-petition common and preferred stockholders would receive nothing.[18] Even though it was necessary to hold a vote, the plan already had the approval of the Official Committee of the Unsecured Creditors, and Ferguson and the board believed that plan confirmation was possible by July 1, 1992.[19] The only major dissenting vote was likely to come from the Pension Benefit Guarantee Corporation (PBGC), the government agency that insured corporate defined-benefit pension plans. The PBGC had asserted a claim of $936 million relating to the earlier termination of Eastern Air Lines' pension plans, as well as a claim of $183 million for actual or possible shortfalls in the funding of Continental Holdings' pension plans. The PBGC's position was that a large part of its claim should be treated as an "administrative priority" claim, meaning that it would be fully paid in cash immediately upon consummation of the reorganization plan. Were this to happen, Continental Holdings' unsecured creditors would likely receive nothing.[20]

The plan was never put to a vote. On April 9, American Airlines announced that it was substantially reducing fares on its domestic flights (38% on average for full fares and 12% for leisure fares). This was followed by a system-wide, 50%-off sale (from already low fares) launched by American in late May in reaction to a more limited fare action by Northwest Airlines. As a means of remaining competitive, both initiatives were matched by the other major airlines, including Continental. In June, Continental filed a lawsuit against American charging that the fare reductions were predatory tactics designed to put financially weaker carriers like Continental out of business. The company estimated that American's fare actions would cost it at least $29 million a month in lost net revenue; for the second quarter of 1992, total revenues for the airline subsidiary were fully $134 million below projections. Clearly, reorganization under the original plan terms was no longer feasible. Ferguson and the other board members had to quickly search for other options.

The Auction

Dating back to before the bankruptcy filing, Continental Holdings had been informally approached by several outside investors interested in buying a stake in the company. Rumored

17. If a class voted down the plan, it could still be confirmed over the objections of that class ("crammed down") provided it was "fair and equitable" — that is, provided each dissenting class was compensated for the face value of its prebankruptcy claims before any more junior class received anything.

18. On the day that the plan was announced, the company's common stock price fell from $1.00 to $0.375.

19. Although the company had until April 6, 1992, to get the plan confirmed, it promptly filed a motion to have the exclusivity period extended to June 22, 1992.

20. Continental Holdings finally settled its dispute. The PBGC was assigned a general unsecured claim for $375 million, about $19.3 million in cash, and the equity interest in 15 owned aircraft. The PBGC valued this settlement at $115-$130 million. See "Crash Survivor," *The American Lawyer*, November 1992, and Continental Holdings' Form 10-k 1991.

suitors had included British Airways, the Bass family of Texas, Los Angeles investor Marvin Davis, and Ross Perot, Jr., among others, but none of these initial inquiries had resulted in a firm offer. Now recent events had made it essential for the company to obtain outside financing to complete its reorganization. This need for capital was also known outside the firm, and over the period from July to September the company received five formal offers to provide it with new financing.

MAXAIR

The first of these offers came on July 9, 1992, from the investment group MAXAIR, led by Maxxam Inc., a Houston-based natural resources company that had interests in forestry, mining, and various commercial and residential real estate operations. The founder and CEO of Maxxam was Charles Hurwitz, who had gained a reputation (and considerable fortune) in the 1980s as a corporate "raider." Maxxam had reported net income for 1991, of $57.5 million on sales of $2.2 billion. Also included in the group were the two investment banking firms, Kidder Peabody and Donaldson Lufkin & Jenrette. The group's initial offer called for an investment of $350 million, to consist of $325 million in secured notes and $25 million of a new class of common stock having three votes per share ("class B" stock). In addition, the group was to receive warrants to purchase 130 million shares of normal "class A" common stock.[21] With the remaining shares and warrants to be owned by the company's unsecured creditors and management, the investor group would own 72% of the firm's equity (and 82% of the votes) on a fully diluted basis (i.e., assuming full exercise of the warrants). After leaving bankruptcy, the investor group would be given 13 of 15 seats on Continental Holdings' board of directors (with the two remaining seats going to the unsecured creditors). The company also agreed not to entertain any competing offers for less than $385 million ($35 million above the Maxxam group's offer), and to pay the investor group a break-up fee of $8-$12 million if the deal did not go through.[22]

Houston Air

On August 7, a second offer was submitted by Houston Air, an investment group headed by Alfredo Brener, a 40-year-old Mexican entrepreneur who lived in Houston and whose family owned a sizable stake in Mexicana Airlines. Brener proposed investing $385 million in the company—$325 million in debt and $60 million in new common stock. Like the first investor group, he would also receive warrants for 130 million new shares, giving him a 72% equity stake on a fully diluted basis. The proposed terms for the debt securities and warrants were virtually identical to those specified in the first offer, except the warrants would carry a slightly higher exercise price ($2.60 instead of $2.50) and would be immediately callable. One potentially serious drawback to this offer was that under U.S. law, foreign equity ownership in a domestic airline could not exceed 49% (25% on a control basis). Thus the Brener group would either have to bring in a significant U.S. partner or reduce the size of its equity investment. The press speculated that Brener might even apply for U.S. citizenship. Advising Brener on the deal were Chemical Bank and the investment banking firm of Wasserstein Perella & Co.

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21. Both the warrants and a portion of the debt securities would be callable by the company within two years of when the deal closed, if and when its stock price exceeded $5 per share.

22. These provisions are designed to discourage later bidders from "free-riding" off of the first bidder, who incurred the costs of structuring an acceptable deal with the target company.

Air Canada/Air Partners

The third investment offer came on August 27 from a group consisting of Air Canada and Air Partners. Air Canada was the largest of Canada's two national airlines, with 1991 operating revenues of $3.6 billion (Cdn.). In terms of total revenue passenger-miles service in 1991, Air Canada was the twentieth-largest airline in the world (Continental was ranked sixth). In 1988-89 the Canadian government sold off its 100% ownership of Air Canada stock, which was now listed on various Canadian stock exchanges. The CEO of Air Canada was none other than Hollis Harris, until a year earlier the CEO of Continental Holdings. Air Partners was a company formed by Fort Worth investors David Bonderman and James Coulter, two longtime advisors to financier Robert Bass. The group proposed investing $400 million in the company in return for $100 million in new common stock and $300 million in secured notes. It would also receive two classes of warrants that would enable it to buy an additional 11 million shares at a weighted average exercise price of $20. If the warrants were fully converted, Air Canada/Air Partners would also own 72% of the company's equity. To comply with foreign ownership restrictions, Air Canada alone would receive securities representing a 24% voting interest and 29% equity interest. The group would also be allowed to designate 10 of the company's 16 directors (the remaining board seats would be shared by unsecured creditors, management, and independent outside directors). The group's financial advisors included Lehman Brothers, Merrill Lynch, and the Canadian firm of RBC Dominion Securities.

Lufthansa/Davis

On September 16, a fourth bidder emerged for the company. The German airline Deutsche Lufthansa AG. ("Lufthansa") and the California investor Marvin Davis jointly offered to buy or place $100 million of common stock and $300 million of debt in Continental Holdings, matching the previous offer by Air Canada/Air Partners. Davis had recently tried (unsuccessfully) to acquire two other major airlines, Northwest and United. Lufthansa was one of the leading European carriers with $9 billion in annual revenues and had a reputation for providing superior service and reliability. It was also 51% owned by the German government. In 1991 it was the world's eleventh-largest airline ranked by total revenue passenger-miles. Lufthansa's interest in Continental reflected a growing interest among European carriers in gaining a foothold in the U.S. market. For example, British Airways was currently exploring a possible alliance with USAir, and KLM Royal Dutch Airlines had recently acquired a major stake in NWA, the parent of Northwest Airlines. Lufthansa's 49% share of the $100 million in equity would be paid for in surplus aircraft from its own fleet rather than cash. As with the competing offers by MAXAIR and Air Canada/Air Partners, at least $150 million of the new debt would be secured by the assets of Continental Holdings' Air Micronesia division.

Benefits Concepts of New York Inc.

The fifth and final bid for the company was made on September 30 by Benefits Concepts of New York Inc., a company led by Jack Robinson, the 32-year-old president of Florida Air and a former Eastern and Continental middle-level manager, and Dan Carpenter, chairman of Florida Air. The offer was for $425 million, to consist of $25 million in equity and $400 million in debt. In addition, 52% of the stock in the reorganized company was to be placed in an employee stock ownership plan.

Competition Among the Bidders

From the perspective of the five bidders, Continental Holdings represented a highly desirable acquisition opportunity. For one thing, its airline operations enjoyed one of the lowest cost structures in the industry. For 1991, Continental's operating cost per available seat mile was only 8.2 cents, compared to an average of 9.6 cents for the other major airlines. A major contributing factor was the fact that 82% of the company's employees were non-unionized, putting its labor costs at 75% of the industry average. **Exhibit 12** compares various operating statistics for Continental and the rest of the airline industry. In addition, Continental's four major hubs were located at highly desirable "low-density" airports, where air traffic was relatively less congested. Concerns over safety and service had recently led to calls for more regulation of high-density airports like JFK, LaGuardia, O'Hare, and Washington National. New regulations being considered by the Federal Aviation Administration would reduce the number of flights at these airports and limit the airlines' ability to freely buy and sell takeoff and landing slots.

Competition among the first four bidders was intense (the fifth bid by Benefits Concepts of New York was never considered credible by Continental's board and was ultimately withdrawn). By the first week of October, MAXAIR had increased the total value of its offer to $400 million, and had taken on a Mexican airline, Aerovias de Mexico S.A. de C.V. ("Aeromexico"), as a partner. Under its revised offer, MAXAIR would increase its equity investment to $30 million, and Aeromexico would pay $100 million in cash for a new class of convertible preferred stock. In response, Air Canada/Air Partners raised its bid to $425 million by increasing the debt portion of the offer to $325 million from $300 million. The Lufthansa/Davis group stayed put at its original offer but argued that it was still superior to the other offers because it contained the largest commitment of new equity ($100 million of common stock) and represented the best strategic fit with Continental. Houston Air claimed that it was being joined in its bid by Scandinavian Airlines System ("SAS"), which already owned 18% of Continental Holdings' equity and had three seats on the board.

On October 14, at the request of Continental Holdings' board, Bankruptcy Judge Helen Balick issued an order that set November 2, 1992, as the deadline for the submission of additional or revised bids to invest in the company. Although not publicly known at the time, by the close of business on November 2, only two bids remained on the table: those of MAXAIR and Air Canada/Air Partners. The terms of these two offers are summarized in **Exhibit 13**. It was decided that the directors of Continental Holdings and Continental Airlines would meet with the two finalists on Friday, November 6, and announce a winner the following Monday.

The Decision

On the night before he was to meet with MAXAIR and Air Canada/Air Partners, Bob Ferguson considered his options. Competition among the various bidders had dramatically increased the amount being offered for the company. But before making a final decision, Ferguson and the other board members needed assurance that the winning bid in fact represented a fair price for the company's assets. To help them come up with a benchmark value, the company's financial advisors had put together the set of financial forecasts shown in **Exhibits 14** and **15**. **Exhibit 16** reports various market interest rates that obtained at the beginning of November 1992, and **Exhibit 17** presents financial information for Continental's principal competitors.

A number of other important factors to consider were more difficult to quantify. First, many industry insiders believed that the future of commercial aviation belonged to those carriers that could operate on an expanded global scale and effectively serve the entire world market. Although Continental operated hundreds of flights outside the United States, access into foreign markets was still relatively restricted.[23] Linking up with a foreign carrier was a way of getting around these restrictions. This made Ferguson wonder whether he should somehow try to get Lufthansa back into the bidding, given the enormous opportunities presented by the European market. Forming an alliance with Lufthansa also made sense because Lufthansa currently served both Newark and Houston; each airline could therefore feed connecting passengers from its own flights onto flights offered by the other carrier, thus increasing both airlines' load factors. This arrangement would be facilitated by the practice of "code sharing."[24]

Ferguson also had to consider the value of possible operating and financial synergies from combining with another airline. In a presentation to Continental's board in early October, Air Canada/Air Partners had estimated that Continental would realize $401 million in cost savings through 1997 as a result of increased efficiency in traffic flow, aircraft maintenance, information systems, fleet planning, and elimination of operational redundancies. In a similar presentation, Lufthansa/Davis estimated synergies to Continental of between $200-$350 million a year. MAXAIR also stressed possible synergies available through the involvement of Aeromexico, including the feedthrough of passengers at Continental's Houston hub.

Another major concern of Ferguson's was that Continental be allowed to undertake planned capital expenditures on aircraft and airport facilities, which he believed were crucial to the company's long-term competitive viability. The average age of Continental's fleet (including both leased and owned aircraft) was about 14 years, compared to an average of about 12 years for the other U.S. majors (**Exhibits 18** and **19**). In addition, 49% of Continental's fleet consisted of noisier "Stage 2" aircraft, which under new federal regulation had to be removed from service by the year 2000. Both factors necessitated huge investments in new aircraft. In 1989 and 1990, Continental had entered into agreements with the Boeing Company and the European Airbus consortium to purchase 196 new aircraft for over $10 billion.[25] Under one plausible scenario, the company would reduce the average age of its fleet to that of the industry by 1995 or 1996.

The company also expected to spend an additional $125 million on collision and windshear avoidance systems to comply with new federal rules taking effect over the next decade. It was also planning to extensively upgrade the interior of its airplanes in order to attract a greater share of business passenger traffic. Finally, it might be necessary to construct a new aircraft maintenance facility to replace the company's current facility at Denver's Stapleton Airport, which was scheduled to be closed down in 1993. Ferguson wanted to be sure that any new outside

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23. The major U.S. airlines have long favored bilateral "open sky" agreements between the United States and other countries, under which the airlines in each country would be granted unrestricted access to each other's markets.
24. Under code sharing, two airlines operate as independent entities but share the same flight codes on connecting flights. Thus, a passenger booking from Frankfurt to Los Angeles with a connection in Newark would have a single flight number for the entire trip. Such flights are typically given a higher priority on CRS screens, making it more likely that passengers will book with these rather than other connecting flights that have different codes.
25. About half of these orders represented nonbinding options to purchase new aircraft. Under Chapter 11, Continental was not required to assume these agreements (firm commitments as well as options to purchase) and was currently in discussions with both aircraft manufacturers over renegotiating the terms of the earlier agreements.

investor would be both willing and able to support Continental's planned capital expenditure program. He was therefore concerned that both Air Canada and Lufthansa had recently reported large operating losses, although Air Canada had forecast that it would have access to $972 million in cash at year-end 1992 (including $400 million in unused lines of bank credit).[26]

Finally, it was important that the deal be structured in such a way as to not jeopardize Continental Holdings' accumulated net operating loss carryforwards (NOLs). At the end of 1991, the company's NOLs amounted to $1.9 billion. These NOLs would expire over 1995-2006 (a company could use its NOLs only to offset positive taxable income going three years back and 15 years forward from the year in which the loss was incurred). In addition, the company's ability to use its NOLs could be severely limited if ownership of its common stock changed significantly once it left Chapter 11.[27] Ferguson therefore wanted to be sure that the firm would not have to issue large amounts of new equity in the future.

Any outside investment in Continental Holdings would have to be incorporated in the company's reorganization plan. It was anticipated that its existing shareholders and subordinated lenders would receive nothing under the plan and that about $1.4 billion in long-term debt would be outstanding after the company emerged from bankruptcy (exclusive of any new debt issued to the outside investors).

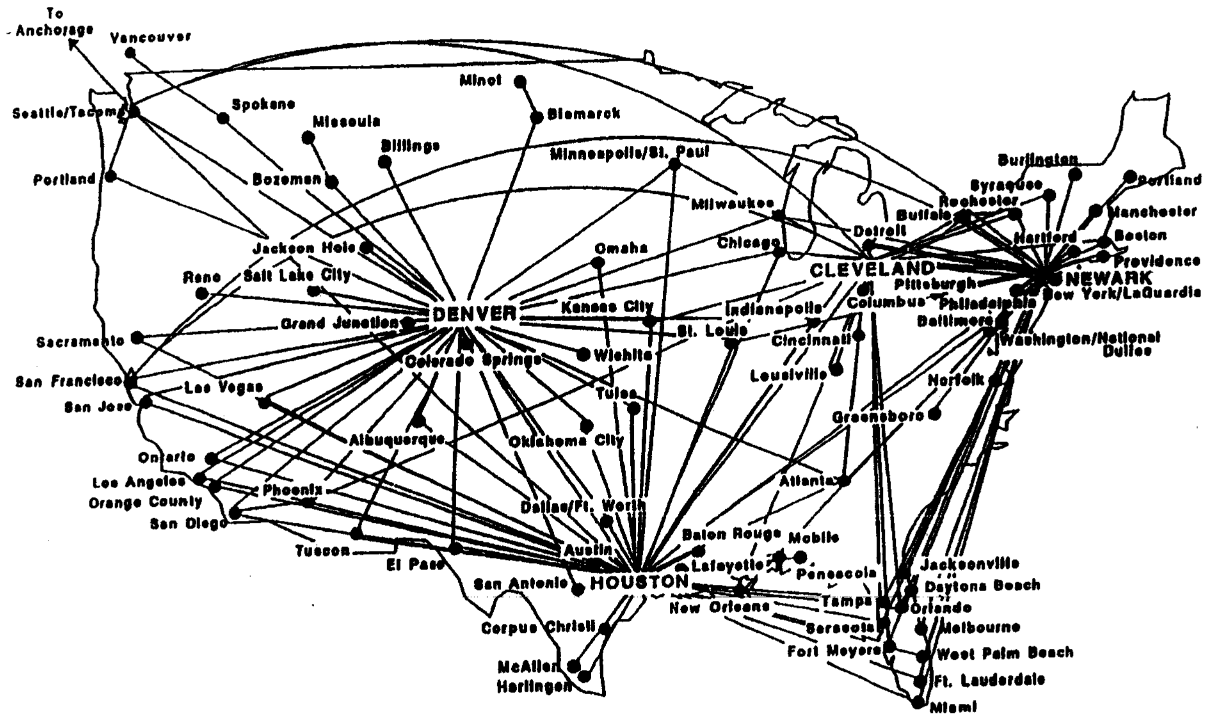
Bob Ferguson sat back in his chair and considered what he would recommend to the board.

26. For the most recent fiscal year, Air Canada had reported a net loss from continuing operations of $211 million (Cdn.), while Lufthansa reported its worst-ever annual loss of DM1.2 billion ($800 million (U.S.)).

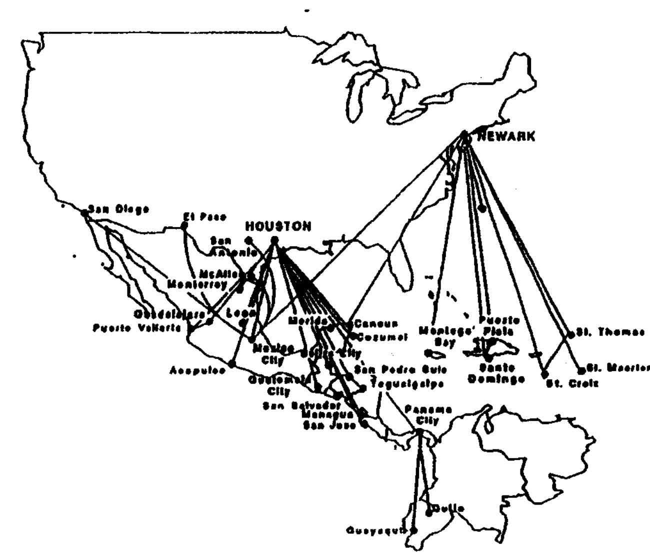
27. For tax purposes, an ownership change takes place when any group of 5% shareholders collectively increases its total ownership percentage by more than 50 percentage points (relative to the lowest percentage held over the previous three years). Thus, for example, if shareholders A, B, C, and D own 30%, 40%, 30% and 0%, respectively, before an ownership change, and 10%, 5%, 45%, and 40% afterwards, the percentage ownership *increase* recognized under Section 382 is equal to the sum: 0% (for A) + 0% (for B) + 15% (for C) + 40% (for D) = 55%. For a firm that experiences an ownership change outside of bankruptcy, the maximum amount of its NOLs that it can use in any year equals the market value of its shareholders' equity at the time of the ownership change, multiplied by the long-term interest rate on nontaxable bonds. If, in addition, this firm were to change its principal line of business, it would lose its NOLs altogether. A firm undergoing financial reorganization through Chapter 11 is subject to less severe restrictions, but must, nevertheless, make similar elections upon emergence from Chapter 11 to protect its NOLs.

Exhibit 1 Continental Airlines Domestic and International Route Systems

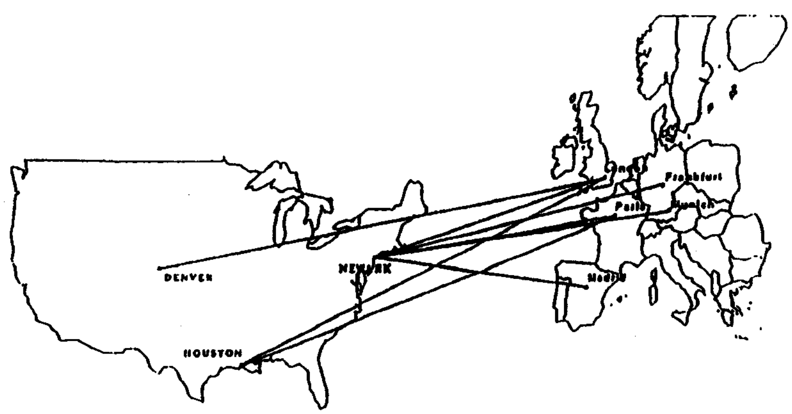
Continental U.S.



Caribbean and Latin America



North Atlantic



Pacific

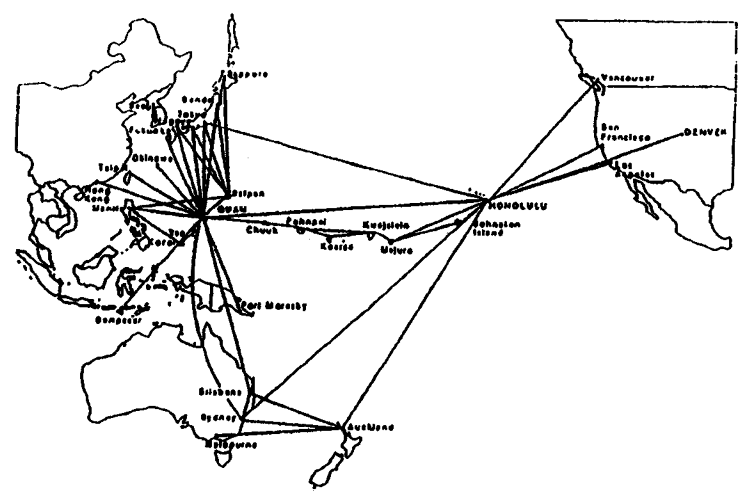
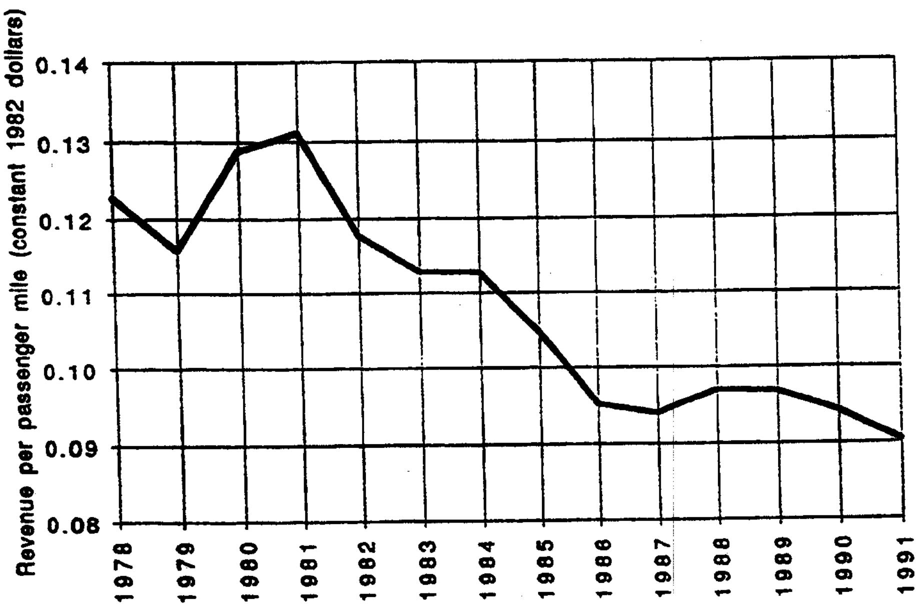


Exhibit 2 Common Stock Price of Texas Air Corp./Continental Airlines Holdings, Inc. (end of month)

1989		
January	$15.75	
February	14.00	
March	13.88	Eastern Airlines files for Chapter 11
April	12.63	
May	13.63	
June	15.38	
July	16.25	
August	20.50	
September	17.13	
October	13.13	
November	12.50	
December	11.50	Texas Air sells $471 million in assets to American Airlines
1990		
January	$ 5.88	
February	7.75	Texas Air reports $886 million loss for 1989
March	7.50	
April	6.38	Trustee appointed in Eastern Airlines bankruptcy case
May	6.88	
June	6.13	Texas Air changes name to Continental Holdings
July	5.13	
August	4.63	Iraq invades Kuwait; oil prices double; Lorenzo resigns
September	4.13	
October	3.25	
November	3.38	
December	1.75	Continental Holdings files for Chapter 11

Source: American Stock Exchange

Exhibit 3 Changes in Average Passenger Yields Since Airline Industry Deregulation in October 1978 (in constant 1982 dollars)



Source: Air Transport Association of America Annual Report (1992).

Exhibit 4 Major U.S. Airlines Ranked by Revenue Passenger-Miles (RPMs) and Available Seat-Miles (ASMs)
(all numbers in billions, except load factors)

1977	RPMs	ASMs	Load Factor
United Airlines	31.7	53.0	59.9%
American Airlines	24.6	41.9	58.9
Trans World Airways	23.9	41.5	57.4
Eastern Air Lines	20.6	36.7	56.1
Delta Airlines	19.1	33.6	56.9
Pan American	17.5	32.3	54.3
Northwest	11.1	23.0	48.3
Western Airlines	8.4	14.7	56.9
Braniff	7.5	14.8	50.8
Continental Airlines	7.2	13.0	55.6
National Airlines	6.2	13.1	47.5
Total 11 Majors	177.8	317.6	56.0%
Market share of:			
Three largest carriers	41.5%	39.5%	
Eleven majors	92.1%	91.9%	

1980	RPMs	ASMs	Load Factor
United Airlines	37.9	65.5	57.8%
Pan American	30.2	50.2	60.1
Eastern Air Lines	28.2	46.0	61.3
American Airlines	28.2	46.6	60.4
Trans World Airways	28.1	45.5	61.7
Delta Airlines	26.0	44.2	58.9
Northwest	13.8	24.9	55.5
Braniff	11.9	20.4	58.4
Western Airlines	8.8	15.5	56.8
Continental Airlines	8.1	14.0	58.1
Total 10 Majors	221.2	372.8	59.3%
Market share of:			
Three largest carriers	37.9%	37.7%	
Ten majors	87.0%	86.4%	

1985	RPMs	ASMs	Load Factor
American Airlines	44.1	68.3	64.6%
United Airlines	41.5	65.9	63.0
Eastern Air Lines	33.1	54.9	60.3
Trans World Airways	32.0	49.2	65.2
Delta Airlines	30.1	53.2	56.5
Pan American	27.1	43.1	63.0
Northwest	22.3	37.1	60.1
Continental Airlines	16.4	25.3	64.8
People Express	11.0	17.9	61.1
Republic Air	10.7	18.2	58.8
Western Airlines	10.4	17.4	59.8
Piedmont Airlines	8.2	14.6	55.9
Total 12 Majors	287.0	465.1	61.7%
Market share of:			
Three largest carriers	35.4%	34.6%	
Twelve majors	85.4%	85.1%	

1990	RPMs	ASMs	Load Factor
American Airlines	76.9	123.4	62.3%
United Airlines	75.9	114.7	66.2
Delta Airlines	59.0	99.8	59.1
Northwest[a]	51.5	77.3	66.6
Continental Airlines[b]	39.2	64.8	60.4
USAir[c]	35.5	59.5	59.8
Trans World Airways	34.2	55.0	62.3
Pan American	31.1	47.5	65.4
Eastern Air Lines	16.6	27.6	60.4
America West	11.1	18.1	61.0
Southwest Airlines	10.0	16.5	60.6
Total 11 Majors	441.0	704.2	62.6%
Market share of:			
Three largest carriers	46.3%	46.1%	
Eleven majors	96.3%	96.0%	

Source: U.S. Department of Transportation.

[a]Acquired Republic Airlines.
[b]Acquired People Express, Frontier Airlines.
[c]Acquired Piedmont.

Exhibit 5 Cost Breakdown for Major and National U.S. Carriers (% of all total expenses excluding depreciation and taxes)

	Labor (%)	Fuel (%)	Travel Agent Commissions (%)	Passenger Meals (%)	Interest (%)	Landing Fees (%)	Advertising Promotion (%)	Other[a] (%)
1978	42	20	4	3	3	2	2	24
1980	35	30	5	3	3	2	2	21
1985	35	22	7	3	4	2	2	25
1990	33	18	10	4	3	2	2	28
1991	34	15	11	4	2	2	2	30

Source: Air Transport Association of America.

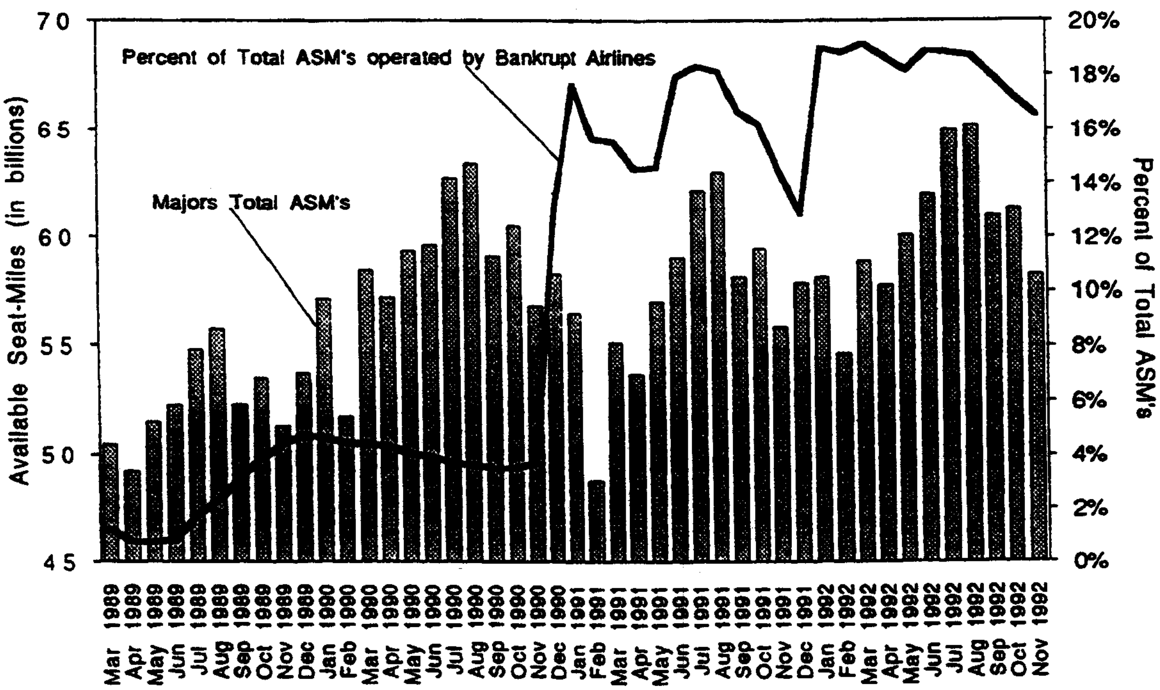
[a]Includes aircraft and facility rental leases.

Exhibit 6 Bond Rating at Year-end (except 1992)

	1985	1986	1987	1988	1989	1990	1991	June 1992
American Airlines	BBB+	A-	A	A	A	A-	BBB+	BBB
Delta Airlines	A	A	A-	A	A	A	BBB+	BBB+
Eastern Air Lines	CCC	CCC	B	B	NR	NR	NR	NR
Northwest Airlines	na	BBB	BBB	BBB	B+	B+	B	B
Pan American	B-	B-	B-	B-	B-	CCC	D	D
Texas Air/Continental Airlines Holdings, Inc.	B	B	B	B	B	CCC+	D	D
Trans World Airways	B-	CCC	CCC	B-	B-	B-	D	D
United Airlines	NR	NR	NR	B+	BBB-	BB+	BBB-	BBB

Source: Standard & Poor's.

Exhibit 7 Share of Airline Capacity Operated by Bankrupt Carriers



Source: Department of Transportation.

Exhibit 8 Texas Air Corp./Continental Airlines Holdings, Inc. Consolidated Annual Financial Statements (millions of dollars)[a]

	Twelve Months Ended December 31,		
	1991	1990	1989
Operating revenues:			
Passenger	$4,656.5	$ 5,165.6	$5,705.1
Cargo, mail, and other	894.5	1,064.9	944.8
Total Operating Revenues	$5,551.0	$ 6,230.5	$6,649.9
Operating expenses:			
Wages and salaries	$1,456.2	$ 1,728.7	$1,982.4
Aircraft fuel	868.9	1,129.7	996.0
Rentals and landing fees	786.3	833.3	882.3
Commissions	546.8	543.5	593.4
Depreciation and amortization	231.5	351.9	552.4
Other	1,880.2	2,070.0	2,280.7
Total Operating Expenses	$5,769.9	$ 6,657.1	$7,287.2
Operating income (loss)	$ (218.9)	$ (426.6)	$ (637.3)
Other income (expense):			
Interest	$ (162.3)	$ (338.5)	$ (580.6)
Gain on disposition of assets	148.7	100.2	612.3
Preferred stock dividends of Eastern	0.0	(28.0)	(46.1)
Eastern pension-related adjustments	0.0	(575.5)	(118.0)
Eastern liquidation-related adjustments	0.0	(797.5)	0.0
Chapter 11-related charges	(65.2)	(440.7)	0.0
Expenses relating to Eastern bankruptcy	0.0	(9.8)	(36.9)
Provision for Eastern pilot back pay award	0.0	0.0	(65.5)
Other	(6.7)	116.4	(33.0)
Total Other Income (expense)	$ (85.5)	$(1,973.6)	$ (267.8)
Net profit (loss) before taxes and extraordinary items	$ (304.4)	$(2,400.2)	$ (905.1)
Income tax (credit) provision	1.3	2.7	0.6
Extraordinary items	0.0	59.0	20.1
Net Profit (loss)	$ (305.7)	$(2,343.9)	$ (885.6)

Source: Continental Airlines Holdings, Inc. 10K reports.

[a]Financial results for all of 1989 and the first three and one-half months of 1990 include revenues, expenses and operating losses of Eastern Air Lines.

Exhibit 8 (continued)

	December 31, 1991	1990	1989
Assets			
Current assets:			
Cash and cash equivalents	$ 341.2	$ 197.8	$ 1,271.5
Accounts receivable	513.5	489.7	745.0
Inventories of spare parts and supplies	212.1	219.2	444.5
Prepayments and other	83.9	107.3	99.0
Total Current Assets	$1,150.6	$1,014.0	$2,560.1
Property and equipment:			
Flight equipment	$2,135.4	$2,050.5	$3,271.3
Other	768.0	779.1	1,334.9
Less: accumulated depreciation	(1,003.0)	(856.6)	(1,102.6)
Property and equipment under capital leases:			
Flight equipment	492.0	427.4	1,088.7
Other	8.5	58.2	81.7
Less: accumulated depreciation	(185.0)	(161.8)	(351.1)
Other assets	156.4	158.0	773.0
Total Assets	$3,522.9	$3,468.7	$7,656.1
Liabilities and Shareholders' Equity			
Current liabilities:			
Current maturities of long-term debt and capital leases	$ 185.4	$ 0.0	$ 283.0
Accounts payable	569.4	316.8	769.6
Air traffic liability	478.3	487.4	426.5
Other	273.0	244.3	546.5
Total Current Liabilities	$1,506.1	$1,048.5	$2,025.6
Estimated liabilities subject to Chapter 11 proceedings	$4,225.8	$4,352.0	$ 3,024.4
Long-term debt	81.2	0.0	2,229.4
Capital leases	0.0	0.0	366.5
Deferred credit related to Eastern	1,056.5	1,056.5	624.4
Other liabilities	291.8	344.3	
Minority stockholders' equity in subsidiaries	0.0	0.0	8.5
Preferred stock	102.2	102.7	483.5
Common stock–$0.01 par value; 200,000,000 shares authorized; 46,745,170 shares issued (year-end 1991)	0.5	0.4	0.6
Additional paid-in capital	1,094.8	1,094.3	1,085.6
Retained deficit	(4,823.7)	(4,518.0)	(2,171.4)
Common Treasury stock	(12.0)	(12.0)	(21.1)
Total Shareholders' Equity	$(3,638.0)	$(3,333.0)	$ (614.3)
Total Liabilities and Shareholders' Equity	$ 3,522.9	$ 3,468.7	$7,656.1

Source: Continental Airlines Holdings, Inc. 10K reports.

Exhibit 9 Texas Air Corp./Continental Airlines Holdings, Inc. Consolidated Quarterly Financial Statements, Unaudited (millions of dollars)

	Three Months Ended		
	September 30, 1992	June 30, 1992	March 31, 1992
Operating revenues:			
Passenger	$1,194.1	$1,144.2	$1,188.3
Cargo, mail	247.0	226.6	177.1
Total Operating Revenues	$1,441.1	$1,370.8	$1,365.4
Operating expenses:			
Wages and salaries	$ 338.5	$ 358.9	$ 337.6
Aircraft fuel	226.1	194.8	189.2
Rentals and landing fees	197.9	194.4	199.6
Commissions	126.6	131.1	142.3
Depreciation and amortization	56.2	58.3	51.8
Other	498.1	491.3	460.7
Total Operating Expenses	$1,443.4	$1,428.8	$1,381.2
Operating income (loss)	$ (2.3)	$ (58.0)	$ (15.8)
Other income (expense):			
Interest	(36.2)	(36.9)	(36.3)
Gain on disposition of assets	(0.4)	0.8	52.8
Chapter 11-related items:			
Professional fees and other	(4.5)	(7.1)	(2.7)
Interest income	3.2	4.5	3.8
Other	11.1	(2.4)	5.5
Total Other Income (expense)	$ (26.8)	$ (41.1)	$ 23.1
Net profit (loss) before taxes and extra-ordinary items	(29.1)	(99.1)	7.3
Income tax (credit) provision	0.4	0.1	(0.1)
Net Profit (loss)	$ (29.5)	$ (99.2)	$ 7.2

Source: Continental Airlines Holdings, Inc. 10Q reports.

Exhibit 9 (continued)

	September 30, 1992	June 30, 1992	March 31, 1992
Assets			
Current assets:			
Cash and cash equivalents	$ 344.3	$ 356.3	$ 330.1
Accounts receivable	473.2	602.5	557.1
Inventories of spare parts and supplies	207.3	225.2	216.6
Prepayments and other	93.1	87.0	77.8
Total Current Assets	$ 1,117.9	$ 1,271.0	$ 1,181.6
Property and equipment:			
Flight equipment	$ 2,175.9	$ 2,180.3	$ 1,924.7
Other	782.4	785.0	616.9
Less: accumulated depreciation	(1,122.4)	(1,103.6)	(839.7)
Property and equipment under capital leases:			
Flight equipment	497.8	496.6	472.0
Other	3.8	3.8	3.8
Less: accumulated depreciation	(210.2)	(200.9)	(185.3)
Other assets	143.8	145.7	142.3
Total Assets	$ 3,389.0	$ 3,577.9	$ 3,316.3
Liabilities and Shareholders' Equity			
Current liabilities:			
Current maturities of long-term debt and capital leases	$ 118.7	$ 151.4	$ 154.7
Accounts payable	609.4	640.3	613.3
Air traffic liability	585.2	639.1	552.1
Other	284.0	281.7	274.5
Total Current Liabilities	$ 1,597.3	$ 1,712.5	$ 1,594.6
Estimated liabilities subject to Chapter 11 proceedings	$ 4,145.4	$ 4,170.5	$ 3,441.8
Long-term debt	76.9	81.8	77.5
Deferred credit related to Eastern	1,056.5	1,056.5	0.0
Other liabilities	262.5	276.7	261.3
Preferred stock	101.9	101.9	5.0
Common stock-$0.01 par value; 200,000,000 shares authorized; 46,745,170 shares issued (year-end 1991)	0.5	0.5	0.0
Additional paid-in capital	1,094.8	1,094.8	256.3
Retained debt	(4,935.1)	(4,905.6)	(2,320.3)
Common Treasury stock	(12.0)	(12.0)	0.0
Total Shareholders' Equity	$(3,749.9)	$(3,720.4)	$ (2,059.0)
Total Liabilities and Shareholders' Equity	$3,389.0	$3,577.9	$3,316.3

Source: Continental Airlines Holdings, Inc. 10Q reports.

Exhibit 10 Claims Against Continental Airlines Holdings, Inc. in February 1992 Reorganization Plan

Claim Type	Amount	Number
Administration and priority claims:		
Chase DIP loan agreement	$120,000,000	1
Capital expenditure financing	7,627,575	15
Rent deferral agreement	130,567,233	27
Administration claims	6,784,953	163
Priority tax	42,631,673	1,243
Priority plan contribution	0	0
Priority wage	0	0
Other priority and superpriority	contingent	3
Secured classes	1,471,666,874	128
Claims relating to pension plans:		
Eastern-related	contingent	1
Continental	contingent	1
System One	contingent	1
Frontier I trust claims	9,260,668	328
General unsecured	3,483,497,836	27,218
Subordinated claims	365,092,324	25,706
Equity interests	nil	nil

Source: Continental Airlines Holdings, Inc.

Exhibit 11 Continental Airlines Holdings, Inc. Liquidation Analysis as of June 30, 1992 (millions of dollars)

	Current Estimate Market Value	Liquidation Value
Current assets:		
Cash and temporary investments	$ 355.1	$ 355.1
Air Micronesia escrow	35.0	35.0
Accounts receivable, less doubtful accounts	573.0	358.8
Inventories	34.1	20.9
Prepayments	73.6	20.8
Total Current Assets	$1,070.8	$ 790.6
Property and equipment:		
Owned flight equipment	1,218.8	1,030.3
Leased flight equipment–positive equity	173.0	24.5
Total Property and Equipment	$1,391.8	$1,054.8
Routes:		
Air Micronesia (to be sold)	0.0	0.0
South Pacific	15.0	0.0
North Pacific	85.0	55.3
Europe	135.0	67.5
Madrid/Barcelona	40.0	20.0
Central America	7.5	2.3
Mexico	65.0	15.0
Canada	1.0	0.0
Caribbean	20.0	0.0
Total Routes	$ 368.5	$ 160.1
Slots:		
LGA/DCA slots (to be sold)	0.0	0.0
Remaining 44 slots at LGA	22.0	13.2
36 slots at ORD	35.0	26.3
42 slots at DCA	30.0	15.0
Total Slots	$ 87.0	$ 54.5
Gates and Hubs:		
Three gates at ORD	21.0	18.9
Two gates at LAX	14.0	12.6
Newark	125.0	62.5
Total Gates and Hubs	$ 160.0	$ 94.0
Aircraft orders	57.3	57.3
Simulators	17.3	6.9
Pledged spare parts	357.3	178.7
Pledged assets	24.6	15.8
Air Micronesia preferred stock	20.0	5.0
CRS franchise and software	60.0	40.0
Other	261.6	92.1
Total Assets	$3,876.2	$2,549.8

Source: Continental Airlines Holdings, Inc.

Casewriter's note: Difference between current market value and liquidation value represents the estimated loss in value that would occur if Continental Holdings' assets were sold off piecemeal rather than as a single unit.

Exhibit 12 1991 Operating Statistics of Major Airlines

	Continental	Average for All Other Major Carriers
Revenue passengers enplaned (thousands)	36,969	54,041
Revenue passenger miles (millions)	41,400	56,999
Available seat miles (millions)	65,900	92,670
Passenger mile yield (cents)	11.14	13.12
Passenger load factor (%)	62.80	62.82
Breakeven passenger load factor (%)	68.80	67.49
Average fuel price per gallon (cents)	69.38	70.53
Available seat miles per fuel gallon	51.77	50.24
Cost per available seat mile (cents)	8.20	9.58
Pay per employee as percent of industry average	76.30	--
Number of employees	36,300	60,422

Source: Airlines' annual reports; Air Transport Association of America.

Exhibit 13A Bids for Continental Airlines Holdings, Inc. as of November 6, 1992: Basic Financing (in thousands of dollars except where indicated)

	MAXAIR Holdings, Inc.	Air Canada/ Air Partners, L.P.
Equity investment:		
Common equity	$ 45,000	$110,000
Preferred equity	100,000	30,000
Debt investment:		
Air Micronesia notes	175,000[a]	160,000[b]
CAL notes	90,000[c]	150,000[d]
Total Initial Investment	$410,000	$450,000
Total committed financing	325,000[e]	450,000
Total primary shares outstanding (000s)	136,900	18,210
Total fully diluted shares outstanding (000s)	270,000	30,580
First-tier warrant exercise price ($)	$ 2.00	$ 15.00
Shares exercisable (000s)	70,200	7,413
Second-tier warrant exercise price ($)		$ 30.00
Shares exercisable (000s)		3,707
Total Warrant Proceeds	$140,400[f]	$222,400[g]
Total Investment with Warrants	$550,400	$672,400

Source: Continental Airlines Holdings, Inc.

[a]Kidder and DLJ will attempt a private placement of the Air Micronesia notes. If the private placement is unsuccessful, $150.0 million is currently committed to by GECC; $25.0 million has been committed as Air Micronesia Senior Subordinated Notes by DLJ, with an "equity kicker" of 20% of Air Micronesia common stock in the form of "nominally priced" warrants.

[b]$150 million has been committed by GECC. If more than $150 million but less than $160 million is placed, Air Partners will fund the difference up to $160 million. If more notes can be placed, Air Micronesia will issue additional notes up to $225 million.

[c]DLJ has committed to purchase $25 million of the CAL notes. DLJ, Kidder, and MAXAIR have committed to purchase $5 million, subject to payment of their fees.

[d]Air Canada has committed to purchase the CAL notes.

[e]Excluding the $25 million of DLJ-committed Air Micronesia Senior Subordinated Notes.

[f]Excluding proceeds from conversion of creditor warrants of $28.9 million, representing 8.90 million shares at an exercise price of $3.25.

[g]Excluding proceeds from conversion of creditor warrants of $37.5 million, representing 1.25 million shares at an exercise price of $30.00.

Exhibit 13B Bids for Continental Airlines Holdings, Inc. as of November 6, 1992: Valuation and Potential Returns (in thousands of dollars, except where indicated)

	MAXAIR Holdings, Inc.	Air Canada/ Air Partners, L.P.
Implied Equity Valuation—Before Conversion of Preferred Stock		
Initial shares purchased (000s)	72,900	10,000
Percent of equity	53.3%	54.9%
Initial common equity investment	$45,000	$110,000
Per share purchase price	$0.62	$11.00
Implied equity valuation	$84,428	$200,364
Implied value to unsecured creditors	$37,000	$71,400
Upon Conversion of Investor's Preferred Stock		
Investor shares outstanding (000s)	126,900	
Percent of equity	66.5%	
Equity investment with preferred stock	$145,000	
Implied equity valuation	$218,045	
Implied value to unsecured creditors	$68,600	
Upon Conversion of Investor's First-Tier Warrants	(70.2 mm shares at $2.00, or 26% fully diluted)	(7.413 mm shares at $15.00, or 24.2% fully diluted)
Investor shares outstanding (000s)	197,100	17,400
Percent of equity[a]	75.5%	68.0%
Equity investment with warrants	$285,400	$221,200
Implied equity valuation	$378,013	$325,294
Implied value to unsecured creditors[a]	$ 86,900	$ 82,400
Upon Conversion of Investor's Second-Tier Warrants		(3.707 mm shares at $30.00, or 12.1% fully diluted)
Investor shares outstanding (000s)		21,100
Percent of equity[a]		72.0%
Equity investment with warrants/preferred stock		$332,500
Implied equity valuation		$461,806
Implied value to unsecured creditors[a]		$102,200

Unsecured Creditors' Returns in 1994[b]

	MAXAIR			Air Canada/Air Partners		
1994 pre-investment equity value	$300,000	$700,000	$1,200,000	$300,000	$700,000	$1,200,000
Equity value to unsecured creditors	134,500	229,900	357,500	139,600	240,900	367,400

Source: Continental Airlines Holdings, Inc.

[a]Before dilution resulting from exercise of creditor warrants or the value creditors could receive by selling those warrants.
[b]Assumes 12/31/92 effective date, exercise of warrants when "in the money."

Exhibit 13C Bids for Continental Airlines Holdings, Inc. as of November 6, 1992: Terms of New Securities (in thousands of dollars, except where indicated)

	MAXAIR Holdings, Inc.	Air Canada/Air Partners, L.P.	
Investor Warrant Terms			
Number of warrants (000s)	70,200	7,400	3,700
% of fully diluted shares	26.0%	24.2%	12.1%
Exercise price	$2.00	$15.00	$30.00
Warrant premium to investor purchase price	324.0%	136.4%	272.7%
Aggregate warrant proceeds	$140,000	$111,200	$111,200
Expiration	7 years	5 years	5 years
Callability	Non-callable	Non-callable	Non-callable
Form of warrant proceeds	Cash	Cash or surrender of Series B Notes at par	
Equity valuation, before exercise	$381,800[a]	$273,200	$768,700[b]
Creditor Warrant Terms			
Number of warrants (000s)	8,900	1,300	
% of fully diluted shares	3.3%	4.1%	
Exercise price	$3.25	$30.00	
Warrant premium to investor purchase price	526.5%	272.7%	
Aggregate warrant proceeds	$28,900	$37,500	
Expiration	Not specified	Not specified	
Callability	Not specified	Not specified	
Preferred Stock Terms			
	6% Cumulative Convertible Preferred Stock	**12% Cash/PIK Preferred Stock**	
Number of shares (000s)	54,000	300	
Aggregate purchase price	$100,000	$30,000	
Conversion price per share	$1.85	Not applicable	
Dividend rate	6.0% per annum in cash, when declared	12.0% per annum in cash; to the extent Available Cash Flow is insufficient, dividend will be paid-in-kind	
Mandatory redemption	Perpetual	Year 10	
Optional redemption	None for 7 years	Redeemable at any time at liquidation preference	
Voting rights	Upon conversion	None	
Convertibility	Freely convertible into shares of Class A Common Stock	None	

[a]Assumes conversion of preferred stock.
[b]Before exercise of creditor warrants.

Exhibit 13C (continued)

	MAXAIR Holdings, Inc.	Air Canada/Air Partners, L.P.
Debt Terms		
Air Micronesia Notes		
Issuer	Newsub (Air Micronesia)-owned at least 79.9% by CAL	Newsub (Air Micronesia)-owned at least 79.9% by CAL
Principal amount	$175 million	$150-$225 million
Interest rate	12% per annum	Not more than 12%
Maturity	7 years	Not specified
Average life	6.25 years	At least 5 years
Call protection	5 years	Not specified
Mandatory redemption	25% in each of years 5 and 6	Not specified
Security	First lien on all unencumbered assets and second lien on all encumbered assets	First lien pledge on all Newsub assets
CAL guarantee	Nonrecourse, secured by CAL's Newsub stock	Secured by CAL's Newsub stock
CAL Notes		
Issuer	Continental Airlines, Inc.	Continental Airlines, Inc.
Principal amount	$90 million	$150 million. Reduced dollar-for-dollar to the extent the amount of Air Micronesia notes issues exceeds $160 million
Interest rate (maximum)	12% per annum	12% per annum
Maturity	7 years	7 years
Average life	6.25 years	5 years
Call protection	None; callable starting in year 1 at a premium of 12% declining to par in year 5	3 years; thereafter at a premium of 3% declining to par in year 6
Mandatory redemption	25% in each of years 5 and 6	20% in each of years 3 through 6
Mandatory prepayments	Percentage of "Excess Cash Flow" applied against principal	Not applicable
Security	Unencumbered CAL assets	Unencumbered CAL assets

Source: Continental Airlines Holdings, Inc.

Exhibit 14 Forecasted Operating Performance of Continental Airlines Holdings, Inc., as of September 15, 1992 (millions of dollars)

	1992	1993	1994	1995
Passenger revenue:				
Mainland	$ 3,358.9	$ 3,852.5	$ 4,510.8	$ 4,982.5
International	1,377.9	1,559.0	1,869.9	2,197.2
Cargo	254.9	279.4	299.5	318.0
Other	187.7	184.1	202.4	223.0
Total operating revenues	$ 5,179.4	$ 5,875.0	$ 5,882.6	$ 7,720.7
Operating expenses	$ 5,346.8	$ 5,727.7	$ 6,543.3	$ 7,149.7
Operating income (loss)	$ (167.4)	$ 147.3	$ 339.3	$ 571.0
Interest expense	(131.3)	(175.4)	(168.3)	(145.4)
Other	19.3	24.2	28.2	39.2
Equity in subsidiaries	9.9	5.4	17.7	26.6
Total nonoperating income (expense)	$ (102.1)	$ (145.8)	$ (122.4)	$ (79.6)
Net profit (loss) before reorganization-related charges	(269.5)	1.5	216.9	491.4
Reorganization-related charges	(15.6)	0.0	0.0	0.0
Net profit (loss) before taxes	(285.1)	1.5	216.9	491.4
Operating Statistics				
RPMs (millions)	43,565	44,311	48,539	51,396
ASMs (millions)	68,168	67,497	71,550	74,898
Load factor	63.9%	65.6%	67.8%	68.6%
Break-even load factor	67.9%	66.0%	66.0%	64.6%
Net yield per RPM (cents)	10.87	12.21	13.15	13.97
Break-even yield per RPM (cents)	11.56	12.28	12.79	13.14
Total revenue per ASM (cents)	7.60	8.70	9.62	10.31
Operating expense per ASM (cents)	7.84	8.49	9.15	9.55
Fuel cost per gallon (cents)	64.24	64.91	66.84	68.94
Enplanements	38,916	40,088	43,269	45,212
Block-to-block hours	1,136,672	1,146,921	1,198,446	1,246,133
Departures	490,407	495,648	518,554	541,298

Source: Continental Airlines Holdings, Inc.

Assumes:

(1) Emergence from bankruptcy, through a confirmed Plan of Reorganization, on December 31, 1992.

(2) Continuation throughout 1992 of the approximate 10% pay reduction implemented July 1, 1992 (estimated payroll savings of $98.7 million per year, of which $54 million occurs in 1992), to be phased out by July 1, 1993.

(3) Assets of Air Micronesia division are not sold; assets are instead used as collateral for a $200-million loan.

(4) The Denver maintenance base will be closed at the end of 1993, and a new major maintenance base will not be available until the beginning of 1995. The loss of this facility will increase maintenance costs about $9 million in 1994. The opening of the new facility will add $40 million per year in facility-related costs but will provide cost reductions estimated at $30 million in 1995 and higher in following years.

(5) Approximate $91.5 million reduction in other expense in 1992.

(6) Implementation of Fleet Plan 17, which assumes the following aircraft changes:

	Narrowbodies	Widebodies	Deletions	Net
1993	29	2	31	0
1994	41	2	27	16
1995	26	6	16	16

Exhibit 15 Forecasted Sources and Uses of Cash of Continental Airlines Holdings, Inc., as of September 15, 1992 (millions of dollars)

	1992	1993	1994	1995
Beginning cash balance	$ 280.2	$ 460.9	$ 478.2	$ 670.2
Cash generated:				
Net income before gains	(285.1)	1.0	134.5	304.7
Depreciation and amortization	207.0	199.0	233.6	256.5
New aircraft financing	0.0	383.4	1,352.4	1,403.5
Capital expenditure financing	56.2	69.4	95.6	57.0
Exercise of warrants	0.0	0.0	325.0	0.0
Plan-related transactions	281.8	0.0	0.0	0.0
Total Sources	$ 259.9	$ 652.8	$2,141.1	$2,021.7
Cash used:				
Scheduled debt repayment	$ 112.8	$ 96.0	$ 343.6	$ 278.8
Stayed interest on non-Section 1110	(39.8)	0.0	0.0	0.0
Lease payment deferrals	(140.6)	(64.3)	0.0	0.0
Deferred interest	(7.8)	(80.5)	0.0	0.0
Capital expenditures	231.3	271.2	264.1	221.7
New aircraft purchases	0.0	383.4	1,352.4	1,403.5
Net predelivery deposits	0.0	29.2	5.5	9.3
Other uses (sources)	(76.7)	0.5	(16.5)	(70.1)
Total Uses	$ 79.2	$ 635.5	$1,949.1	$1,843.2
Net sources/(uses)	180.7	17.3	192.0	178.5
Ending reportable cash balance	$ 460.9	$ 478.2	$ 670.2	$ 848.7
Less restricted cash	$ (92.7)	$ (93.4)	$ (100.0)	$ (100.0)
Investable cash	$ 368.2	$ 384.8	$ 570.2	$ 748.7

Source: Continental Airlines Holdings, Inc.

Assumes:

(1) Continental emerges from bankruptcy protection on December 31, 1992, by way of a nontaxable transaction.

(2) Capital expenditures represent total anticipated capital spending, including rotables and expendables related to new jet aircraft. Capital expenditures in January 1993 include a one-time payment of $12.5 million to USAir for leasehold improvements at LaGuardia. An additional $14.5 million may be expended during the second and third quarters of 1993.

(3) Noncommuter subsidiaries reflects the net cash flow contribution of System One, taking into consideration its cash flow from operations, debt amortization, and nonfinanced capital expenditures. Also included is the receipt of $35.0 million, in 12 consecutive monthly installments, from the sale of the Airline Services Division to EDS, commencing in January 1993.

(4) Net predelivery deposits includes net progress payments anticipated to be required by Boeing related to Continental's 737-300 purchase contract. Pre-delivery deposit requirements due during first quarter 1993 for Boeing 737-300s are assumed to be deferred and paid over 18 months beginning April 1993. Predelivery deposits required for 757-200s, 200-seat and 300-seat aircraft are assumed to be 100% financed by manufacturers.

(5) Aircraft included in New aircraft purchases are 100% lease financed.

(6) Other uses (sources) includes a $5 million per year increase in net working capital.

Exhibit 16 Market Interest Rates During First Week of November 1992 (expressed on a bond equivalent yield basis)

Treasury Securities	
3-month	3.06%
6-month	3.28
1-year	3.47
5-year	5.91
10-year	6.85
30-year	7.69
Long-Term Corporate Bonds (industrial average)	
AAA-rated	8.30%
AA-rated	8.48
A-rated	8.95
BBB-rated	9.22
BB-rated	10.00
B-rated	11.46

Source: Moody's Bond Survey and Standard & Poor's Statistical Service.

Exhibit 17 Principal U.S. Competitors of Continental Airlines

	1991	1990	1989
AMR Corp. (American Airlines)			
Beta = 1.45			
Operating revenues ($ millions)	$12,887	$11,720	$10,480
Operating expenses ($ millions)	12,882	11,596	9,736
Capital expenditures ($ millions)	3,536	2,901	2,395
Depreciation ($ millions)	883	723	613
Long-term debt ($ millions)[a]	5,879	3,272	2,306
Net worth ($ millions)	3,794	3,727	3,766
Net income (loss) ($ millions)	(240)	(40)	455
Earnings per share ($)	(3.54)	(0.64)	7.16
Dividends per share ($)	Nil	Nil	Nil
Common stock price range ($) High/Low	71.1/44.3	70.3/39.8	107.3/52.1
Shares outstanding (millions)	68.36	62.31	62.24
Delta Air Lines			
Beta = 1.10			
Operating revenues ($ millions)	$9,171	$8,582	$8,090
Operating expenses ($ millions)	9,621	8,163	7,411
Capital expenditures ($ millions)	2,145	1,690	1,481
Depreciation ($ millions)	522	459	393
Long-term debt ($ millions)[a]	2,059	1,315	703
Net worth ($ millions)	2,506	2,618	2,620
Net income (loss) ($ millions)	(324)	303	461
Earnings per share ($)	(7.73)	5.28	9.37
Dividends per share ($)	1.20	1.70	1.20
Common stock price range ($) High/Low	78.8/55.5	80.9/52.5	85.8/48.8
Shares outstanding (millions)	49.40	46.09	49.27
UAL Corp. (United Airlines)			
Beta = 1.25			
Operating revenues ($ millions)	$11,663	$11,038	$ 9,794
Operating expenses ($ millions)	12,157	11,074	9,329
Capital expenditures ($ millions)	2,122	2,576	1,568
Depreciation ($ millions)	604	560	517
Long-term debt ($ millions)[a]	2,423	1,238	1,321
Net worth ($ millions)	1,598	1,672	1,566
Net income (loss) ($ millions)	(332)	96	324
Earnings per share ($)	(14.31)	4.33	14.96
Dividends per share ($)	Nil	Nil	Nil
Common stock price range ($) High/Low	161.5/109.0	171.0/84.3	294.0/105.3
Shares outstanding (millions)	23.76	21.89	21.83
USAir Group			
Beta = 1.65			
Operating revenues ($ millions)	$6,514	$6,559	$6,252
Operating expenses ($ millions)	6,688	7,060	6,230
Capital expenditures ($ millions)	306	730	683
Depreciation ($ millions)	295	287	254
Long-term debt ($ millions)[a]	2,115	2,263	1,468
Net worth ($ millions)	1,676	1,792	2,251
Net income (loss) ($ millions)	(305)	(455)	(63)
Earnings per share ($)	(7.62)	(10.89)	(1.73)
Dividends per share ($)	Nil	0.06	0.15
Common stock price range ($) High/Low	24.5/7.0	33.8/12.6	54.8/30.6
Shares outstanding (millions)	46.60	45.50	44.20

Source: Airlines' Annual Reports.

[a]Includes capital lease obligations.

Exhibit 18 Continental Airlines Holdings, Inc. Aircraft Fleet as of October 31, 1992

	Manufacturer	Number of Aircraft	Owned Aircraft	Leased Aircraft	Number of Seats	Average Age (years)
Four Engine						
B-747-200[a]	Boeing	5		5	408	20.4
B-747-100[a]	Boeing	2		2	408	22.1
Three Engine						
DC-10-10	McDonnell Douglas	7		7	284	19.8
DC-10-30	McDonnell Douglas	13		13	258	15.6
B-727-200[a]	Boeing	86	41	45	149	17.8
B-727-100[a]	Boeing	3	3		119	26.1
Two Engine						
MD-80	McDonnell Douglas	64	9	55	146	7.5
DC-9-30[a]	McDonnell Douglas	34	6	28	108	20.2
B-737-300	Boeing	55	10	45	130	5.4
B-737-200[a]	Boeing	23	7	16	108	22.9
B-737-100[a]	Boeing	13	13		94	24.0
A-300	Airbus	21	2	19	260	11.1
Total		326	91	235		14.2

Source: Continental Airlines Holdings, Inc. Reorganization Plan (dated January 13, 1993).

[a]Stage 2 noise level aircraft to be phased out by year 2000.

Exhibit 19 Average Age of Major Carrier Fleets as of December 1991

	Average Age
U.S. Airline Fleets:	
American Airlines	9.0
Continental Airlines Holdings	14.0
Delta Airlines	9.1
Northwest Airlines (estimate)	16.5
Trans World Airways	18.0
United Airlines	10.8
USAir	9.0
U.S. Industry Average	12.3
Other Airline Fleets:	
Air Canada	12.2
Lufthansa	5.4

Source: Airlines' Annual Reports and Continental Airlines Holdings, Inc.