

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

**FORM 8-K**

**CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **May 30, 2008**

**CONTINENTAL AIRLINES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**DELAWARE**

(State or Other Jurisdiction of Incorporation)

**1-10323**

(Commission File Number)

**74-2099724**

(IRS Employer Identification No.)

**1600 Smith Street, Dept. HQSEO, Houston, Texas**

(Address of Principal Executive Offices)

**77002**

(Zip Code)

**(713) 324-2950**

(Registrant's Telephone Number, Including Area Code)

\_\_\_\_\_  
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

<input type="checkbox"/>	Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
<input type="checkbox"/>	Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
<input type="checkbox"/>	Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
<input type="checkbox"/>	Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.05. Costs Associated with Exit or Disposal Activities.

On June 5, 2008, Continental Airlines, Inc. (the "Company") issued a press release announcing capacity reductions and related matters as described in the press release. The Company made its determination to implement these capacity reductions in light of unprecedented high fuel costs and the other challenges facing the industry.

In connection with these capacity reductions, the Company anticipates that it will record accounting charges, possibly including aircraft and spare parts inventory impairments, severance and other termination costs, contract termination costs and other associated costs. The

Company is not able at this time to estimate the amount and timing of these charges.

The press release is filed herewith as Exhibit 99.1 and incorporated in this Item 2.05 by reference.

Item 2.06. Material Impairments.

The information set forth in Item 2.05 of this Current Report on Form 8-K is incorporated by reference into this Item 2.06.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

e. In connection with the capacity reductions and related matters described in our press release, Larry Kellner, the Company's Chairman and Chief Executive Officer, and Jeff Smisek, the Company's President, have entered into letter agreements with the Company pursuant to which each of such officers has agreed to (1) voluntarily forego his salary with respect to the period June 1, 2008 through December 31, 2008 and (2) voluntarily withdraw from the Company's annual executive incentive program with respect to 2008. As a result of the voluntary waivers, Mr. Kellner will receive a salary of \$296,875 and Mr. Smisek will receive a salary of \$240,000 for 2008.

The foregoing description of the letter agreements with each of Mr. Kellner and Mr. Smisek is qualified in its entirety by reference to the full text of the agreements, which are filed herewith as Exhibits 99.2 and 99.3, respectively.

The press release is filed herewith as Exhibit 99.1 and is incorporated in this Item 5.02 by reference.

Item 7.01 Regulation FD Disclosure.

On June 5, 2008, the Company is disclosing in a "Q&A" document to its employees that, for 2008, the Company's realized and unrealized fuel hedging gains were more than \$100 million through June 4, 2008.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

- 99.1 Press Release
- 99.2 Letter Agreement dated May 30, 2008 between the Company and Larry Kellner
- 99.3 Letter Agreement dated May 30, 2008 between the Company and Jeffery Smisek

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Continental Airlines, Inc. has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CONTINENTAL AIRLINES, INC.

June 5, 2008

By /s/ Lori A. Gobillot

Lori A. Gobillot

Staff Vice President and Assistant General  
Counsel

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EXHIBIT INDEX

- 99.1 Press Release
- 99.2 Letter Agreement dated May 30, 2008 between the Company and Larry Kellner
- 99.3 Letter Agreement dated May 30, 2008 between the Company and Jeffery Smisek



# News Release

**Contact:** Corporate Communications

**Houston:** 713.324.5080

**Email:** corpcomm@coair.com

**News archive:** continental.com/company/news/ **Address:** P.O. Box 4607, Houston, TX 77210-4607

## CONTINENTAL TO REDUCE CAPACITY, FLEET AND STAFFING

*Sixty-seven mainline aircraft and 3,000 positions to be eliminated; CEO and President decline their salaries for the remainder of the year*

HOUSTON, June 5, 2008 - Continental Airlines (NYSE: CAL) released to its more than 45,000 employees the following employee bulletin and message from Larry Kellner, chairman and chief executive officer, and Jeff Smisek, president. Continental does not anticipate any further comment until after it has had the opportunity to meet with employees during the next week.

Dear Co-worker:

We've always said that you deserve open, honest and direct communication. This letter and the attached employee bulletin and Q&A are part of that commitment.

The airline industry is in a crisis. Its business model doesn't work with the current price of fuel and the existing level of capacity in the marketplace. We need to make changes in response.

While there have been several successful fare increases, those increases haven't been sufficient to cover the rising cost of fuel. As fares increase, fewer customers will fly. As fewer customers fly, we will need to reduce our capacity to match the reduced demand. As we reduce our capacity, we will need fewer employees to operate the airline. Although these changes will be painful, we must adapt to the reality of today's market to successfully navigate these difficult times.

The attached employee bulletin and Q&A outline some of the steps we are taking to address this industry crisis. The situation for all airlines is serious, and the actions we are announcing today are necessary to secure our future. We regret the loss of jobs caused by this crisis, and we will do our best to minimize furloughs and involuntary terminations.

These actions will help Continental survive this crisis. You have our ongoing commitment to keep you informed as the industry evolves and adapts to these unprecedented challenges. It is important that we all keep our focus on working together during these difficult times.

### **Employee Bulletin No. 9**

Continental today is announcing significant reductions in flying and staffing that are necessary for the company to further adjust to today's extremely high cost of fuel. These actions are among many steps Continental is taking to respond to record-high fuel prices as the industry faces its worst crisis since 9/11.

The price of Gulf Coast jet fuel closed yesterday at \$151.26 - about 75 percent higher than what it was a year ago. At that price and at our current capacity, our fuel expense this year would be \$2.3 billion more than it was last year. That increase alone amounts to about \$50,000 per employee.

These record fuel costs have fundamentally shifted the economics of our business. At these fuel prices, a large number of our flights are losing money, and Continental needs to react to this changed marketplace.

### **Network Changes**

Starting in September, at the conclusion of the peak summer season, Continental will reduce its flights, with fourth quarter domestic mainline departures to be down 16 percent year-over-year. This will result in a reduction of domestic mainline capacity (available seat miles, or ASMs) by 11 percent in the fourth quarter, compared to the same period last year.

By the end of next week, Continental will provide details on specific flights and destinations that are subject to reduction or elimination. For additional information on departures and capacity for 2008 and 2009, see Table A.

### Co-worker Impact

As a result of the capacity reductions, Continental will need fewer co-workers worldwide to support the reduced flight schedule. About 3,000 positions, including management positions, will be eliminated through voluntary and involuntary separations, with the majority expected to be through voluntary programs.

The company will offer voluntary programs in an effort to reduce the number of co-workers who will be furloughed or involuntarily terminated due to the capacity cuts. Details of these programs will be available next week.

The reductions will take effect after the peak summer season, except for management and clerical reductions, which will begin sooner.

In recognition of the crisis and its effect on their co-workers, Larry and Jeff have declined their salaries for the remainder of the year and have declined any payment under the annual incentive program for 2008.

### Fleet Changes

Continental will reduce the size of its fleet by removing the least efficient aircraft from its network. To accomplish this, Continental is accelerating the retirement of its Boeing 737-300 and 737-500 fleets. In the first six months of 2008, Continental removed six older aircraft from service. Continental will retire an additional 67 Boeing 737-300 and 737-500 aircraft, with 37 of these additional retirements occurring in 2008 and 30 in 2009. Given the need for prompt capacity reductions in today's environment, 27 of the 67 aircraft will be removed in September. By the end of 2009, all 737-300 aircraft will be retired from Continental's fleet.

Continental will continue to take delivery of new, fuel-efficient NextGen Boeing

737-800s and 737-900ERs. Overall fuel efficiency will improve measurably as Continental takes delivery of 16 of these aircraft in the second half of 2008 and 18 in 2009 and accelerates the retirement of the older, less fuel-efficient aircraft as mentioned previously.

By the end of the second quarter of 2008, Continental will operate 375 mainline aircraft. Taking into account both the accelerated retirements and scheduled deliveries, Continental's fleet count will shrink to 356 aircraft in September 2008 and 344 aircraft at the end of 2009 (see attached Table B).

--tables attached--

**TABLE A: Network Changes**

Departures					
Estimated Average Daily Departures and Year-over-Year Percent Change					
	3Q '08		4Q '08		FY 2009
	Daily Depts.	% Change	Daily Depts.	% Change	% Change
Mainline Domestic	831	(5.7%)	733	(16.0%)	(9.8%) to (11.8%)
Mainline International	298	0.7%	251	(4.1%)	(1.1%) to 0.9%
Mainline System	1,129	(4.1%)	984	(13.2%)	(7.1%) to (9.1%)
Regional	1,425	3.6%	1,287	(4.1%)	(5.4%) to (7.4%)
Consolidated	2,554	0.0%	2,271	(8.3%)	(6.1%) to (8.1%)

Available Seat Miles (ASMs)			
Estimated Year-over-Year Percent Change			
	3Q '08	4Q '08	FY 2009
Mainline Domestic	(3.0%)	(11.4%)	(3.4%) to (5.4%)

Mainline International	3.4%	(1.6%)	0.0% to 2.0%
Mainline System	0.1%	(6.8%)	(0.7%) to (2.7%)
Regional	7.5%	(1.5%)	(7.4%) to (9.4%)
Consolidated	0.9%	(6.2%)	(1.4%) to (3.4%)

**TABLE B: Continental Airlines Mainline Fleet Plan as of June 5, 2008**

		Net		Net	
	Total @	Changes	Total @	Changes	Total @
	6/30/08E	2H08E	YE 2008E	2009E	YE 2009E
<b>Mainline Jets</b>					
777-200ER	20	-	20	2	22
767-400ER	16	-	16	-	16
767-200ER	10	-	10	-	10
757-300	17	-	17	-	17
757-200	41	-	41	-	41
737-900ER *	10	10	20	18	38
737-900	12	-	12	-	12
737-800*	111	6	117	-	117
737-700	36	-	36	-	36
737-300**	47	(24)	23	(23)	-
737-500**	55	(13)	42	(7)	35
<b>Total Mainline</b>	<b>375</b>	<b>(21)</b>	<b>354</b>	<b>(10)</b>	<b>344</b>
* Final mix of new 737-800/900ERs are subject to change					
** Final mix and quantity of 737-300 / 737-500 exits subject to change					

This press release contains forward-looking statements that are not limited to historical facts, but reflect the company's current beliefs, expectations or intentions regarding future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. For examples of such risks and uncertainties, please see the risk factors set forth in the company's 2007 10-K and its other securities filings, including any amendments thereto, which identify important matters such as the consequences of the company's high leverage, the significant cost of aircraft fuel, delays in scheduled aircraft deliveries, its high labor and pension costs, service interruptions at one of its hub airports, disruptions to the operations of its regional operators, disruptions in its computer systems, and industry conditions, including the airline pricing environment, industry capacity decisions, industry consolidation, terrorist attacks, regulatory matters, excessive taxation, the availability and cost of insurance, public health threats, an economic downturn in the U.S. and global economies and the seasonal nature of the airline business. The company undertakes no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this press release, except as required by applicable law.

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May 30, 2008

Mr. Lawrence W. Kellner

Chairman and Chief Executive Officer

Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, TX 77002

Dear Larry:

The purpose of this letter is to set forth your voluntary agreement to (1) forego your salary which would otherwise be earned by you as an employee of Continental Airlines, Inc. (the "Company") with respect to the period between June 1, 2008 and December 31, 2008 (the "Voluntary Period") and (2) withdraw from the Company's Annual Executive Bonus Program (the "Program") with respect to 2008.

You agree that (i) the Company will not pay you any salary with respect to the Voluntary Period (which would otherwise be earned by you as an employee of the Company with respect to your service), (ii) the Company will not pay you any annual incentive amount otherwise earned by you with respect to 2008 performance pursuant to the Program, (iii) as a result of this letter agreement you have no right to receive such salary or annual incentive amount, and (iv) the voluntary waiver and withdrawal provided hereunder shall not constitute a breach by the Company of your employment agreement, or a breach of any obligation that the Company has to you under the Program or otherwise; provided, however, that such reduction in salary and withdrawal from the Program shall not affect the determination of the amount of any benefit or other compensation payable to you under your employment agreement or under any of the other benefits or programs maintained by the Company.

If you are in agreement with the foregoing, please sign the enclosed copy of this letter and return it to me.

Sincerely,

CONTINENTAL AIRLINES, INC.

Accepted and Agreed:

/s/ Lawrence W. Kellner

Lawrence W. Kellner

By: /s/ Jennifer L. Vogel

Jennifer L. Vogel  
Senior Vice President,

General Counsel, Secretary

and Chief Compliance Officer



May 30, 2008

Mr. Jeffery A. Smisek

President

Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, TX 77002

Dear Jeff:

The purpose of this letter is to set forth your voluntary agreement to (1) forego your salary which would otherwise be earned by you as an employee of Continental Airlines, Inc. (the "Company") with respect to the period between June 1, 2008 and December 31, 2008 (the "Voluntary Period") and (2) withdraw from the Company's Annual Executive Bonus Program (the "Program") with respect to 2008.

You agree that (i) the Company will not pay you any salary with respect to the Voluntary Period (which would otherwise be earned by you as an employee of the Company with respect to your service), (ii) the Company will not pay you any annual incentive amount otherwise earned by you with respect to 2008 performance pursuant to the Program, (iii) as a result of this letter agreement you have no right to receive such salary or annual incentive amount, and (iv) the voluntary waiver and withdrawal provided hereunder shall not constitute a breach by the Company of your employment agreement, or a breach of any obligation that the Company has to you under the Program or otherwise; provided, however, that such reduction in salary and withdrawal from the Program shall not affect the determination of the amount of any benefit or other compensation payable to you under your employment agreement or under any of the other benefits or programs maintained by the Company.

If you are in agreement with the foregoing, please sign the enclosed copy of this letter and return it to me.

Sincerely,

CONTINENTAL AIRLINES, INC.

Accepted and Agreed:

/s/ Jeffery A. Smisek

Jeffery A. Smisek

By: /s/ Jennifer L. Vogel

Jennifer L. Vogel  
Senior Vice President,

General Counsel, Secretary

and Chief Compliance Officer