

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 1-10323

CONTINENTAL AIRLINES, INC.

(Exact name of registrant as specified in its charter)

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

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

(Zip Code)

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No _____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.: Large accelerated filer Accelerated filer _____ Non-accelerated filer _____ Smaller reporting company _____ (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _____ No

As of October 15, 2008, 110,576,471 shares of Class B common stock of the registrant were outstanding.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****CONTINENTAL AIRLINES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS****(In millions, except per share data) (Unaudited)**

	Three Months <u>Ended September 30,</u>		Nine Months <u>Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Operating Revenue:				
Passenger (excluding fees and taxes of \$402, \$399, \$1,186, and \$1,136, respectively)	\$3,760	\$3,511	\$10,633	\$ 9,802
Cargo	129	112	383	328
Other	<u>267</u>	<u>197</u>	<u>755</u>	<u>579</u>
	<u>\$4,156</u>	<u>3,820</u>	<u>\$11,771</u>	<u>10,709</u>

Operating Expenses:

Aircraft fuel and related taxes	1,501	895	3,912	2,399
Wages, salaries and related costs	765	836	2,197	2,404
Regional capacity purchase, net	553	446	1,648	1,319
Aircraft rentals	244	249	736	745
Landing fees and other rentals	225	209	643	592
Distribution costs	182	171	558	508
Maintenance, materials and repairs	152	166	478	479
Depreciation and amortization	112	106	327	306
Passenger services	113	105	315	294
Special charges	91	12	141	30
Other	<u>370</u>	<u>345</u>	<u>1,105</u>	<u>1,027</u>
	<u>4,308</u>	<u>3,540</u>	<u>12,060</u>	<u>10,103</u>

Operating Income (Loss)	<u>(152)</u>	<u>280</u>	<u>(289)</u>	<u>606</u>
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Nonoperating Income
(Expense):

Interest expense	(93)	(96)	(271)	(289)
Interest capitalized	8	8	25	19
Interest income	16	44	56	121
Income from other companies	2	3	12	13
Gain on sale of investments	-	-	78	7
Other, net	<u>(29)</u>	<u>2</u>	<u>(30)</u>	<u>18</u>
	<u>(96)</u>	<u>(39)</u>	<u>(130)</u>	<u>(111)</u>

Income (Loss) before Income Taxes	(248)	241	(419)	495
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Income Tax Benefit (Expense)	<u>12</u>	<u>-</u>	<u>100</u>	<u>(4)</u>
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Net Income (Loss)	<u>\$ (236)</u>	<u>\$ 241</u>	<u>\$ (319)</u>	<u>\$ 491</u>
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Earnings (Loss) Per Share:

Basic	<u>\$(2.14)</u>	<u>\$ 2.47</u>	<u>\$(3.11)</u>	<u>\$ 5.08</u>
Diluted	<u>\$(2.14)</u>	<u>\$ 2.15</u>	<u>\$(3.11)</u>	<u>\$ 4.42</u>

Shares Used for Computation:

Basic	110	98	103	97
Diluted	110	114	103	115

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

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

ASSETS	September 30, <u>2008</u> (Unaudited)	December 31, <u>2007</u>	September 30, <u>2007</u> (Unaudited)
Current Assets:			
Cash and cash equivalents	\$ 2,411	\$ 2,128	\$ 2,519
Short-term investments	<u>475</u>	<u>675</u>	<u>518</u>
Total unrestricted cash, cash equivalents and short-term investments	2,886	2,803	3,037
Restricted cash, cash equivalents and short-term investments	164	179	178
Accounts receivable, net	652	606	712
Spare parts and supplies, net	311	271	269
Deferred income taxes	217	259	200
Prepayments and other	<u>483</u>	<u>443</u>	<u>424</u>
Total current assets	<u>4,713</u>	<u>4,561</u>	<u>4,820</u>
Property and Equipment:			
Owned property and equipment:			
Flight equipment	8,170	7,182	7,184
Other	<u>1,673</u>	<u>1,548</u>	<u>1,510</u>
	9,843	8,730	8,694
Less: Accumulated depreciation	<u>3,061</u>	<u>2,790</u>	<u>2,721</u>
	<u>6,782</u>	<u>5,940</u>	<u>5,973</u>
Purchase deposits for flight equipment	<u>319</u>	<u>414</u>	<u>334</u>
Capital leases	190	297	298
Less: Accumulated amortization	<u>51</u>	<u>93</u>	<u>91</u>
	<u>139</u>	<u>204</u>	<u>207</u>
Total property and equipment, net	<u>7,240</u>	<u>6,558</u>	<u>6,514</u>
Routes and airport operating rights, net	785	706	593
Long-term investments (including \$25 restricted)	130	-	-
Investment in other companies	-	63	59
Other assets, net	<u>194</u>	<u>217</u>	<u>223</u>
Total Assets	<u>\$13,062</u>	<u>\$12,105</u>	<u>\$12,209</u>

(continued on next page)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, <u>2008</u> (Unaudited)	December 31, <u>2007</u>	September 30, <u>2007</u> (Unaudited)
Current Liabilities:			
Current maturities of long-term debt and capital leases	\$ 717	\$ 652	\$ 464
Accounts payable	945	1,013	978
Air traffic and frequent flyer liability	2,374	1,967	2,105
Accrued payroll	380	545	582
Accrued other liabilities	<u>499</u>	<u>272</u>	<u>291</u>
Total current liabilities	<u>4,915</u>	<u>4,449</u>	<u>4,420</u>
Long-Term Debt and Capital Leases	5,181	4,366	4,651
Deferred Income Taxes	217	359	200
Accrued Pension Liability	564	534	898
Accrued Retiree Medical Benefits	246	235	224
Other	849	612	599
Commitments and Contingencies			
Stockholders' Equity:			
Preferred Stock - \$.01 par, 10,000,000 shares authorized; zero, one and one share of Series B issued and outstanding, stated at par value	-	-	-
Class B common stock - \$.01 par, 400,000,000 shares authorized; 110,243,176, 98,208,888 and 97,956,627 issued and outstanding	1	1	1
Additional paid-in capital	1,795	1,606	1,594
Retained earnings	129	448	480
Accumulated other comprehensive loss	<u>(835)</u>	<u>(505)</u>	<u>(858)</u>
Total stockholders' equity	<u>1,090</u>	<u>1,550</u>	<u>1,217</u>
Total Liabilities and Stockholders' Equity	<u>\$ 13,062</u>	<u>\$ 12,105</u>	<u>\$ 12,209</u>

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

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

	Nine Months Ended September 30,	
	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:	\$	
Net income (loss)	\$ (319)	\$ 491
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	327	306

Special charges	141	30
Deferred income taxes	(100)	-
Gain on sale of investments	(78)	(7)
Unrealized loss on student loan-related auction rate securities	29	-
Undistributed equity in income of other companies	(9)	(13)
Stock-based compensation related to equity awards	13	19
Other, net	31	34
Changes in operating assets and liabilities	<u>(32)</u>	<u>216</u>
Net cash provided by operating activities	<u>3</u>	<u>1,076</u>
Cash Flows from Investing Activities:		
Capital expenditures	(390)	(228)
Aircraft purchase deposits refunded (paid), net	61	(145)
Proceeds from sales of short-term and long-term investments and change in restricted cash, cash equivalents and short-term investments, net	53	(70)
Proceeds from sales of property and equipment	76	10
Proceeds from sale of Copa Holdings, S.A. shares, net	149	-
Proceeds from sale of ExpressJet Holdings, Inc. shares, net	<u>-</u>	<u>35</u>
Net cash used in investing activities	<u>(51)</u>	<u>(398)</u>
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations	(341)	(337)
Proceeds from issuance of long-term debt	497	25
Proceeds from public offering of common stock	162	-
Proceeds from issuance of common stock pursuant to stock plans	<u>13</u>	<u>30</u>
Net cash provided by (used in) financing activities	<u>331</u>	<u>(282)</u>
Net Increase in Cash and Cash Equivalents	283	396
Cash and Cash Equivalents - Beginning of Period	<u>2,128</u>	<u>2,123</u>
Cash and Cash Equivalents - End of Period	<u>\$2,411</u>	<u>\$2,519</u>
Investing and Financing Activities Not Affecting Cash:		
Common stock issued upon conversion of 4.5% Convertible Notes		\$ 170
Property and equipment acquired through the issuance of debt	\$ 865	\$ 190

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

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

In our opinion, the unaudited consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the periods indicated. Such adjustments, other than nonrecurring adjustments that have been separately disclosed, are of a normal, recurring nature.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 Form 10-K"). Due to seasonal fluctuations common to the airline industry, our results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year. As used in these Notes to Consolidated Financial Statements, the terms "Continental," "we," "us," "our" and similar terms refer to Continental Airlines, Inc. and, unless the context indicates otherwise, its consolidated subsidiaries.

Certain reclassifications have been made in the prior period's consolidated financial statements and related note disclosures to conform to the current year's presentation.

NOTE 1 - ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS 157. In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the

FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," which defers the effective date for us to January 1, 2009 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually). As discussed in Note 5, on January 1, 2008, we adopted the provisions of SFAS 157 relating to assets and liabilities recognized or disclosed in the financial statements at fair value on a recurring basis. We are currently evaluating the requirements of the deferred provisions of this statement and have not determined the impact, if any, that adoption of the deferred provisions will have on our consolidated financial statements.

SFAS 159. In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to elect to measure at fair value eligible financial instruments that are not currently measured at fair value. This election, which may be applied on an instrument by instrument basis, is typically irrevocable once made. SFAS 159 is effective for us as of January 1, 2008; however, we have not elected to measure any additional financial instruments at fair value as a result of this statement. Therefore, the adoption of SFAS 159 has not had an effect on our consolidated financial statements.

SFAS 141R. In December 2007, the FASB issued Statement No. 141(R), "Business Combinations" ("SFAS 141R"). SFAS 141R improves consistency and comparability of information about the nature and effect of a business combination by establishing principles and requirements for how an acquirer (a) recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to all business combination transactions for which the acquisition date is on or after January 1, 2009. The impact of our adoption of SFAS 141R will depend upon the nature and terms of business combinations, if any, that we consummate on or after January 1, 2009.

SFAS 161. In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and is effective for us as of January 1, 2009. We do not expect the adoption of SFAS 161 to have a material effect on our consolidated financial statements.

FSP APB 14-1. In May 2008, the FASB affirmed Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (the "FSP"), which clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statement of operations. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective for us as of January 1, 2009 and early adoption is not permitted. The adoption of this FSP will affect the accounting for our 5% Convertible Notes due 2023 and will result in increased interest expense of approximately \$12 million in 2009 and \$6 million in 2010, assuming the 5% Convertible Notes will be settled in 2010. The retrospective application of this FSP to years 2003 through 2008 will result in increased annual interest expense of approximately \$4 million in 2003, gradually increasing to approximately \$11 million in 2008.

Frequent Flyer Program. For accounts in our OnePass frequent flyer program that have sufficient mileage credits to claim the lowest level of free travel, we record a liability for either the estimated incremental cost of providing travel awards that are expected to be redeemed with us or the contractual rate of expected redemption on alliance carriers. Incremental cost includes the cost of fuel, meals, insurance and miscellaneous supplies, but does not include any costs for aircraft ownership, maintenance, labor or overhead allocation. Beginning in the third quarter of 2008, we also include in our determination of incremental cost the impact of fees charged to passengers redeeming frequent flyer rewards within 20 days of travel, which partially offset the incremental cost associated with providing flights for frequent flyer travel rewards. We recorded an adjustment of \$27 million (\$0.24 per basic and diluted share) to increase passenger revenue and reduce our frequent flyer liability during the three months ended September 30, 2008 for the impact of these fees, which had not been significant in prior periods, after we increased them during the third quarter of 2008. A change to these cost estimates, the actual redemption activity, the amount of redemptions on alliance carriers or the minimum award level could have a significant impact on our liability in the period of change as well as future years. The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and related fees, changes in the expected number of passengers paying redemption fees and changes in the OnePass program, and is included in our consolidated balance sheet as air traffic and frequent flyer liability. Changes in the liability are recognized as passenger revenue in the period of change.

NOTE 2 - EARNINGS (LOSS) PER SHARE

The following table sets forth the components of basic and diluted earnings (loss) per share (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator:				
Numerator for basic earnings (loss) per share - net income (loss)	\$(236)	\$241	\$(319)	\$491
Effect of dilutive securities - interest expense on:				
5% Convertible Notes	-	2	-	5
6% Convertible Junior Subordinated Debentures held by subsidiary trust	-	3	-	9
4.5% Convertible Notes	—	—	—	1
Numerator for diluted earnings (loss) per share - net income after assumed conversions	\$(236)	\$246	\$(319)	\$506

Denominator:

Denominator for basic earnings (loss) per share - weighted-average shares	<u>110</u>	<u>98</u>	<u>103</u>	<u>97</u>
Effect of dilutive securities:				
5% Convertible Notes	-	9	-	9
6% Convertible Junior Subordinated Debentures held by subsidiary trust	-	4	-	4
4.5% Convertible Notes	-	-	-	1
Employee stock options	<u>-</u>	<u>3</u>	<u>-</u>	<u>4</u>
Dilutive potential common shares	<u>-</u>	<u>16</u>	<u>-</u>	<u>18</u>
Denominator for diluted earnings (loss) per share - weighted-average shares after assumed conversions	<u>110</u>	<u>114</u>	<u>103</u>	<u>115</u>

The adjustments to net income (loss) to determine the numerator for diluted earnings (loss) per share are net of the related effect of applicable income taxes and any profit sharing.

Approximately 13 million potential shares of our common stock related to convertible debt securities were excluded from the computation of diluted earnings (loss) per share in the three and nine months ended September 30, 2008 because they were antidilutive. In addition, approximately eight million weighted average options to purchase shares of our common stock were excluded from the computation of diluted earnings per share for each of the three and nine months ended September 30, 2008, and one million in the three and nine months ended September 30, 2007, because the options' exercise prices were greater than the average market price of the common shares during the relevant period or the effect of including the options would have been antidilutive.

NOTE 3 - FLEET INFORMATION

As of September 30, 2008, our operating fleet consisted of 351 mainline jets and 279 regional aircraft. The 351 mainline jets are operated exclusively by us and do not include 12 Boeing 737-500 and 16 737-300 aircraft that have been removed from operation as of September 30, 2008. The 279 regional aircraft are operated on our behalf by other operators under capacity purchase agreements.

We own or lease 274 regional jets. Of these, 204 are leased or subleased to ExpressJet Airlines, Inc. ("ExpressJet") and operated on our behalf under a capacity purchase agreement with ExpressJet, ten regional jet aircraft are subleased to ExpressJet and began operating on our behalf in early October 2008 (and are not included in the September 30, 2008 operating fleet table below), 30 regional jet aircraft are subleased to ExpressJet but are not operated on our behalf and 30 subleased ERJ-135 regional jet aircraft are temporarily grounded. See Note 13 for a discussion of the changes to our capacity purchase agreement with ExpressJet effective July 1, 2008. Additionally, our regional operating fleet includes 75 regional jet and turboprop aircraft owned or leased by third parties that are operated on our behalf by other operators under capacity purchase agreements.

The following table summarizes our operating fleet (aircraft operated by us and by others on our behalf) as of September 30, 2008:

<u>Aircraft Type</u>	<u>Total</u>	<u>Owned</u>	<u>Leased</u>	<u>Third-Party Aircraft</u>
Mainline (a):				
777-200ER	20	8	12	-
767-400ER	16	14	2	-
767-200ER	10	9	1	-
757-300	17	9	8	-
757-200	41	14	27	-
737-900ER	15	15	-	-
737-900	12	8	4	-
737-800	115	42	73	-
737-700	36	12	24	-
737-500	43	-	43	-
737-300	<u>26</u>	<u>16</u>	<u>10</u>	<u>-</u>
Total mainline	<u>351</u>	<u>147</u>	<u>204</u>	<u>-</u>
Regional (b):				
ERJ-145XR	79	-	79	-

ERJ-145	145	18	107	20 (c)
CRJ200LR	24	-	-	24 (c)
Q200	16	-	-	16 (d)
Q400	<u>15</u>	<u>-</u>	<u>-</u>	<u>15 (e)</u>
Total regional	<u>279</u>	<u>18</u>	<u>186</u>	<u>75</u>
Total	<u>630</u>	<u>165</u>	<u>390</u>	<u>75</u>

- Excludes 12 temporarily grounded Boeing 737-500 aircraft and 16 permanently grounded Boeing 737-300 aircraft.
- Excludes 30 temporarily grounded ERJ-135 aircraft.
- Operated by Chautauqua Airlines, Inc. ("Chautauqua") under a capacity purchase agreement.
- Operated by Champlain Enterprises Inc., doing business as CommutAir under a capacity purchase agreement.
- Operated by Colgan Air, Inc. ("Colgan") under a capacity purchase agreement.

Fleet Activity. During the first nine months of 2008, we placed 15 new Boeing 737-900ER and ten new Boeing 737-800 aircraft into service and we removed 17 Boeing 737-500 and 22 Boeing 737-300 aircraft from service. We took delivery of one additional Boeing 737-800 aircraft in October 2008.

During the third quarter of 2008, ExpressJet notified us of its intent to return to us 39 ERJ-145 aircraft that it leased from us and operated on its own behalf. ExpressJet had returned 29 of these aircraft to us as of September 30, 2008; the remaining ten ERJ-145 aircraft were returned in early October 2008. We have elected to add these returned aircraft to our capacity purchase agreement with ExpressJet. During September 2008, we temporarily grounded all 30 37-seat ERJ 135 aircraft being flown by ExpressJet on our behalf and notified ExpressJet that these aircraft would be withdrawn from the capacity purchase agreement. We are evaluating our options regarding these 30 aircraft, including permanently grounding them.

In February 2008, Colgan began providing and operating 74-seat Bombardier Q400 twin-turboprop aircraft on short and medium-distance routes from Newark Liberty International Airport ("New York Liberty"). Colgan operated 15 Q400 aircraft for us as of September 30, 2008. Colgan operates the aircraft under a capacity purchase agreement with us with a ten year term expiring in 2018.

Capacity Reductions. In September 2008, we reduced our flights, resulting in a reduction of domestic mainline capacity of 13.4% (as measured by available seat miles and including the impact of Hurricane Ike) as compared to September 2007. We had earlier announced that we would accelerate the retirement of less fuel efficient Boeing 737-300 and 737-500 aircraft from our mainline fleet. Given the need for prompt capacity reductions in the current industry environment, 33 of the aircraft were removed from service in the third quarter of 2008. By the end of 2009, we expect to remove eight additional Boeing 737-500 aircraft and all 26 of the remaining Boeing 737-300 aircraft from service. However, some of these planned exits could be impacted by delays in new aircraft deliveries. In September 2008, The Boeing Company ("Boeing") notified us that all of our new aircraft deliveries will be delayed pending resolution of the strike involving Boeing's machinists.

We have aircraft sale contracts with three different buyers to sell 20 Boeing 737-500 aircraft. The three buyers of these aircraft have requested, and in some cases we have agreed to, a delay in the delivery dates due to the buyers' difficulties in obtaining financing for the aircraft. In light of these delays, we now expect to deliver these aircraft in the period from the fourth quarter of 2008 through the end of 2009. We are continuing to negotiate with the buyers in these transactions. We hold cash deposits that secure the buyers' obligations under the aircraft sale contracts, and we are entitled to damages under the aircraft sale contracts if the buyers do not take delivery of the aircraft when required. These pending transactions are subject to customary closing conditions, some of which are outside of our control, and we cannot give any assurances that the buyers of these aircraft will be able to obtain financing for these transactions, that there will not be further delays in deliveries or that the closing of these transactions will occur.

Firm Order and Option Aircraft. As of September 30, 2008, we had firm commitments for 91 new aircraft (58 Boeing 737 aircraft, eight Boeing 777 aircraft and 25 Boeing 787 aircraft) scheduled for delivery from 2008 through 2015, with an estimated aggregate cost of \$5.7 billion including related spare engines. Boeing notified us in September 2008 that all of our new aircraft deliveries will be delayed pending resolution of the strike involving its machinists. In October 2008, we reached an agreement in principle with Boeing to reschedule 16 Boeing 737 aircraft originally scheduled for delivery in 2009 and 2010. These aircraft are now scheduled to be delivered in 2011 and beyond. Additionally, we have agreed with Boeing to reschedule to 2010 two Boeing 777 deliveries that were originally scheduled for delivery in 2009. As a result of these changes, we are scheduled to take delivery of 14 Boeing 737 aircraft in 2009 and 12 Boeing 737 aircraft, two Boeing 777 aircraft and two Boeing 787 aircraft in 2010. In addition to our firm order aircraft, we had options to purchase a total of 102 additional Boeing aircraft as of September 30, 2008.

In October 2008, we agreed in principle to terms under which we would lease up to four Boeing 757-300 aircraft from Boeing Capital Corporation. Boeing Capital Corporation has until December 31, 2008 to decide to lease these aircraft to us. If we enter into these leases, it is expected that the aircraft would be placed in service between late 2009 and early 2010.

NOTE 4 - LONG-TERM DEBT

Debt Secured by Aircraft. On April 10, 2007, we obtained financing for 12 Boeing 737-800s and 18 Boeing 737-900ERs. We applied a portion of this financing to 23 Boeing aircraft delivered to us in the first nine months of 2008 and recorded related debt of \$875 million. We expect to apply the remainder of this financing to the next seven Boeing 737 aircraft scheduled for delivery from October 2008 through the first quarter of 2009, although the actual delivery dates for these aircraft are being delayed by Boeing pending the resolution of the strike by its machinists.

During the second quarter of 2008, we obtained financing for two new Boeing 737-900ER aircraft and separately entered into a loan agreement secured by four Boeing 757-200 aircraft and that will also be secured by one Boeing 737-700 aircraft when the loan for this aircraft is funded in November 2008. During the third quarter of 2008, we entered into a loan agreement that will be secured by three Boeing 757-200 aircraft and four Boeing 737-700 aircraft when the loans for these aircraft are funded in November 2008. During the first nine months of 2008, we borrowed \$135 million secured by two Boeing 737-900ER aircraft and four Boeing 757-200 aircraft. We expect to receive the remaining loan proceeds of \$133 million related to three Boeing 757-200 and five Boeing 737-700 aircraft described above in November 2008. In October 2008, we reached an agreement in principle with Boeing for it to provide backstop financing for all of the additional 14 Boeing 737-900ER aircraft scheduled for delivery in 2009, subject to customary conditions.

Pre-delivery Payment Facility. On June 30, 2008, we entered into a loan facility to finance a portion of the pre-delivery payment requirements under the aircraft purchase agreements for 66 new Boeing aircraft originally scheduled for delivery between July 1, 2008 and the end of 2011. We borrowed \$113

million under this facility on June 30, 2008. We no longer expect to make a second borrowing under this facility in the amount of \$16 million in December 2008, as we had previously planned, due to our agreement in principle for rescheduling of the delivery dates of 16 Boeing 737 aircraft. Our obligations under the facility are secured by our rights under our purchase agreements for 737 and 777 aircraft on order with Boeing.

Advance Purchase of Mileage Credits. On June 10, 2008, we entered into an amendment and restatement of our Bankcard Joint Marketing Agreement (the "Bankcard Agreement") with Chase Bank USA, N.A. ("Chase"), under which Chase purchases frequent flyer mileage credits to be earned by OnePass members for making purchases using a Continental branded credit card issued by Chase. The Bankcard Agreement provides for a payment to us of \$413 million, of which \$235 million relates to the advance purchase of frequent flyer mileage credits for the year 2016. In connection with the advance purchase of mileage credits, we have provided a security interest to Chase in certain routes and slots, including our slots at London's Heathrow Airport. The \$235 million purchase of mileage credits has been treated as a loan from Chase with an implicit interest rate of 6.18% and is reported as long-term debt in our consolidated balance sheet. Our liability will be reduced ratably in 2016 as the mileage credits are issued to Chase. The remaining \$178 million received from Chase is in consideration for certain other commitments with respect to the co-branding relationship, including the extension of the term of the Bankcard Agreement until December 31, 2016. This amount is reported in other liabilities in our consolidated balance sheet and will be recognized as other revenue over the term of the agreement.

Maturities. Maturities as of September 30, 2008 of long-term debt due before December 31, 2008 and for the next four years are as follows (in millions):

October 1, 2008 through December 31, 2008	\$277
Year ending December 31,	
2009	488
2010	921
2011	1,134
2012	508

Convertible Debt Securities. In January 2007, \$170 million in principal amount of our 4.5% convertible notes due on February 1, 2007 was converted by the holders into 4.3 million shares of our Class B common stock at a conversion price of \$40 per share. The remaining \$30 million in principal amount was paid on February 1, 2007.

NOTE 5 - FAIR VALUE MEASUREMENTS

SFAS 157 requires expanded disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. We adopted the provisions of SFAS 157 relating to assets and liabilities recognized or disclosed in the financial statements at fair value on a recurring basis on January 1, 2008. The adoption of these provisions did not have a material effect on our consolidated financial statements.

SFAS 157 clarifies that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. SFAS 157 requires us to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants would price the assets or liabilities

The valuation techniques that may be used to measure fair value are as follows:

- Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities
- Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about those future amounts, including present value techniques, option-pricing models and excess earnings method
- Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost)

Assets (liabilities) measured at fair value on a recurring basis during the period include (in millions):

	Carrying Amount as of September 30, 2008	Level 1	Level 2	Level 3	Valuation Technique
Cash equivalents	\$2,411	\$2,411			(A)

Short-term investments	475	350	\$ 125	(A)
Restricted cash, cash equivalents and short-term investments	164	159	5	(A)
Long-term investments	130		130	(B)
Fuel derivatives	(174)		(174)	(A)
Foreign currency derivatives	11		\$11	(A)

Unobservable Inputs. The reconciliation of our assets measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows (in millions):

	Three Months Ended <u>September 30, 2008</u>		Nine Months Ended <u>September 30, 2008</u>	
	<u>Student Loan- Related Auction Rate Securities</u>	<u>Fuel Derivatives</u>	<u>Student Loan- Related Auction Rate Securities</u>	<u>Fuel Derivatives</u>
Balance at beginning of period	\$264	\$ 174	\$ -	\$ 24
Transfers to Level 3 (subsequent to dispositions of \$73)	-	-	314	-
Additions	-	51	-	90
Dispositions	(1)	-	(22)	-
Gains and losses:				
Settlement (gains) losses reported in earnings	-	48	-	(60)
Unrealized gains (losses) reported in earnings	-	(15)	(29)	18
Unrealized gains (losses) reported in other comprehensive income	<u>(3)</u>	<u>(432)</u>	<u>(3)</u>	<u>(246)</u>
Balance at September 30, 2008	<u>\$260</u>	<u>\$(174)</u>	<u>\$260</u>	<u>\$(174)</u>

Short-term and Long-term Investments. At September 30, 2008, we held student loan-related auction rate securities with a par value of \$292 million and a fair value of \$260 million. This total includes \$140 million par value (\$125 million fair value) classified as short-term investments, \$5 million (par and fair value) that is collateral for estimated future workers' compensation claims and is classified as restricted cash, cash equivalents and short-term investments and \$147 million par value (\$130 million fair value) classified as long-term investments. At December 31, 2007, student loan-related auction rate securities totaled \$387 million (par and fair value), including \$285 million in short-term investments and \$102 million in restricted cash, cash equivalents and short-term investments. These securities are variable-rate debt instruments with contractual maturities generally greater than ten years and whose interest rates are reset every 7, 28 or 35 days, depending on the terms of the particular instrument. These securities are secured by pools of student loans guaranteed by state-designated guaranty agencies and reinsured by the United States government. All of the auction rate securities we hold are senior obligations under the applicable indentures authorizing the issuance of the securities. Auctions for these securities began failing in the first quarter of 2008 and continued to fail through the third quarter, resulting in our continuing to hold such securities and the issuers of these securities paying interest adjusted to the maximum contractual rates. Accordingly, we reclassified such securities to long-term assets during the first quarter of 2008. However, as of September 30, 2008, we concluded that it was appropriate to report auction rate securities with a par value of \$145 million and a fair value of \$130 million as current assets. We made this determination after one broker offered us a put right permitting us to sell to the broker at par in 2010 all auction rate securities previously purchased from that broker. The broker has also committed to loan us 75% of the par value of these securities at any time until the put is exercised. Based on these developments, we determined that these securities had sufficient liquidity to be reported as short-term investments at September 30, 2008.

We account for these securities as available-for-sale investments. Historically, the carrying value of auction rate securities approximated fair value due to the frequent resetting of the interest rate and the existence of a liquid market. Although we will earn interest on these investments involved in failed auctions at the maximum contractual rate, the estimated market value of these auction rate securities no longer approximates par value. We estimated the fair value of these securities to be \$260 million at September 30, 2008, taking into consideration the limited sales and offers to purchase securities during the second and third quarters of 2008 and using internally-developed models of the expected future cash flows related to the securities, taking into account our probability-weighted assumptions about the cash flows of the underlying student loans and the discounts to reflect a lack of liquidity in the market for these securities.

We recorded a loss of \$29 million in the quarter ended June 30, 2008 to reflect an other-than-temporary decline in value of these securities. This loss is included in nonoperating income (expense) for the nine months ended September 30, 2008 in our consolidated statement of operations.

We continue to monitor the market for auction rate securities and consider its impact, if any, on the fair value of our investments. If current market conditions deteriorate further, we may be required to record additional losses on these securities.

Fuel Derivatives. At September 30, 2008, our fuel derivative instruments consisted of over-the-counter contracts, primarily crude oil or heating oil option contracts forming collars, and crude oil call options, which are not traded on a public exchange. Except as discussed in the following paragraph, we account for our fuel derivatives as cash flow hedges and record them at fair value in prepayments and other current assets (if we are in an asset position) or accrued other current liabilities (if we are in a liability position) in our consolidated balance sheet with the change in fair value, to the extent effective, being recorded to accumulated other comprehensive income (loss), net of applicable income taxes. We determine the fair value of our fuel derivatives by obtaining inputs from a broker's pricing model based on inputs that are either readily available in public markets or can be derived from information available in publicly quoted markets. We verify the reasonableness of these inputs by comparing the resulting fair values to similar quotes from our counterparties as of each date for which financial statements are prepared. For those derivatives in a liability position, we also make an adjustment to incorporate our own credit risk into the valuation. Due to the fact that certain of the inputs utilized to determine the fair value of the fuel derivatives are unobservable (principally volatility of crude oil and heating oil prices and the adjustment for our own credit risk), we have categorized these option contracts as Level 3.

The parent company of one of the counterparties to our fuel derivative contracts declared bankruptcy on September 15, 2008. The counterparty filed for bankruptcy protection on October 3, 2008 and has ceased writing new contracts. Based on these developments concerning the counterparty's creditworthiness, we determined that our fuel derivative contracts with this counterparty, which had a fair value of a net liability of \$38 million at September 15, 2008 and extend through March 2009, are no longer considered highly effective hedges. Therefore, we discontinued hedge accounting for these contracts as of September 15, 2008 and all future changes in the contracts' fair values will be reported in earnings as nonoperating income (expense).

Fuel hedge gains (losses) are recognized as a component of fuel expense or regional capacity purchase, net when the underlying fuel being hedged is used. The ineffective portion of our fuel hedges is determined based on the correlation between crude oil or heating oil prices and jet fuel prices and is included in nonoperating income (expense). We recorded ineffectiveness gains (losses) of \$(15) million, \$2 million, \$18 million and \$13 million in the three months ended September 30, 2008 and 2007 and the nine months ended September 30, 2008 and 2007, respectively. This ineffectiveness was caused by our non-jet fuel derivatives experiencing a higher relative change in value than the jet fuel being hedged and the mark-to-market adjustment on the fuel derivative contracts with the bankrupt counterparty. Realized and unrealized gains (losses) related to fuel derivative instruments included in our statement of operations are as follows (in millions):

	<u>Three Months</u> <u>Ended September 30,</u>		<u>Nine Months</u> <u>Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Aircraft fuel and related taxes	\$(40)	\$4	\$48	\$ 4
Regional capacity purchase, net	(8)	1	12	-
Nonoperating income (expense)	<u>(15)</u>	<u>2</u>	<u>18</u>	<u>13</u>
Total	<u>\$(63)</u>	<u>\$7</u>	<u>\$78</u>	<u>\$17</u>

Because our fuel hedges were in a loss position at September 30, 2008 resulting from the recent substantial decline in crude oil prices, we were required to post collateral with our counterparties totaling \$22 million. These amounts are reported in prepayments and other current assets in our consolidated balance sheet. At October 15, 2008, our required collateral was \$71 million due to decreases in crude oil prices.

NOTE 6 - PREFERRED AND COMMON STOCK

Preferred Stock. On April 14, 2008, Northwest Airlines, Inc. ("Northwest") and Delta Air Lines, Inc. ("Delta") announced that they had entered into a merger agreement. Northwest previously held the one outstanding share of our Series B preferred stock, which prevented us from engaging in certain business combinations or other activities without Northwest's consent. We were entitled to redeem the share of Series B preferred stock for a nominal sum upon the execution of a definitive merger agreement by Northwest with respect to a transaction constituting a change of control of Northwest, which occurred upon Northwest's entry into the merger agreement with Delta. As a result, we redeemed and cancelled the Series B preferred stock in the second quarter of 2008, eliminating Northwest's right to prevent us from engaging in certain business combinations or other activities.

Common Stock. In June 2008, we completed a public offering of 11 million shares of Class B common stock at a price to the public of \$14.80 per share, raising net proceeds of \$162 million for general corporate purposes.

NOTE 7 - STOCK PLANS AND AWARDS

Stock Price Based RSU Awards. At December 31, 2007, we had a vested liability of \$29 million related to our outstanding stock price based restricted stock units ("RSUs") with a performance period commencing on April 1, 2004 and ending on December 31, 2007. The performance target for these stock price based RSUs required our stock price to appreciate at least 80% from the grant date price of \$12.4775 (i.e., to at least \$22.4775) and these RSUs were settled in January 2008 based on the average closing price of our common stock during the 20 trading days preceding December 31, 2007. Following this payment, there are no stock price based RSU awards outstanding.

Profit Based RSU Awards. We have issued profit based RSU awards pursuant to our Long-Term Incentive and RSU Program, which can result in cash payments to our officers upon the achievement of specified profit-sharing based performance targets. The performance targets require that we reach target

levels of cumulative employee profit sharing payments under our enhanced employee profit sharing plan during the performance period and that we have net income calculated in accordance with U.S. generally accepted accounting principles for the applicable fiscal year. To serve as a retention feature, payments related to the achievement of a performance target generally will be made in annual increments over a three-year period to participants who remain continuously employed by us through each payment date. Payments also are conditioned on our having, at the end of the fiscal year preceding the date any payment is made, a minimum unrestricted cash, cash equivalents and short-term investments balance set by the Human Resources Committee of our Board of Directors. If we do not achieve the minimum cash balance applicable to a payment date, the payment will be deferred until the next payment date (March 1 of the next year), subject to a limit on the number of years payments may be carried forward. Payment amounts are calculated based on the average closing price of our common stock during the 20 trading days preceding the payment date and the payment percentage set by the Human Resources Committee of our Board of Directors for achieving the applicable profit-sharing based performance target.

We have three outstanding awards of profit based RSUs granted under our Long-Term Incentive and RSU Program: (1) profit based RSU awards with a performance period commencing April 1, 2006 and ending December 31, 2009, (2) profit based RSU awards with a performance period commencing January 1, 2007 and ending December 31, 2009 and (3) profit based RSU awards with a performance period commencing January 1, 2008 and ending December 31, 2010.

The awards with a performance period commencing January 1, 2008 were granted in February 2008. These grants cover 1.0 million RSUs with cumulative profit sharing performance targets ranging from \$100 million to \$275 million and payment percentages ranging from 100% to 200%. The cash hurdle associated with these awards is \$2.2 billion. It is not yet probable that the awards granted in February 2008 will meet the minimum specified cumulative profit-sharing based performance target and we did not recognize any expense related to these awards during the nine months ended September 30, 2008.

The awards granted in April 2006, which had a performance period commencing April 1, 2006 and ending December 31, 2009, achieved the highest level cumulative profit sharing performance target based on cumulative profit sharing payments to our broad based employees of \$262 million as of December 31, 2007. As a result, in March 2008, payments totaling \$52 million were made with respect to these profit based RSU awards following achievement of the year end cash hurdle of \$1.125 billion for those awards.

Stock-Based Compensation Expense. Total stock-based compensation expense included in wages, salaries and related costs was \$25 million, \$30 million, \$30 million and \$96 million for the three months ended September 30, 2008 and 2007 and nine months ended September 30, 2008 and 2007, respectively. As of September 30, 2008, \$27 million of compensation cost attributable to future service related to unvested employee stock options and profit based RSU awards that are probable of being achieved had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 1.5 years. The expense related to RSUs does not impact payments to our broad based employee group under our enhanced profit sharing plan because profit sharing payments are based on pre-tax net income calculated prior to any costs associated with incentive compensation for executives.

NOTE 8 - COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) included the following (in millions):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net income (loss)	\$ (236)	\$ 241	\$ (319)	\$ 491
Other comprehensive income (loss):				
Unrealized net gain (loss) on derivative instruments (net of deferred taxes of \$(28), \$0, \$0 and \$0)	(330)	(3)	(283)	20
Items related to employee benefit plans:				
(Increase) decrease in net actuarial losses	(89)	(8)	(89)	62
Amortization of net actuarial losses (net of deferred taxes of \$(5), \$0, \$0 and \$0)	13	15	22	50
Amortization of prior service cost (net of deferred taxes of \$(6), \$0, \$0 and \$0)	13	8	23	23
Other	<u>(3)</u>	<u>-</u>	<u>(3)</u>	<u>-</u>
Comprehensive income (loss) adjustments	<u>(396)</u>	<u>12</u>	<u>(330)</u>	<u>155</u>
Total comprehensive income (loss)	<u>\$ (632)</u>	<u>\$ 253</u>	<u>\$ (649)</u>	<u>\$ 646</u>

NOTE 9 - EMPLOYEE BENEFIT PLANS

Net periodic defined benefit pension and retiree medical benefits expense included the following components (in millions):

	Defined Benefit Pension				Retiree Medical Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	\$ 15	\$ 15	\$ 44	\$ 46	\$ 3	\$ 3	\$ 9	\$ 8
Interest cost	37	40	112	119	4	4	12	10
Expected return on plan assets	(39)	(35)	(120)	(102)	-	-	-	-
Amortization of unrecognized net actuarial (gain) loss	8	16	23	51	-	(1)	(1)	(1)
Amortization of prior service cost	<u>2</u>	<u>3</u>	<u>7</u>	<u>8</u>	<u>5</u>	<u>5</u>	<u>16</u>	<u>15</u>
Net periodic benefit expense	23	39	66	122	12	11	36	32
Settlement charge (included in special charges)	<u>8</u>	<u>12</u>	<u>8</u>	<u>24</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net benefit expense	<u>\$31</u>	<u>\$ 51</u>	<u>\$ 74</u>	<u>\$146</u>	<u>\$12</u>	<u>\$11</u>	<u>\$36</u>	<u>\$32</u>

During the first nine months of 2008, we contributed \$102 million to our defined benefit pension plans, satisfying our minimum funding requirements during calendar year 2008.

We recorded non-cash settlement charges totaling \$8 million in the three and nine months ended September 30, 2008 and \$12 million and \$24 million in the three and nine months ended September 30, 2007, respectively, related to lump sum distributions from our pilot-only defined benefit pension plan to retired pilots. SFAS No. 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("SFAS 88"), requires the use of settlement accounting if, for a given year, the cost of all settlements exceeds, or is expected to exceed, the sum of the service cost and interest cost components of net periodic pension expense for the plan. Under settlement accounting, unrecognized plan gains or losses must be recognized immediately in proportion to the percentage reduction of the plan's projected benefit obligation. We anticipate that we will record additional non-cash settlement charges in the fourth quarter of 2008 in conjunction with lump-sum distributions to retiring pilots.

NOTE 10 - SPECIAL CHARGES

Special charges were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	Severance	\$33	\$ -	\$ 33
Aircraft-related charges and (gains) losses on sales of aircraft	12	-	45	6
Unused facilities	11	-	14	-
Reimbursement to ExpressJet of costs related to capacity reductions	9	-	9	-
Route impairment and other	18	-	32	-
Pension settlement charges (see Note 9)	<u>8</u>	<u>12</u>	<u>8</u>	<u>24</u>
Total special charges	<u>\$91</u>	<u>\$12</u>	<u>\$141</u>	<u>\$30</u>

We recorded \$91 million of special charges in the third quarter of 2008, a portion of which is related to our capacity reductions implemented beginning in September 2008. The special charges include \$33 million for severance and continuing medical coverage for employees accepting early retirement packages or company-offered leaves of absence, \$12 million of charges for future lease costs on permanently grounded Boeing 737-300 aircraft, an \$11 million charge related to future rents for leased space at locations that are no longer expected to be used or subleased and a \$9 million charge pertaining to our reimbursement of certain costs incurred by ExpressJet for temporarily grounded aircraft and airport slots being returned to us.

The special charges in the third quarter of 2008 also include an \$18 million non-cash charge to write off an intangible route asset as a result of our decision to move all of our year-round London flights from London Gatwick Airport to London Heathrow Airport and a non-cash settlement charge of \$8 million related to lump sum distributions from our pilot-only defined benefit pension plan to retired pilots.

Special charges in 2008 prior to the third quarter also primarily relate to the capacity reductions. Aircraft-related charges and gains on sales of aircraft in the first and second quarters of 2008 include \$37 million of non-cash impairments on owned Boeing 737-300 and 737-500 aircraft and related assets, a non-cash charge of \$14 million to write down spare parts and supplies for the Boeing 737-300 and 737-500 fleets to the lower of cost or net realizable value and \$18 million of gains on the sale of five owned Boeing 737-500 aircraft. We received net proceeds of \$68 million on the sale of these aircraft.

Following the decision in June 2008 to retire all of our Boeing 737-300 aircraft and a significant portion of our Boeing 737-500 aircraft by the end of 2009, we evaluated the ongoing value of the assets associated with these fleets. Fleet assets include owned aircraft, improvements on leased aircraft, rotatable spare parts, spare engines and simulators. Based on our evaluation, we determined that the carrying amounts of these fleets were impaired and wrote them down to their estimated fair value. We estimated the fair values based on current market quotes and our expected proceeds from the sale of the assets. We also evaluated the ongoing value of the assets associated with our other fleets and determined that the carrying amounts of those fleets were not impaired.

Activity related to the accruals for severance and medical costs and future lease payments on permanently grounded aircraft and unused facilities is as follows (in millions):

	<u>Balance,</u> <u>December 31, 2007</u>	<u>Accrual</u>	<u>Payments</u>	<u>Balance,</u> <u>September 30,</u> <u>2008</u>
Severance/medical costs	\$ -	\$ 33	\$(2)	\$31
Permanently grounded aircraft	-	12	(1)	11
Unused facilities	8	14	(2)	20

These accruals and payments relate primarily to our mainline segment. Cash payments related to the accruals for severance and medical costs will be made through the end of 2009. Remaining lease payments on permanently grounded aircraft and unused facilities will be made through 2010 and 2018, respectively.

We expect to incur additional special charges in future quarters associated with the previously announced planned permanent grounding of additional Boeing 737-300 aircraft. Additionally, we may incur further accounting charges as a result of future fleet actions, including costs associated with future lease payments and return conditions on thirty ERJ-135 aircraft that have been returned to us from ExpressJet and are currently temporarily grounded. We are not able at this time to estimate the amount and timing of these future charges.

NOTE 11 - INCOME TAXES

Our effective tax rates differ from the federal statutory rate of 35% primarily due to changes in the valuation allowance, state taxes and expenses that are not deductible for federal income tax purposes. Our expected net loss for 2008 will likely exceed our ability to record a corresponding deferred tax benefit because of our prior determination that it is more likely than not that, to the extent they exceed our deferred tax liabilities, our deferred tax assets will ultimately not be realized. This net increase in the valuation allowance was partially mitigated during the second quarter of 2008, when we recorded a non-cash income tax credit of \$28 million resulting from higher utilization of net operating loss carryforwards ("NOLs") than had been previously anticipated. These NOLs expire from 2008 through 2010.

Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. In the event of an ownership change, utilization of our NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate (which is 4.65% for September 2008). Any unused annual limitation may be carried over to later years. The amount of the limitation may, under certain circumstances, be increased by the built-in gains in assets held by us at the time of the change that are recognized in the five-year period after the change. If we were to have an ownership change under current conditions, our annual NOL utilization could be limited to approximately \$80 million per year, before consideration of any built-in gains. The imposition of this limitation on our ability to use our NOLs to offset future taxable income could cause U.S. federal income taxes to be paid earlier than otherwise would be paid if such limitation were not in effect and could cause such NOLs to expire unused, reducing or eliminating the benefit of such NOLs. In addition, depending on the market value of our common stock at the time of any such ownership change, we may be required to recognize a significant non-cash tax charge, the amount of which we cannot estimate at this time.

NOTE 12 - INVESTMENT IN OTHER COMPANIES

Copa. In May 2008, we sold all of our remaining shares of Copa Holdings, S.A. ("Copa") Class A common stock for net proceeds of \$149 million and recognized a gain of \$78 million.

Holdings. In January 2007, we sold substantially all of our shares of ExpressJet Holdings, Inc. ("Holdings") common stock to third parties for cash proceeds of \$35 million. Holdings is the parent company of ExpressJet. We recognized a gain of \$7 million in the first quarter of 2007 as a result of these sales. We sold

the remaining shares of Holdings common stock in April 2007 and no longer own any shares of Holdings common stock.

NOTE 13 - EXPRESSJET CAPACITY PURCHASE AGREEMENT

General. In June 2008, we entered into the Second Amended and Restated Capacity Purchase Agreement (the "Amended ExpressJet CPA") with ExpressJet, which amends and restates our capacity purchase agreement with ExpressJet. Under the Amended ExpressJet CPA, we will continue to purchase all of the capacity from the ExpressJet flights covered by the agreement at a negotiated price. The Amended ExpressJet CPA was effective as of July 1, 2008.

Capacity and Fleet Matters. The Amended ExpressJet CPA covers a minimum of 205 regional jets in the first year. The minimum number of covered aircraft is reduced to 190 regional jets thereafter and may be less as leases on covered aircraft expire. Of the 69 aircraft ExpressJet previously subleased from Continental for non-Continental flying, ExpressJet will continue to sublease 30 Embraer 50-seat regional jets from Continental at reduced rental rates. During the third quarter of 2008, ExpressJet notified us of its intent to return to us 39 ERJ-145 aircraft that it subleased from us and operated on its own behalf. ExpressJet had returned 29 of these subleased aircraft to us as of September 30, 2008; the remaining ten subleased ERJ-145 aircraft were returned in early October 2008. We have elected to add these returned aircraft to the Amended ExpressJet CPA. During September 2008, we temporarily grounded all 30 of the subleased 37-seat ERJ 135 aircraft being flown by ExpressJet on our behalf and notified ExpressJet that these aircraft would be withdrawn from the Amended ExpressJet CPA. We are evaluating our options regarding these 30 aircraft, including permanently grounding them.

Term of Agreement. The Amended ExpressJet CPA will expire after a term of seven years and has no renewal or extension options. The Amended ExpressJet CPA eliminated our right to terminate the agreement at any time upon 12 months' notice, although we may terminate the agreement at any time for "cause" (as defined in the Amended ExpressJet CPA) and either party may terminate for breach of the agreement, subject to certain notice and cure periods. The Amended ExpressJet CPA also modified our rights under our former capacity purchase agreement by reducing the scope of change-in-control limitations on ExpressJet, reducing restrictions on ExpressJet flying into our hub airports, and removing the most-favored-nation clause relating to agreements ExpressJet may enter into with other airlines.

In connection with entering into the Amended ExpressJet CPA, certain existing agreements relating to aircraft subleases, facilities, ground handling, fuel purchasing and administrative services were amended. In addition, we entered into a settlement agreement with ExpressJet related to block hour rates for the first six months of 2008 and settled all outstanding disputed claims and other payment disagreements under our former capacity purchase agreement, the impact of which was not material to our consolidated results of operations.

Compensation and Operational Responsibilities. In exchange for ExpressJet's operations of the flights and performance of other obligations under the Amended ExpressJet CPA, we have agreed to pay ExpressJet a pre-determined rate, subject to annual escalations (capped at 3.5%), based on block hours (the hours from gate departure to gate arrival) and to reimburse ExpressJet for various pass-through expenses (with no margin or mark-up) related to the flights, including insurance, property taxes, international navigation fees, depreciation (primarily aircraft-related), landing fees and certain maintenance expenses. Under the Amended ExpressJet CPA, we continue to be responsible for the cost of providing fuel for all flights and for paying aircraft rent for all aircraft covered by the Amended ExpressJet CPA. The Amended ExpressJet CPA contains incentive bonus and rebate provisions based upon ExpressJet's operational performance, but no longer includes any payment adjustments in respect of ExpressJet's operating margin.

Our future payments under the Amended ExpressJet CPA are dependent on numerous variables, and are therefore difficult to predict. The most important of those variables is the number of scheduled block hours. Although we are not required to purchase a minimum number of block hours under the Amended ExpressJet CPA, we have set forth below estimates of our future payments under the agreement based on our stated assumptions. These estimates of our future payments under the Amended ExpressJet CPA do not include the portion of the underlying obligations for aircraft and facility rent. For purposes of calculating these estimates, we have assumed (1) the number of block hours flown based on our anticipated level of flight activity, (2) that we will reduce the fleet to 190 aircraft in July 2009, (3) that aircraft utilization, stage length and load factors will remain constant, (4) that ExpressJet's operational performance will remain at historic levels, and (5) that inflation is 2.3% to 3.5% per year. Based on these assumptions, our future payments through 2012 under the Amended ExpressJet CPA at September 30, 2008 were estimated as follows (in millions):

October 1 through December 31, 2008	\$147
Year ending December 31,	
2009	573
2010	566
2011	586
2012	599

It is important to note that the actual amounts we pay to ExpressJet under the Amended ExpressJet CPA could differ materially from the estimates discussed above. For example, a 10% increase or decrease in scheduled block hours (whether as a result of changes in average daily utilization or otherwise) in 2009 would result in a corresponding increase or decrease in cash obligations under the Amended ExpressJet CPA of approximately 9.4%, or \$56 million.

NOTE 14 - SEGMENT REPORTING

We have two reportable segments: mainline and regional. The mainline segment consists of flights to cities using larger jets while the regional segment currently consists of flights with a capacity of 50 or fewer seats (for jets) or 78 or fewer seats (for turboprops). As of September 30, 2008, the regional segment was operated by ExpressJet, Chautauqua, CommutAir and Colgan under capacity purchase agreements.

We evaluate segment performance based on several factors, of which the primary financial measure is operating income (loss). However, we do not manage our business or allocate resources based on segment operating profit or loss because (1) our flight schedules are designed to maximize revenue from passengers flying, (2) many operations of the two segments are substantially integrated (for example, airport operations, sales and marketing, scheduling and ticketing) and (3) management decisions are based on their anticipated impact on the overall network, not on one individual segment.

Financial information by business segment is set forth below (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Operating Revenue:				
Mainline	\$3,519	\$3,239	\$ 9,899	\$ 9,058
Regional	<u>637</u>	<u>581</u>	<u>1,872</u>	<u>1,651</u>
Total Consolidated	\$4,156	\$3,820	\$11,771	\$10,709
Operating Income (Loss):				
Mainline	\$ (30)	\$ 291	\$ 17	\$ 706
Regional	<u>(122)</u>	<u>(11)</u>	<u>(306)</u>	<u>(100)</u>
Total Consolidated	\$ (152)	\$ 280	\$ (289)	\$ 606
Net Income (Loss):				
Mainline	\$ (118)	\$ 257	\$ (79)	\$ 601
Regional	<u>(118)</u>	<u>(16)</u>	<u>(240)</u>	<u>(110)</u>
Total Consolidated	\$ (236)	\$ 241	\$ (319)	\$ 491

The amounts presented above are presented on the basis of how our management reviews segment results. Under this basis, the regional segment's revenue includes a pro-rated share of our ticket revenue for segments flown by regional carriers and expenses include all activity related to the regional operations, regardless of whether the costs were paid directly by us or to the regional carriers. Net income (loss) for the mainline segment includes the gain on the sale of Copa shares in 2008 and Holdings shares in 2007.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Purchase Commitments. See Note 3 for a discussion of our aircraft purchase commitments. We have recently obtained a backstop financing commitment for up to 14 Boeing 737-900ER aircraft scheduled for delivery in 2009 provided as part of the agreement in principle with Boeing to reschedule aircraft and, as a result, we have financing or financing commitments for all 21 Boeing aircraft scheduled for delivery through the end of 2009, subject to customary closing conditions. However, we do not have backstop financing or any other financing currently in place for the balance of the Boeing aircraft on order. Further financing will be needed to satisfy our capital commitments for our firm order aircraft and other related capital expenditures. We can provide no assurance that the backstop financing or any other financing not already in place for our aircraft deliveries will be available to us when needed on acceptable terms or at all. Since the commitments for firm order aircraft are non-cancelable and assuming no breach of the agreement by Boeing, if we are unable to obtain financing and cannot otherwise satisfy our commitment to purchase these aircraft, the manufacturer could exercise its rights and remedies under applicable law, such as seeking to terminate the contract for a material breach, selling the aircraft to one or more other parties and suing us for damages to recover for any resulting losses incurred by the manufacturer.

Financings and Guarantees. We are the guarantor of approximately \$1.7 billion in aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon, excluding the US Airways contingent liability described below. These bonds, issued by various airport municipalities, are payable solely from our rentals paid under long-term agreements with the respective governing bodies. The leasing arrangements associated with approximately \$1.5 billion of these obligations are accounted for as operating leases, and the leasing arrangements associated with approximately \$200 million of these obligations are accounted for as capital leases.

We are contingently liable for US Airways' obligations under a lease agreement between US Airways and the Port Authority of New York and New Jersey related to the East End Terminal at LaGuardia airport. These obligations include the payment of ground rentals to the Port Authority and the payment of other rentals in respect of the full amounts owed on special facilities revenue bonds issued by the Port Authority having an outstanding par amount of \$135 million at September 30, 2008 and a final scheduled maturity in 2015. If US Airways defaults on these obligations, we would be obligated to cure the default and we would have the right to occupy the terminal after US Airways' interest in the lease had been terminated.

We also had letters of credit and performance bonds relating to various real estate and customs obligations at September 30, 2008 in the amount of \$85 million. These letters of credit and performance bonds have expiration dates through October 2010.

General Guarantees and Indemnifications. We are the lessee under many real estate leases. It is common in such commercial lease transactions for us as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to our use or occupancy of the leased premises and the use or occupancy of the leased premises by regional carriers operating flights on our behalf. In some cases, this indemnity extends to related

liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, we typically indemnify such parties for any environmental liability that arises out of or relates to our use of the leased premises.

In our aircraft financing agreements, we typically indemnify the financing parties, trustees acting on their behalf and other related parties against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, except for their gross negligence or willful misconduct.

We expect that we would be covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to real estate we lease and aircraft we operate.

In our financing transactions that include loans, we typically agree to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate ("LIBOR"), for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to certain mitigation obligations of the lenders. At September 30, 2008, we had \$1.4 billion of floating rate debt and \$262 million of fixed rate debt, with remaining terms of up to 12 years, that is subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 12 years and an aggregate carrying value of \$1.5 billion, we bear the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions.

We may be required to make future payments under the foregoing indemnities and agreements due to unknown variables related to potential government changes in capital adequacy requirements, laws governing LIBOR based loans or tax laws, the amounts of which cannot be estimated at this time.

Credit Card Processing Agreements. On June 10, 2008, we entered into an amendment and restatement of our Bankcard Agreement with Chase. In connection with the amendment of the Bankcard Agreement, we also amended our domestic bank-issued credit card processing agreement to extend the term of the agreement until December 31, 2016 and modify certain provisions in the agreement. As a result of the amendment of that processing agreement, the requirement that we maintain a minimum EBITDAR (generally, earnings before interest, income taxes, depreciation, amortization, aircraft rentals, certain nonoperating income (expense) and special items) to fixed charges (interest and aircraft rentals) ratio for the preceding 12 months has been eliminated as a trigger requiring the posting of additional collateral.

The covenants contained in the Chase processing agreement require that we post additional cash collateral if we fail to maintain (1) a minimum level of unrestricted cash, cash equivalents and short-term investments, (2) a minimum ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities of 0.25 to 1.0 or (3) a minimum senior unsecured debt rating of at least Caa3 and CCC- from Moody's and Standard & Poor's, respectively.

We have also recently entered into a new credit card processing agreement with American Express. Under the terms of that agreement, if a covenant trigger under the Chase processing agreement results in our posting additional collateral under that agreement, we would be required to post additional collateral under the American Express processing agreement. The amount of additional collateral required under the American Express processing agreement would be based on a percentage of the value of unused tickets (for travel at a future date) purchased by customers using the American Express card. The percentage for purposes of this calculation is the same as the percentage applied under the Chase processing agreement, after taking into account certain other risk protection maintained by American Express.

Under these processing agreements and based on our current air traffic liability exposure (as defined in each agreement), we would be required to post collateral up to the following amounts if we failed to comply with the covenants described above:

- a total of \$95 million if our unrestricted cash, cash equivalents and short-term investments balance falls below \$2.0 billion;
- a total of \$285 million if we fail to maintain the minimum unsecured debt ratings specified above;
- a total of \$538 million if our unrestricted cash, cash equivalents and short-term investments balance (plus any collateral posted at Chase) falls below \$1.4 billion or if our ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities falls below 0.25 to 1.0; and
- a total of \$1.2 billion if our unrestricted cash, cash equivalents and short-term investments balance (plus any collateral posted at Chase) falls below \$1.0 billion or if our ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities falls below 0.22 to 1.0.

The amounts shown above are incremental to the current collateral we have posted with these companies. We are currently in compliance with all of the covenants under these processing agreements.

Employees. As of September 30, 2008, we had approximately 40,100 full-time equivalent employees. In conjunction with the capacity reductions we announced in June 2008, we have reduced our total workforce by approximately 3,000 positions, with the majority of the reductions being accomplished through voluntary programs. These included an enhanced retirement window, company offered leaves of absence and other voluntary reduction programs. Although there can be no assurance that our generally good labor relations and labor productivity will continue, the preservation of good relations with our employees is a significant component of our business strategy. Approximately 45% of our employees are represented by unions. None of our collective bargaining agreements becomes amendable before December 2008.

Environmental Matters. In 2001, the California Regional Water Quality Control Board ("CRWQCB") mandated a field study of the area surrounding our aircraft maintenance hangar in Los Angeles. The study was completed in September 2001 and identified jet fuel and solvent contamination on and adjacent to this site. In April 2005, we began environmental remediation of jet fuel contamination surrounding our aircraft maintenance hangar pursuant to a workplan submitted to (and approved by) the CRWQCB and our landlord, the Los Angeles World Airports. Additionally, we could be responsible for environmental remediation costs primarily related to solvent contamination on and near this site.

In 1999, we purchased property located near our New York Liberty hub in Elizabeth, New Jersey from Honeywell International, Inc. ("Honeywell") with certain environmental indemnification obligations by us to Honeywell. We did not operate the facility located on or make any improvements to the property. In 2005, we sold the property to Catellus Commercial Group, LLC ("Catellus") and, in connection with the sale, Catellus assumed certain environmental indemnification obligations in favor of us. On October 9, 2006, Honeywell provided us with a notice seeking indemnification from us in connection with a U.S. Environmental Protection Agency ("EPA") potentially responsible party notice to Honeywell involving the Newark Bay Study Area of the Diamond Alkali Superfund Site alleging hazardous substance releases from the property and seeking study costs. In addition, on May 7, 2007, Honeywell provided us with a notice seeking indemnification from us in connection with a possible lawsuit by Tierra Solutions, Inc. ("Tierra Solutions") against Honeywell relating to alleged discharges from the property into Newark Bay and seeking cleanup of Newark Bay waters and sediments under the Resource Conservation and Recovery Act. We have notified Honeywell that, at this time, we have not agreed that we are required to indemnify Honeywell with respect to the EPA and Tierra Solutions claims and Honeywell has invoked arbitration procedures under its sale and purchase agreement with us. Catellus has agreed to indemnify and defend us in connection with the EPA and Tierra Solutions claims, including any arbitration with Honeywell.

At September 30, 2008, we had an accrual for estimated costs of environmental remediation throughout our system of \$34 million, based primarily on third-party environmental studies and estimates as to the extent of the contamination and nature of the required remedial actions. We have evaluated and recorded this accrual for environmental remediation costs separately from any related insurance recovery. We did not have any receivables related to environmental insurance recoveries at September 30, 2008. Based on currently available information, we believe that our accrual for potential environmental remediation costs is adequate, although our accrual could be adjusted in the future due to new information or changed circumstances. However, we do not expect these items to materially affect our results of operations, financial condition or liquidity.

Legal Proceedings. During the period between 1997 and 2001, we reduced or capped the base commissions that we paid to domestic travel agents, and in 2002 we eliminated those base commissions. These actions were similar to those also taken by other air carriers. We are a defendant, along with several other air carriers, in two lawsuits brought by travel agencies that purportedly opted out of a prior class action entitled Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C., Eastern District of North Carolina), filed on June 21, 2000, in which the defendant airlines prevailed on summary judgment that was upheld on appeal. These similar suits against Continental and other major carriers allege violations of antitrust laws in reducing and ultimately eliminating the base commissions formerly paid to travel agents. The pending cases are Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 2003 and Swope Travel Agency, et al. v. Orbitz LLC et al. (U.S.D.C., Eastern District of Texas), filed on June 5, 2003. By order dated November 10, 2003, these actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. On September 14, 2006, the judge for the consolidated lawsuit issued an order dismissing 28 plaintiffs in the Swope case for their failure to properly opt-out of the Hall case. Consequently, a total of 90 travel agency plaintiffs remained in the two cases. On October 29, 2007, the judge for the consolidated lawsuit dismissed the case for failure to meet the heightened pleading standards established earlier in 2007 by the U.S. Supreme Court's decision in Bell Atlantic Corp. v. Twombly. The plaintiffs have appealed to the Sixth Circuit Court of Appeals. In each of these cases, we believe the plaintiffs' claims are without merit, and we intend to vigorously defend any appeal. Nevertheless, a final adverse court decision awarding substantial money damages could have a material adverse effect on our results of operations, financial condition or liquidity.

We and/or certain of our subsidiaries are defendants in various other pending lawsuits and proceedings and are subject to various other claims arising in the normal course of our business, many of which are covered in whole or in part by insurance. Although the outcome of these lawsuits and proceedings (including the probable loss we might experience as a result of an adverse outcome) cannot be predicted with certainty at this time, we believe, after consulting with outside counsel, that the ultimate disposition of such suits will not have a material adverse effect on us.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains forward-looking statements that are not limited to historical facts, but reflect our 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 our 2007 Form 10-K and subsequent quarterly reports on Form 10-Q (including this report), which identify important matters such as the consequences of our high leverage, the significant volatility in the cost of aircraft fuel, our transition to a new global alliance, delays in scheduled aircraft deliveries, our high labor and pension costs, service interruptions at one of our hub airports, disruptions to the operations of our regional operators, disruptions in our 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. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report, except as required by applicable law.

OVERVIEW

We are a major United States air carrier engaged in the business of transporting passengers, cargo and mail. We are the world's fifth largest airline as measured by the number of scheduled miles flown by revenue passengers in 2007. Including our wholly-owned subsidiary, Continental Micronesia, Inc. ("CMI"), and regional flights operated on our behalf under capacity purchase agreements with other carriers, we operate more than 2,500 daily departures. As of September 30, 2008, we served 122 domestic and 120 international destinations and offered additional connecting service through alliances with domestic and foreign carriers.

General information about us can be found on our website, continental.com. Electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the Securities and Exchange Commission ("SEC").

Third Quarter Financial Highlights

- We recorded a pretax loss of \$248 million in the third quarter of 2008, reflecting record high fuel prices, the weakening economy and the approximately \$50 million adverse impact of Hurricane Ike.
- High fuel prices continue to dramatically increase our costs. Despite recent decreases, average mainline jet fuel prices per gallon in the third quarter of 2008 were 74.8% higher than in the comparable period of 2007.
- Passenger revenue grew 7.1% during the third quarter of 2008 as compared to the third quarter of 2007 due to increased fares, resulting primarily from fuel surcharges and international growth.
- We ended the quarter with an unrestricted cash, cash equivalents and short-term investments balance of \$2.9 billion.

Third Quarter Operational Highlights

- In connection with our significant reductions in flying and staffing implemented during the third quarter of 2008 to further adjust to the high cost of fuel, we removed 33 less-efficient Boeing 737 aircraft from service and eliminated approximately 3,000 employee positions, with the majority of the reductions being accomplished through voluntary programs.
- Mainline traffic decreased 2.5% and mainline capacity decreased 0.9% during the third quarter of 2008 as compared to the third quarter of 2007. We expect that our capacity reductions during the third quarter will result in our fourth quarter domestic mainline capacity being down by 11% as

compared to the fourth quarter of 2007.

- We posted a mainline segment completion factor of 97.9% (99.2% excluding cancellations due to Hurricane Ike) and a U.S. Department of Transportation on-time arrival rate of 77.0%.
- We implemented a new capacity purchase agreement with ExpressJet, which we anticipate will lower the cost of our regional flights by approximately \$50 million annually.

Outlook

The combination of weakening economic conditions, uncertainty in the financial sector, highly volatile fuel prices and a weak dollar has resulted in a difficult financial environment for U.S. network carriers and continues to hinder our ability to return to sustained profitability. These significant challenges facing our industry have caused several smaller carriers to declare bankruptcy, most of which ceased passenger operations. We and many of our domestic network competitors have initiated significant capacity reductions, increases in fuel surcharges, fares and fees and other measures to address the challenges. Additionally, we have taken a number of steps to strengthen our cash balance and future competitive position. However, under current market conditions, we expect to incur a substantial loss in 2008. In addition, if the recently passed Emergency Economic Stabilization Act of 2008 and other measures implemented by the U.S. and foreign governments fail to restore liquidity and confidence to the troubled credit markets, the nation could be facing a severe economic downturn. The current crisis has caused credit markets to become dysfunctional, resulting in a potential threat to financing for the airline industry, as well as the potential loss of business and leisure traffic.

Economic Conditions. The U.S. economy may be entering, or in, a recession. The airline industry is highly cyclical, and the growth in demand for air travel is correlated to the growth in the U.S. and global economies. A recession in the U.S. or global economies could have a material adverse effect on our results of operations and financial condition. Although the U.S. dollar has recently strengthened in value, declines in the value of the U.S. dollar earlier in the year relative to foreign currencies, such as the British pound, Japanese yen and the euro, increased the costs to U.S. residents of traveling internationally, thereby reducing the demand for air travel for customers spending U.S. dollars, and potentially having a material adverse effect on us. Strong foreign currencies also benefit our foreign competitors who purchase fuel in U.S. dollars.

Fuel Costs. Jet fuel prices, which have remained very high by historical standards, continue to dramatically increase our costs compared to prior years. In the third quarter of 2008, the price of a gallon of Gulf Coast jet fuel averaged \$3.49 compared to \$2.16 for the same period last year, with Gulf Coast jet fuel closing prices peaking at \$4.21 per gallon during the quarter. The price of crude oil and jet fuel continues to experience significant volatility. During the quarter, the price of crude oil fell below \$100 for the first time in over six months, bottoming out at \$91.15 on September 16 and climbing to \$120.92 following its biggest one-day increase ever.

Although we have experienced some success raising fares (primarily through increased fuel surcharges) and adding or increasing fees through the nine months ended September 30, 2008, we have been unable to increase our revenue sufficiently to keep pace with the escalating fuel costs. As a result, the high levels of jet fuel prices have adversely affected our results of operations, financial condition and liquidity. We believe that our young, fuel-efficient fleet continues to provide us with a competitive advantage relative to our peers. Based on our expected fuel consumption in 2008, a one dollar change in the price of a barrel of crude oil would change our annual fuel expense by approximately \$43 million, before considering refining margins and the impact of our fuel hedging program.

As of September 30, 2008, we have hedged approximately 57% of our projected consolidated fuel requirements for the fourth quarter of 2008 and approximately 16% of our projected consolidated fuel requirements for 2009 with crude oil and heating oil collars, excluding contracts with a bankrupt counterparty. Through October 15, 2008, we hedged an additional 5% of our projected fuel requirements for the first quarter of 2009. See "Item 3. Quantitative and Qualitative Disclosures about Market Risk" for details of our hedge position at September 30, 2008.

Liquidity. In response to the increased fuel prices, we took a number of steps to strengthen our cash balance and liquidity during the first nine months of 2008. We raised approximately \$900 million through an amended Bankcard Agreement (including the advance sale of mileage credits), the issuance of common stock, the sale of our remaining equity interest in Copa, a new pre-delivery payment facility and other new secured borrowings. Our unrestricted cash and short-term investments balance at September 30, 2008 was \$2.9 billion.

Capacity. Our long-term target remains to grow our mainline capacity between 5% and 7% annually. However, because of high fuel prices, economic conditions and delays in aircraft deliveries, we have recently reduced our capacity significantly and do not anticipate achieving such growth through at least 2010.

On June 5, 2008, we announced significant reductions in flying and staffing necessary for us to further adjust to the high cost of fuel, a weakening economy and a weak dollar. Starting in September 2008, at the conclusion of the peak summer season, we reduced our flights, with fourth quarter domestic mainline departures expected to be down 16.6% year-over-year. We expect that this will result in reductions of domestic mainline capacity by 11% and consolidated capacity by 7.1% (as measured by available seat miles) in the fourth quarter compared to the same period last year. We also announced that we would accelerate the retirement of an additional 67 Boeing model 737-300 and 737-500 aircraft to remove a majority of the least fuel-efficient aircraft from our mainline fleet by the end of 2009. The retirement of 20 of these 737-500 aircraft may be delayed, however, if the parties that agreed to purchase those aircraft continue to be unable to obtain financing in the troubled global credit markets. Additionally, we have eliminated approximately 3,000 employee positions as a result of the capacity reductions.

Our future ability to grow our capacity could be adversely impacted by delays in aircraft deliveries. In April 2008, Boeing announced an additional delay to its 787 aircraft program. We expect the first of our 25 Boeing 787 aircraft to deliver in the second half of 2010 instead of the first half of 2009 as originally scheduled. As a result, our anticipated mainline capacity in 2010 and thereafter may be reduced, particularly if we are unable to make alternative arrangements to acquire long-range aircraft on commercially acceptable terms. However, in order to provide flexibility for our widebody aircraft needs, we announced orders in February 2008 for eight new Boeing 777 aircraft, the first two of which are now scheduled to deliver in 2010. In September 2008, Boeing notified us that all of our new aircraft deliveries will be delayed pending resolution of the strike involving Boeing's machinists. In October 2008, we reached an agreement in principle with Boeing to reschedule 16 Boeing 737 aircraft originally scheduled for delivery in 2009 and 2010. These aircraft are now scheduled to be delivered in 2011 and beyond. Additionally, we have agreed with Boeing to reschedule to 2010 two Boeing 777 deliveries that were originally scheduled for delivery in 2009. As a result of these changes, we are scheduled to take delivery of 14 Boeing 737 aircraft in 2009 and 12 Boeing 737 aircraft, two Boeing 777 aircraft and two Boeing 787 aircraft in 2010.

Our future ability to maintain and/or grow capacity could also be adversely affected by additional laws, regulations and growth constraints. The FAA has designated certain airports, including Newark Liberty International ("New York Liberty"), New York's John F. Kennedy International Airport ("Kennedy") and

LaGuardia Airport ("LaGuardia") as "high density traffic airports" and, to address concerns about airport congestion, the FAA has imposed operating restrictions at New York Liberty, Kennedy and LaGuardia. Although we do not believe that these current operating restrictions will have a material effect on our operations at New York Liberty, we cannot predict the impact of future capacity constraints or allocations or other restrictions on our operations that might be imposed by the FAA, Congress or other regulators, which might have a material adverse effect on us.

Recently, the FAA issued rules that continue the FAA requirement to have a slot for arrival or departure at New York Liberty, Kennedy and LaGuardia through 2019. Under these rules, the FAA will maintain current slot holdings of airlines at New York Liberty, Kennedy and LaGuardia, except for the annual withdrawal through 2013 and auction to the highest bidder of (i) 2% of each airline's slots at New York Liberty and Kennedy that exceed 20 and (ii) 2% of each airline's slots at LaGuardia. In addition, these rules provide that the FAA will withdraw and retire 5% of each airline's slots at LaGuardia. The withdrawal and auctioning to the highest bidder of our slots could have a material adverse effect on us by causing us to incur substantial costs to successfully bid for them or by reducing our slot portfolio, requiring us to terminate flights associated with these slots and increasing our costs to operate at these airports. Our airline trade association, the Air Transport Association, and the Port Authority of New York and New Jersey, which operates New York Liberty, Kennedy and LaGuardia, have challenged the legality of the FAA withdrawal of slots from airlines for non-operational reasons and the slot auction in the U.S. Court of Appeals for the D.C. Circuit. We expect to file a suit against the FAA as well on this issue.

Competition. Competition in most of our domestic markets from low-cost carriers, as well as our response to this competition, continues to result in increased capacity and lower yields in many of those markets. In addition, several of our domestic competitors are continuing to increase their international capacity, including service to some destinations that we currently serve, resulting in lower yields and/or load factors in affected markets. The "open skies" agreement between the U.S. and the European Union, which became effective on March 30, 2008, is resulting in increased competition from European and U.S. airlines in these international markets, and may give rise to additional integration opportunities between or among U.S. and European carriers. For example, Air France-KLM, Delta and Northwest have received anti-trust immunity to form a new trans-Atlantic joint venture among those airlines and to coordinate routes, fares, schedules and other matters among those airlines, Alitalia and CSA Czech Airlines. American Airlines, British Airways and Iberia have requested anti-trust immunity for a similar trans-Atlantic joint venture, which would also involve many of the same benefits.

The "open skies" agreement, while increasing our competition, has enhanced our ability to compete with European and U.S. airlines that have historically provided service between London's Heathrow Airport and destinations in the U.S. We have acquired slots at Heathrow, and we inaugurated service from New York Liberty and Houston Bush to Heathrow at the end of March 2008. In October 2008, we moved all of our year-round London flights from London Gatwick to London Heathrow.

We also expect that our ability to compete in the trans-Atlantic markets will be enhanced by our previously announced alliance-related activities. Earlier this year, we entered into framework agreements with United, Lufthansa and Air Canada, pursuant to which we plan to develop an extensive code-share relationship and reciprocity of frequent flier programs, elite customer recognition and airport lounge use. We plan to implement these relationships as promptly as possible following our exit from our participation in our current alliances, including our participation in SkyTeam, and join United, Lufthansa and Air Canada (and other member airlines) in Star Alliance. On July 23, 2008, we filed an application with the U.S. Department of Transportation ("DOT") to join United and a group of eight other carriers within Star Alliance that already hold antitrust immunity. Approval by the DOT would enable us, United and these other immunized Star Alliance carriers to work closely together to deliver highly competitive international flight schedules, fares and service. Additionally, we, United, Lufthansa and Air Canada have requested DOT approval to establish a trans-Atlantic joint venture to create a more efficient and comprehensive trans-Atlantic network for the carriers' customers, offering customers more service, scheduling and pricing options and establishing a framework for similar joint ventures in other regions of the world. In addition, we are seeking a modification to our existing pilot collective bargaining agreement to permit us to enter into the trans-Atlantic joint venture.

Prior to joining Star Alliance, we must exit our existing bilateral alliance agreements with SkyTeam members and enter into new ones with our new alliance partners. The length of this transition period will depend upon a number of factors outside of our control, including the consummation of the merger of Delta and Northwest, and the timing of our withdrawal from our existing agreements with SkyTeam members. During and following this period, we may experience a significant decrease in revenues due to the wind down of our SkyTeam relationships or a delay in the anticipated increase in revenues from our planned participation in Star Alliance. We are also likely to incur additional costs, including those related to exiting our current alliance agreements. Please see "Part II, Item 1A. Risk Factors - Risk Factors Relating to the Company - We have decided to change our global airline alliance, which could involve significant transition and integration risks."

In the U.S. domestic market, where antitrust immunity would not apply, we and United plan to begin broad code-sharing, which facilitates the creation of itineraries using both carriers, as well as frequent flier program, elite customer recognition and airport lounge reciprocity. These cooperative activities are subject to notice to the DOT, which each carrier will submit separately in due course, and our exiting certain of our current alliance relationships.

Subject to these matters, we currently anticipate that we will join Star Alliance and begin broad code-sharing and other commercial cooperation with United, Lufthansa and Air Canada (and the other members of Star Alliance) in the fourth quarter of 2009.

Labor Costs. Our ability to sustain our profitability also depends on continuing our efforts to implement and maintain a more competitive cost structure. The collective bargaining agreements with our pilots, mechanics and certain other work groups become amendable beginning in December 2008, and we began discussions with our pilots' union in 2007 on the non-economic contract issues pursuant to our protocol agreement with them. We cannot predict the outcome of our negotiations with our pilots and mechanics, although significant increases in the pay and benefits resulting from new collective bargaining agreements could have a material adverse effect on us.

Capacity Purchase Agreement with ExpressJet. In June 2008, we entered into the Amended ExpressJet CPA, which amends and restates our previous capacity purchase agreement effective July 1, 2008. Under the Amended ExpressJet CPA, we will continue to purchase all of the capacity from the ExpressJet flights covered by the agreement at a negotiated price and be responsible for the cost of providing fuel for all flights and paying aircraft rent for all aircraft covered by the Amended ExpressJet CPA. See Note 13 to "Item 1. Financial Statements" for a detailed discussion of the changes to our capacity purchase agreement with ExpressJet.

In the aggregate, we expect that the savings resulting from the rate structure in the Amended ExpressJet CPA, together with the effect of the reduced lease rate related to 30 aircraft ExpressJet will continue to lease from us and the removal of all thirty 37-seat ERJ-135 regional jets from the agreement, will be approximately \$50 million annually. We are evaluating our options regarding the thirty 37-seat regional jets, including permanently grounding them.

RESULTS OF OPERATIONS

The following discussion provides an analysis of our results of operations and reasons for material changes therein for the three and nine months ended September 30, 2008 as compared to the corresponding periods in 2007.

Comparison of Three Months Ended September 30, 2008 to Three Months Ended September 30, 2007

Consolidated Results of Operations

Statistical Information. Certain statistical information for our consolidated operations for the three months ended September 30 is as follows:

	<u>2008</u>	<u>2007</u>	Increase (Decrease)
Passengers (thousands) (1)	17,108	17,901	(4.4)%
Revenue passenger miles (millions) (2)	24,836	25,422	(2.3)%
Available seat miles (millions) (3)	30,304	30,346	(0.1)%
Passenger load factor (4)	82.0%	83.8%	(1.8) pts.
Passenger revenue per available seat mile (cents)	12.41	11.57	7.3 %
Average yield (cents) (5)	15.14	13.81	9.6 %

1. The number of revenue passengers measured by each flight segment flown.
2. The number of scheduled miles flown by revenue passengers.
3. The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
4. Revenue passenger miles divided by available seat miles.
5. The average passenger revenue received for each revenue passenger mile flown.

Results of Operations. We recorded a net loss of \$236 million in the third quarter of 2008 as compared to net income of \$241 million for the third quarter of 2007. We consider a key measure of our performance to be operating income (loss), which was \$(152) million for the third quarter of 2008, as compared to \$280 million for the third quarter of 2007. Significant components of our consolidated operating results for the three months ended September 30 are as follows (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	Increase (Decrease)	% Increase (Decrease)
Operating Revenue	\$4,156	\$3,820	\$ 336	8.8%
Operating Expenses	<u>4,308</u>	<u>3,540</u>	<u>768</u>	21.7%
Operating Income (Loss)	(152)	280	(432)	NM
Nonoperating Income (Expense)	(96)	(39)	(57)	NM
Income Tax Benefit (Expense)	<u>12</u>	<u>-</u>	<u>12</u>	NM
Net Income (Loss)	\$(236)	\$ 241	\$(477)	NM

NM - Not Meaningful

Each of these items is discussed in the following sections.

Operating Revenue. The table below shows components of operating revenue for the quarter ended September 30, 2008 and period to period comparisons for operating revenue, passenger revenue per available seat mile ("RASM") and available seat miles ("ASMs") by geographic region for our mainline and regional operations:

	Revenue (in millions)	Percentage Increase (Decrease) in Third Quarter 2008 vs Third Quarter 2007		
		Revenue	RASM	ASMs
Passenger revenue:				
Domestic	\$1,482	2.4%	6.8 %	(4.2)%
Trans-Atlantic	917	13.4%	6.0 %	7.0 %
Latin America	465	15.7%	14.9 %	0.7 %

Pacific	<u>282</u>	0.6%	8.6 %	(7.4)%
Total Mainline	3,146	7.1%	8.0 %	(0.9)%
Regional	<u>614</u>	7.2%	0.9 %	6.2 %
Total	3,760	7.1%	7.3 %	(0.1)%
Cargo	129	15.2%		
Other	<u>267</u>	35.5%		
Operating Revenue	<u>\$4,156</u>	8.8%		

Passenger revenue increased due to increased international traffic and increased fares, primarily from fuel surcharges. Consolidated RASM for the quarter increased year-over-year due to higher yields. The improved RASM reflects our actions taken to increase fuel surcharges and implement more restrictions on non-refundable tickets. We also recorded an adjustment of \$27 million to increase passenger revenue and reduce our frequent flyer liability during the three months ended September 30, 2008. This adjustment is related to fees charged to passengers redeeming frequent flyer rewards within 20 days of travel, which were increased in September 2008. These fees offset the incremental cost associated with providing flights for frequent flyer travel rewards.

Cargo revenue increased due to higher fuel surcharge rates and increased mail volume. Other revenue increased due to higher revenue associated with sales of mileage credits in our OnePass frequent flyer program, higher ticket change fees and the implementation of a new fee for checking a second bag.

Operating Expenses. The table below shows period-to-period comparisons by type of operating expense for our consolidated operations for the three months ended September 30 (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	Increase (Decrease)	% Increase (Decrease)
Aircraft fuel and related taxes	\$1,501	\$ 895	\$606	67.7 %
Wages, salaries and related costs	765	836	(71)	(8.5)%
Regional capacity purchase, net	553	446	107	24.0 %
Aircraft rentals	244	249	(5)	(2.0)%
Landing fees and other rentals	225	209	16	7.7 %
Distribution costs	182	171	11	6.4 %
Maintenance, materials and repairs	152	166	(14)	(8.4)%
Depreciation and amortization	112	106	6	5.7 %
Passenger services	113	105	8	7.6 %
Special charges	91	12	79	NM
Other	<u>370</u>	<u>345</u>	<u>25</u>	7.2 %
	<u>\$4,308</u>	<u>\$3,540</u>	<u>\$768</u>	21.7 %

Operating expenses increased 21.7% primarily due to the following:

- Aircraft fuel and related taxes increased due to a 74.8% increase in jet fuel prices. The average jet fuel price per gallon including related taxes increased from \$2.21 in the third quarter of 2007 to \$3.86 in the third quarter of 2008. Fuel expense includes losses related to our fuel hedging

program of \$40 million in the third quarter of 2008 compared to hedging gains of \$4 million in the third quarter of 2007.

- Wages, salaries and related costs decreased primarily due to a \$70 million decrease in profit sharing expenses resulting from our net loss in the third quarter of 2008 and the effect of a lower stock price on our profit based RSU awards, partially offset by changes in how certain costs are handled under the new Amended ExpressJet CPA.
- Regional capacity purchase, net, includes expenses related to our capacity purchase agreements. Our most significant capacity purchase agreement is with ExpressJet. Regional capacity purchase, net includes all fuel expense on flights operated for us under capacity purchase agreements and is net of our rental income on aircraft leased to ExpressJet and flown for us in 2007. Under the Amended ExpressJet CPA, ExpressJet no longer pays sublease income for aircraft operated on our behalf. The net amounts consisted of the following for the three months ended September 30 (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	Increase (Decrease)	% Increase (Decrease)
Capacity purchase expenses	\$247	\$331	\$(84)	(25.4)%
Fuel and fuel taxes	306	176	130	73.9 %
Aircraft sublease income	—	<u>(61)</u>	<u>(61)</u>	(100.0)%
Regional capacity purchase, net	<u>\$553</u>	<u>\$446</u>	<u>\$107</u>	24.0 %

The net expense was higher in the third quarter of 2008 than in 2007 primarily due to higher fuel expense. Fuel expense increased 73.9% over the third quarter of 2007 expense as a result of higher fuel prices. Netting together capacity purchase expenses and aircraft sublease income in the third quarter of 2007 for comparison to the third quarter of 2008, the net expense decreased \$23 million primarily as a result of our new agreement with ExpressJet. Sublease income of \$20 million and \$26 million on aircraft operated by ExpressJet outside the scope of our capacity purchase agreement for the three months ended September 30, 2008 and 2007, respectively, is recorded as other revenue.

- Landing fees and other rentals increased primarily due to a higher number of international flights.
- Distribution costs increased due to an increase in credit card discount fees and travel agency commissions, both of which resulted from increased passenger revenue.
- Maintenance, materials and repairs expenses decreased primarily due to the volume of engine overhauls on the 757-300 fleet, a reduction in engine and component maintenance-cost-per-hour due to lower flight activity and engine reconciliation credits associated with aircraft exiting our fleet.
- Special charges in the third quarter of 2008 include \$33 million for severance and continuing medical coverage for employees accepting early retirement packages or company-offered leaves of absence, \$12 million for future lease costs on permanently grounded Boeing 737-300 aircraft, an \$11 million charge related to future rents for leased space at locations that are no longer expected to be used or subleased and a \$9 million charge pertaining to our reimbursement of certain costs incurred by ExpressJet for temporarily grounded aircraft and airport slots being returned to us. The special charges in the third quarter of 2008 also include an \$18 million non-cash charge to write off an intangible route asset as a result of our decision to move all of our year-round London flights from London Gatwick Airport to London Heathrow Airport and a non-cash settlement charge of \$8 million related to lump sum distributions from our pilot-only defined benefit pension plan to retired pilots.

Special charges in the third quarter of 2007 consisted of a \$12 million non-cash settlement charge related to lump sum distributions from our pilot-only defined benefit pension plan to retired pilots.

- Other operating expenses increased primarily due to a greater number of international flights, which resulted in increased air navigation fees and ground handling, security and related expenses and changes in how certain costs are handled under the new Amended ExpressJet CPA.

Nonoperating Income (Expense). Nonoperating income (expense) includes net interest expense (interest expense less interest income and capitalized interest), income from other companies and gains from dispositions of investments. Total nonoperating income (expense) increased \$57 million in the third quarter of 2008 compared to the third quarter of 2007 due to the following:

- Net interest expense increased \$25 million primarily as a result of lower interest income due to lower interest rates.
- Other nonoperating income (expense) included fuel hedge ineffectiveness gains (losses) of \$(15) million and \$2 million in the third quarter of 2008 and 2007, respectively. This ineffectiveness was caused by our non-jet fuel derivatives experiencing a higher relative change in value than the jet fuel being hedged and the mark-to-market impact of fuel derivative contracts with a bankrupt counterparty.

Income Taxes. Our effective tax rates differ from the federal statutory rate of 35% primarily due to changes in the valuation allowance, state taxes and expenses that are not deductible for federal income tax purposes and state income taxes.

Segment Results of Operations

We have two reportable segments: mainline and regional. The mainline segment consists of flights to cities using larger jets while the regional segment currently consists of flights with a capacity of 50 or fewer seats (for jets) or 78 or fewer seats (for turboprops). As of September 30, 2008, the regional segment was operated by ExpressJet, Chautauqua, CommutAir and Colgan through capacity purchase agreements. Under these agreements, we purchase all of the capacity related to aircraft covered by the contracts and are responsible for setting prices and selling all of the related seat inventory. In exchange for the regional carriers' operation of the flights, we pay the regional carriers for each scheduled block hour based on agreed formulas. Under the agreements, we

recognize all passenger, cargo and other revenue associated with each flight, and are responsible for all revenue-related expenses, including commissions, reservations, catering and terminal rent at hub airports.

We evaluate segment performance based on several factors, of which the primary financial measure is operating income (loss). However, we do not manage our business or allocate resources based on segment operating profit or loss because (1) our flight schedules are designed to maximize revenue from passengers flying, (2) many operations of the two segments are substantially integrated (for example, airport operations, sales and marketing, scheduling and ticketing), and (3) management decisions are based on their anticipated impact on the overall network, not on one individual segment.

Statistical Information. Certain statistical information for our segments' operations for the three months ended September 30 is as follows:

	<u>2008</u>	<u>2007</u>	Increase (Decrease)
Mainline Operations:			
Passengers (thousands)	12,518	13,286	(5.8)%
Revenue passenger miles (millions)	22,318	22,883	(2.5)%
Available seat miles (millions)	26,914	27,153	(0.9)%
Passenger load factor	82.9%	84.3%	(1.4) pts.
Cargo ton miles (millions)	245	250	(2.0)%
Passenger revenue per available seat mile (cents)	11.69	10.82	8.0 %
Total revenue per available seat mile (cents)	13.07	11.93	9.6 %
Average yield per revenue passenger mile (cents)	14.10	12.84	9.8 %
Average fare per revenue passenger	\$254.28	\$223.75	13.6 %
Cost per available seat mile, including special charges (cents) (1)	13.19	10.85	21.6 %
Average price per gallon of fuel, including fuel taxes (cents)	385.61	220.57	74.8 %
Fuel gallons consumed (millions)	389	406	(4.2)%
Aircraft in fleet at end of period	351	368	(4.6)%
Average length of aircraft flight (miles)	1,533	1,488	3.0 %
Average daily utilization of each aircraft (hours)	11:21	11:52	(4.3)%
Regional Operations:			
Passengers (thousands)	4,590	4,615	(0.5)%
Revenue passenger miles (millions)	2,518	2,539	(0.8)%
Available seat miles (millions)	3,390	3,193	6.2 %
Passenger load factor	74.3%	79.5%	(5.2) pts.
Passenger revenue per available seat mile (cents)	18.12	17.95	0.9 %
Average yield per revenue passenger mile (cents)	24.39	22.57	8.1 %
Fuel gallons consumed (millions)	80	79	1.3 %
Aircraft in fleet at end of period	279	263	6.1 %

1. Includes special charges which represented 0.30 and 0.05 cents per available seat mile for the three months ended September 30, 2008 and 2007, respectively.

Mainline Results of Operations. Significant components of our mainline segment's operating results for the three months ended September 30 are as follows (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	Increase (Decrease)	% Increase (Decrease)
Operating Revenue	<u>\$3,519</u>	<u>\$3,239</u>	\$ 280	8.6 %
Operating Expenses:				
Aircraft fuel and related taxes	1,501	895	606	67.7 %
Wages, salaries and related costs	727	822	(95)	(11.6)%
Aircraft rentals	165	170	(5)	(2.9)%
Landing fees and other rentals	206	196	10	5.1 %

Distribution costs	154	146	8	5.5 %
Maintenance, materials and repairs	152	166	(14)	(8.4)%
Depreciation and amortization	109	103	6	5.8 %
Passenger services	107	101	6	5.9 %
Special charges	80	12	68	NM
Other	<u>348</u>	<u>337</u>	<u>11</u>	3.3 %
	<u>3,549</u>	<u>2,948</u>	<u>601</u>	20.4 %
Operating Income (Loss)	\$ <u>(30)</u>	\$ <u>291</u>	\$ <u>(321)</u>	NM

The variances in specific line items for the mainline segment are due to the same factors discussed under consolidated results of operations.

Regional Results of Operations. Significant components of our regional segment's operating results for the three months ended September 30 are as follows (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	Increase (Decrease)	% Increase (Decrease)
Operating Revenue	\$ <u>637</u>	\$ <u>581</u>	\$ <u>56</u>	9.6%
Operating Expenses:				
Wages, salaries and related costs	38	14	24	NM
Regional capacity purchase, net	553	446	107	24.0%
Aircraft rentals	79	79	-	NM
Landing fees and other rentals	19	13	6	46.2%
Distribution costs	28	25	3	12.0%
Depreciation and amortization	3	3	-	NM
Passenger services	6	4	2	50.0%
Special charges	11	-	11	NM
Other	<u>22</u>	<u>8</u>	<u>14</u>	NM
	<u>759</u>	<u>592</u>	<u>167</u>	28.2%
Operating Loss	\$ <u>(122)</u>	\$ <u>(11)</u>	\$ <u>(111)</u>	NM

The reported results of our regional segment do not reflect the total contribution of the regional segment to our system-wide operations. The regional segment generates revenue for the mainline segment as it feeds passengers from smaller cities into our hubs. The variances in specific line items for the regional segment reflect generally the same factors discussed under consolidated results of operations, with the exception of wages, salaries and related costs. These expenses increased for the regional segment due to changes in how certain costs are handled under the new Amended ExpressJet CPA.

Comparison of Nine Months Ended September 30, 2008 to Nine Months Ended September 30, 2007

Consolidated Results of Operations

Statistical Information. Certain statistical information for our consolidated operations for the nine months ended September 30 is as follows:

	<u>2008</u>	<u>2007</u>	<u>Increase</u>
Passengers (thousands)	51,509	52,198	(1.3)%
Revenue passenger miles (millions)	71,862	71,495	0.5 %
Available seat miles (millions)	89,062	87,186	2.2 %
Passenger load factor	80.7%	82.0%	(1.3) pts.
Passenger revenue per available seat mile (cents)	11.94	11.24	6.2 %
Average yield (cents)	14.80	13.71	8.0 %

Results of Operations. We recorded a net loss of \$319 million in the first nine months of 2008 as compared to net income of \$491 million for the first nine months of 2007. We consider a key measure of our performance to be operating income (loss), which was \$(289) million for the first nine months of 2008, as compared to \$606 million for the first nine months of 2007. Significant components of our consolidated operating results for the nine months ended September 30 are as follows (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	<u>Increase</u>	<u>% Increase</u>
			<u>(Decrease)</u>	<u>(Decrease)</u>
Operating Revenue	\$11,771	\$10,709	\$1,062	9.9%
Operating Expenses	<u>12,060</u>	<u>10,103</u>	<u>1,957</u>	19.4%
Operating Income	(289)	606	(895)	NM
Nonoperating Income (Expense)	(130)	(111)	(19)	17.1%
Income Tax Benefit (Expense)	<u>100</u>	<u>(4)</u>	<u>104</u>	NM
Net Income	\$ <u>(319)</u>	\$ <u>491</u>	\$ <u>(810)</u>	NM

Each of these items is discussed in the following sections.

Operating Revenue. The table below shows components of operating revenue for the nine months ended September 30, 2008 and period to period comparisons for operating revenue, RASM and ASMs by geographic region for our mainline and regional operations:

	Revenue	Percentage Increase (Decrease) in		
		<u>September 30, 2008 YTD vs September 30, 2007 YTD</u>		
<u>(in millions)</u>	<u>Revenue</u>	<u>RASM</u>	<u>ASMs</u>	
Passenger revenue:				
Domestic	\$ 4,340	3.9 %	6.7 %	(2.6)%
Trans-Atlantic	2,328	14.9 %	2.3 %	12.3 %
Latin America	1,362	13.9 %	9.2 %	4.3 %
Pacific	<u>780</u>	3.9 %	8.0 %	(3.9)%
Total Mainline	8,810	8.1 %	6.1 %	1.8 %
Regional	<u>1,823</u>	10.6 %	5.6 %	4.7 %
Total	10,633	8.5 %	6.2 %	2.2 %

Cargo	383	16.8 %
Other	<u>755</u>	30.4 %
Operating Revenue	<u>\$11,771</u>	9.9 %

Passenger revenue increased due to increased international traffic on increased capacity and increased fares primarily from fuel surcharges. The improved RASM reflects our actions taken to increase fuel surcharges and implement more restrictions on non-refundable tickets.

Cargo revenue increased due to higher fuel surcharge rates and increased mail volume. Other revenue increased due to higher revenue associated with sales of mileage credits on our OnePass frequent flyer program, higher ticket change fees, the implementation of a new fee for checking a second bag and rental income on aircraft leased to ExpressJet but not operated for us.

Operating Expenses. The table below shows period-to-period comparisons by type of operating expense for our consolidated operations for the nine months ended September 30 (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Aircraft fuel and related taxes	\$ 3,912	\$ 2,399	\$1,513	63.1 %
Wages, salaries and related costs	2,197	2,404	(207)	(8.6)%
Regional capacity purchase, net	1,648	1,319	329	24.9 %
Aircraft rentals	736	745	(9)	(1.2)%
Landing fees and other rentals	643	592	51	8.6 %
Distribution costs	558	508	50	9.8 %
Maintenance, materials and repairs	478	479	(1)	(0.2)%
Depreciation and amortization	327	306	21	6.9 %
Passenger services	315	294	21	7.1 %
Special charges	141	30	111	NM
Other	<u>1,105</u>	<u>1,027</u>	<u>78</u>	7.6 %
	<u>\$12,060</u>	<u>\$10,103</u>	<u>\$1,957</u>	19.4 %

Operating expenses increased 19.4% primarily due to the following:

- Aircraft fuel and related taxes increased due to a 63.4% increase in jet fuel prices. The average jet fuel price per gallon including related taxes increased from \$2.07 in the first nine months of 2007 to \$3.38 in the first nine months of 2008. Fuel expense includes gains related to our fuel hedging program of \$48 million in the first nine months ended September 30, 2008 compared to \$4 million in the nine months ended September 30, 2007.
- Wages, salaries and related costs decreased primarily due to a \$169 million decrease in profit sharing expenses resulting from our net loss in the nine months ended September 30, 2008 and the effect of a lower stock price on our profit based RSU awards, partially offset by changes in how certain costs are handled under the new Amended ExpressJet CPA.
- Regional capacity purchase, net includes expenses related to our capacity purchase agreements. Our most significant capacity purchase agreement is with ExpressJet. Regional capacity purchase, net includes all fuel expense on flights operated for us under capacity purchase agreements and is net of our rental income on aircraft leased to ExpressJet and flown for us in 2007 and the first six months of 2008. Under the Amended ExpressJet CPA, ExpressJet no longer pays sublease income for aircraft operated on our behalf. The net amounts consisted of the following for the nine months ended September 30 (in millions, except percentage changes):

Increase % Increase

	<u>2008</u>	<u>2007</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Capacity purchase expenses	\$ 960	\$1,038	\$(78)	(7.5)%
Fuel and fuel taxes	810	486	324	66.7 %
Aircraft sublease income	<u>(122)</u>	<u>(205)</u>	<u>(83)</u>	(40.5)%
Regional capacity purchase, net	<u>\$1,648</u>	<u>\$1,319</u>	<u>\$329</u>	24.9 %

The net expense was higher in the nine months ended September 30, 2008 compared to the same period in 2007 primarily due to higher fuel expense. Fuel expense increased 66.7% over the first nine months of 2007 expense as a result of higher fuel prices. Netting together capacity purchase expenses and aircraft sublease income in the first nine months of 2008 for comparison to the first nine months of 2007, the net expense did not change significantly. Sublease income of \$72 million and \$53 million on aircraft operated by ExpressJet outside the scope of our capacity purchase agreement for the nine months ended September 30, 2008 and 2007, respectively, is recorded as other revenue.

- Landing fees and other rentals increased primarily due to a higher number of international flights.
- Distribution costs increased due to an increase in credit card discount fees and travel agency commissions, both of which resulted from increased passenger revenue.
- Special charges in the first nine months of 2008 include \$33 million for severance and continuing medical coverage for employees accepting early retirement packages or company-offered leaves of absence, \$12 million for future lease costs on permanently grounded Boeing 737-300 aircraft, an \$11 million charge related to future rents for leased space at locations that are no longer expected to be used or subleased and a \$9 million charge pertaining to our reimbursement of certain costs incurred by ExpressJet for temporarily grounded aircraft and airport slots ExpressJet is returning to us. Additional special charges in the third quarter of 2008 include an \$18 million non-cash charge to write off an intangible route asset as a result of our decision to move all of our year-round London flights from London Gatwick Airport to London Heathrow Airport and a non-cash settlement charge of \$8 million related to lump sum distributions from our pilot-only defined benefit pension plan to retired pilots.

Special charges in 2008 also include \$37 million of non-cash impairments on owned Boeing 737-300 and 737-500 aircraft and related assets, a non-cash charge of \$14 million to write down spare parts and supplies for the Boeing 737-300 and 737-500 fleets to the lower of cost or net realizable value and \$18 million of gains on the sale of five owned Boeing 737-500 aircraft. Following the decision in June 2008 to retire all of our Boeing 737-300 aircraft and a significant portion of our Boeing 737-500 aircraft by the end of 2009, we evaluated the ongoing value of the assets associated with these fleets. Fleet assets include owned aircraft, improvements on leased aircraft, rotatable spare parts, spare engines and simulators. Based on our evaluation, we determined that the carrying amounts of these fleets were impaired and wrote them down to their estimated fair value. We estimated the fair values based on current market quotes and our expected proceeds from the sale of the assets. We also evaluated the ongoing value of the assets associated with our other fleets and determined that the carrying amounts of those fleets were not impaired.

Special charges in the first nine months of 2007 consisted of a \$24 million non-cash settlement charge related to lump sum distributions from our pilot-only defined benefit pension plan to retired pilots and a \$6 million aircraft-related charge.

- Other operating expenses increased primarily due to a greater number of international flights, which resulted in increased air navigation fees and ground handling, security and related expenses, changes in how certain costs are handled under the new Amended ExpressJet CPA and higher OnePass reward expenses.

Nonoperating Income (Expense). Nonoperating income (expense) includes net interest expense (interest expense less interest income and capitalized interest), income from other companies and gains from dispositions of investments. Total nonoperating expense increased \$19 million in the first nine months of 2008 compared to the first nine months of 2007 due to the following:

- Net interest expense increased \$41 million primarily as a result of lower interest income due to lower interest rates.
- Gain on sale of investments in 2008 and 2007 consisted of \$78 million and \$7 million, respectively, related to the sale of our remaining interests in Copa and Holdings.
- Other nonoperating income (expense) included fuel hedge ineffectiveness gains of \$18 million and \$13 million in the first nine months of 2008 and 2007, respectively. This ineffectiveness was caused by our non-jet fuel derivatives experiencing a higher relative increase in value than the jet fuel being hedged, partially offset by the mark-to-market impact of fuel derivative contracts with a bankrupt counterparty. Additionally, we recorded a loss of \$29 million in the second quarter of 2008 to reflect the decline in the value of our student loan-related auction rate securities.

Income Taxes. We recorded a non-cash income tax credit of \$28 million in the second quarter of 2008 resulting from higher utilization of NOLs than had been previously anticipated. These NOLs expire from 2008 through 2010. Our effective tax rates differ from the federal statutory rate of 35% primarily due to changes in the valuation allowance, state taxes and expenses that are not deductible for federal income tax purposes.

Segment Results of Operations

Statistical Information. Certain statistical information for our segments' operations for the nine months ended September 30 is as follows:

Increase

	<u>2008</u>	<u>2007</u>	<u>(Decrease)</u>
Mainline Operations:			
Passengers (thousands)	37,714	38,649	(2.4)%
Revenue passenger miles (millions)	64,258	64,038	0.3 %
Available seat miles (millions)	79,124	77,691	1.8 %
Passenger load factor	81.2%	82.4%	(1.2) pts.
Cargo ton miles (millions)	769	757	1.6 %
Passenger revenue per available seat mile (cents)	11.13	10.49	6.1 %
Total revenue per available seat mile (cents)	12.51	11.66	7.3 %
Average yield per revenue passenger mile (cents)	13.71	12.73	7.7 %
Average fare per revenue passenger	\$236.09	\$213.24	10.7 %
Cost per available seat mile, including special charges (cents) (1)	12.49	10.75	16.2 %
Average price per gallon of fuel, including fuel taxes (cents)	337.67	206.60	63.4 %
Fuel gallons consumed (millions)	1,159	1,161	(0.2)%
Aircraft in fleet at end of period	351	368	(4.6)%
Average length of aircraft flight (miles)	1,496	1,452	3.0 %
Average daily utilization of each aircraft (hours)	11:22	11:38	(2.3)%

Regional Operations:

Passengers (thousands)	13,795	13,549	1.8 %
Revenue passenger miles (millions)	7,604	7,457	2.0 %
Available seat miles (millions)	9,938	9,495	4.7 %
Passenger load factor	76.5%	78.5%	(2.0) pts.
Passenger revenue per available seat mile (cents)	18.35	17.37	5.6 %
Average yield per revenue passenger mile (cents)	23.98	22.11	8.5 %
Fuel gallons consumed (millions)	240	234	2.6 %
Aircraft in fleet at end of period	279	263	6.1 %

1. Includes special charges which represented 0.15 and 0.04 cents per available seat mile for the nine months ended September 30, 2008 and 2007, respectively.

Mainline Results of Operations. Significant components of our mainline segment's operating results for the nine months ended September 30 are as follows (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Operating Revenue	<u>\$9,899</u>	<u>\$9,058</u>	\$ 841	9.3 %
Operating Expenses:				
Aircraft fuel and related taxes	3,912	2,399	1,513	63.1 %
Wages, salaries and related costs	2,129	2,365	(236)	(10.0)%
Aircraft rentals	500	509	(9)	(1.8)%
Landing fees and other rentals	593	554	39	7.0 %
Distribution costs	475	434	41	9.4 %
Maintenance, materials and repairs	478	479	(1)	(0.2)%
Depreciation and amortization	318	296	22	7.4 %
Passenger services	300	283	17	6.0 %

Special charges	115	30	85	NM
Other	<u>1,062</u>	<u>1,003</u>	<u>59</u>	5.9 %
	<u>9,882</u>	<u>8,352</u>	<u>1,530</u>	18.3 %
Operating Income	\$ <u>17</u>	\$ <u>706</u>	\$ <u>(689)</u>	(97.6)%

The variances in specific line items for the mainline segment are due to the same factors discussed under consolidated results of operations.

Regional Results of Operations. Significant components of our regional segment's operating results for the nine months ended September 30 are as follows (in millions, except percentage changes):

	<u>2008</u>	<u>2007</u>	Increase <u>(Decrease)</u>	% Increase <u>(Decrease)</u>
Operating Revenue	\$ <u>1,872</u>	\$ <u>1,651</u>	\$221	13.4 %
Operating Expenses:				
Wages, salaries and related costs	68	39	29	74.4 %
Regional capacity purchase, net	1,648	1,319	329	24.9 %
Aircraft rentals	236	236	-	NM
Landing fees and other rentals	50	38	12	31.6 %
Distribution costs	83	74	9	12.2 %
Depreciation and amortization	9	10	(1)	(10.0)%
Passenger services	15	11	4	36.4 %
Special charges	26	-	26	NM
Other	<u>43</u>	<u>24</u>	<u>19</u>	79.2 %
	<u>2,178</u>	<u>1,751</u>	<u>427</u>	24.4 %
Operating Loss	\$ <u>(306)</u>	\$ <u>(100)</u>	\$ <u>206</u>	NM

The reported results of our regional segment do not reflect the total contribution of the regional segment to our system-wide operations. The regional segment generates revenue for the mainline segment as it feeds passengers from smaller cities into our hubs. The variances in specific line items for the regional segment reflect generally the same factors discussed under consolidated results of operations, with the exception of wages, salaries and related costs. These expenses increased for the regional segment due to changes in how certain costs are handled under the new Amended ExpressJet CPA.

LIQUIDITY AND CAPITAL RESOURCES

Current Liquidity

As of September 30, 2008, we had \$2.9 billion in unrestricted cash, cash equivalents and short-term investments, which is \$83 million higher than at December 31, 2007. At September 30, 2008, we also had \$164 million of restricted cash, cash equivalents and short-term investments, which is primarily collateral for estimated future workers' compensation claims, credit card processing contracts, letters of credit and performance bonds. Restricted cash, cash equivalents and short-term investments at December 31, 2007 totaled \$179 million. Additionally, we held student loan-related auction rate securities reported as long-term investments at September 30, 2008 with a par value of \$147 million and a fair value of \$130 million.

Sources and Uses of Cash

Operating Activities. Net cash flows provided by operations for the nine months ended September 30, 2008 were \$3 million compared to \$1.1 billion in the same period in 2007. The decrease in cash flows provided by operations in 2008 compared to 2007 is primarily the result of higher fuel expenses.

Investing Activities. Cash flows used in investing activities for the nine months ended September 30 were as follows (in millions):

	<u>2008</u>	<u>2007</u>	Cash Increase (Decrease)
Capital expenditures	\$(390)	\$(228)	\$(162)
Aircraft purchase deposits refunded (paid), net	61	(145)	206
Proceeds from sales of short-term and long-term investments and change in restricted cash, cash equivalents and short-term investments, net	53	(70)	123
Proceeds from sales of property and equipment	76	10	66
Proceeds from sale of investments	<u>149</u>	<u>35</u>	<u>114</u>
	<u>\$ (51)</u>	<u>\$ (398)</u>	<u>\$ 347</u>

During the nine months ended September 30, 2008, capital expenditures increased over the corresponding prior year period primarily due to the acquisition of slots at London's Heathrow Airport and increased spending on aircraft-related projects, such as Audio/Video on Demand entertainment systems for Boeing 777 and 757 aircraft.

We have substantial commitments for capital expenditures, including for the acquisition of new aircraft. Projected net capital expenditures for 2008 are as follows (in millions):

Fleet related	\$ 187
Non-fleet	270
Spare parts and capitalized interest	<u>60</u>
Total	\$ 517
Aircraft purchase deposits refunded	<u>(92)</u>
Projected net capital expenditures	<u>\$ 425</u>

Projected non-fleet capital expenditures for the year are primarily slots at London's Heathrow Airport, ground service equipment, aircraft-related projects and technology and terminal enhancements. While some of our projected capital expenditures are related to projects to which we have committed, a significant number of projects can be deferred. Should economic conditions warrant, we will reduce our capital expenditures, and will be able to do so without materially impacting our operations.

In October 2008, we reached an agreement in principle with Boeing to reschedule the delivery of certain aircraft to future years. As a result of this agreement and other changes to our fleet plan since December 31, 2007, our contractual obligations for aircraft purchase commitments in 2009 will decrease by approximately \$600 million from the amount reported in our 2007 Form 10-K.

We sold five owned Boeing 737-500 aircraft in the first nine months of 2008 and received cash proceeds of \$68 million. We have aircraft sale contracts with three different buyers to sell 20 Boeing 737-500 aircraft. The three buyers of these aircraft have requested, and in some cases we have agreed to, a delay in the delivery dates due to the buyers' difficulties in obtaining financing for the aircraft. In light of these delays, we now expect to deliver these aircraft in the period from the fourth quarter of 2008 through the end of 2009. We are continuing to negotiate with the buyers in these transactions. We hold cash deposits that secure the buyers' obligations under the aircraft sale contracts, and we are entitled to damages under the aircraft sale contracts if the buyers do not take delivery of the aircraft when required. We expect to operate each aircraft scheduled for delivery in 2009 until shortly before its delivery date. These pending transactions are subject to customary closing conditions, some of which are outside of our control, and we cannot give any assurances that the buyers of these aircraft will be able to obtain financing for these transactions, that there will not be further delays in deliveries or that the closing of these transactions will occur.

In May 2008, we sold all of our remaining shares of Copa Class A common stock for net proceeds of \$149 million and recognized a gain of \$78 million.

In January 2007, we sold substantially all of our shares of Holdings common stock to third parties for cash proceeds of \$35 million. We sold the remaining shares of Holdings common stock to third parties in April 2007 and no longer own any shares of Holdings common stock.

Financing Activities. Cash flows provided by (used in) financing activities for the nine months ended September 30 were as follows (in millions):

<u>2008</u>	<u>2007</u>	Cash Increase (Decrease)
-------------	-------------	--------------------------------

Payments on long-term debt and capital lease obligations	\$(341)	\$ (337)	\$ (4)
Proceeds from issuance of long-term debt	497	25	472
Proceeds from public offering of common stock	162	-	162
Proceeds from issuance of common stock pursuant to stock plans	<u>13</u>	<u>30</u>	<u>(17)</u>
	<u>\$ 331</u>	<u>\$(282)</u>	<u>\$ 613</u>

Cash flows provided by financing activities increased due to new borrowings and proceeds from a public offering of 11 million shares of Class B common stock in the first nine months of 2008.

On June 30, 2008, we entered into a loan facility to finance a portion of the pre-delivery payment requirements under the aircraft purchase agreements for 66 new Boeing aircraft originally scheduled for delivery between July 1, 2008 and the end of 2011. We borrowed \$113 million under this facility on June 30, 2008. We no longer expect to make a second borrowing under this facility in the amount of \$16 million in December 2008, as we had previously planned, due to our agreement in principle for the rescheduling of the delivery dates of 16 Boeing 737 aircraft. Our obligations under the facility are secured by our rights under our purchase agreements for 737 and 777 aircraft on order with Boeing.

On June 10, 2008, we entered into an amendment and restatement of our Bankcard Agreement with Chase, under which Chase purchases frequent flyer mileage credits to be earned by OnePass members for making purchases using a Continental branded credit card issued by Chase. The Bankcard Agreement provides for a payment to us of \$413 million, of which \$235 million relates to the advance purchase of frequent flyer mileage credits for the year 2016 and the balance of which is in consideration for certain other commitments with respect to the co-branding relationship, including the extension of the term of the Bankcard Agreement until December 31, 2016. In connection with the advance purchase of mileage credits, we have provided a security interest to Chase in certain routes and slots, including our slots at London's Heathrow Airport. The \$235 million purchase of mileage credits has been treated as a loan from Chase with an implicit interest rate of 6.18% and is reported as long-term debt in our consolidated balance sheet. Our liability will be reduced ratably in 2016 as the mileage credits are issued to Chase.

In April 2007, we obtained financing for 12 Boeing 737-800s and 18 Boeing 737-900ERs. We applied a portion of this financing to 23 Boeing aircraft delivered to us in the first nine months of 2008 and recorded related debt of \$875 million. We expect to apply the remainder of this financing to the next seven Boeing 737 aircraft scheduled for delivery from October 2008 through the first quarter of 2009, although the actual delivery dates for these aircraft are being delayed by Boeing pending the resolution of the strike by its machinists. Pass-through trusts raised \$1.1 billion through the issuance of three classes of pass-through certificates. Class A certificates, with an aggregate principal amount of \$757 million, bear interest at 5.983%, Class B certificates, with an aggregate principal amount of \$222 million, bear interest at 6.903% and Class C certificates, with an aggregate principal amount of \$168 million, bear interest at 7.339%. The proceeds from the sale of the certificates are initially being held by a depository in escrow for the benefit of the certificate holders until we use such funds to purchase the aircraft. These escrowed funds are not guaranteed by us and are not reported as debt on our consolidated balance sheet at September 30, 2008 because the proceeds held by the depository are not our assets and interest earned on the proceeds, as well as any unused proceeds, will be distributed directly to the certificate holders.

As we take delivery of each of the aircraft in 2008 or 2009, we will issue equipment notes to the trusts, which will purchase such notes with a portion of the escrowed funds. We will use the proceeds to finance the purchase of the aircraft and will record the principal amount of the equipment notes that we issue as debt on our consolidated balance sheet. Principal payments on the equipment notes and the corresponding distribution of these payments to certificate holders will begin in April 2010 and will end in April 2022 for Class A and B certificates and April 2014 for Class C certificates. Additionally, the Class A and B certificates have the benefit of a liquidity facility under which a third party agrees to make up to three semiannual interest payments on the certificates if a default in the payment of interest occurs.

During the second quarter of 2008, we obtained financing for two new Boeing 737-900ER aircraft and separately entered into a loan agreement secured by four Boeing 757-200 aircraft and that will also be secured by one Boeing 737-700 aircraft when the loan for this aircraft is funded in November 2008. During the third quarter of 2008, we entered into a loan agreement that will be secured by three Boeing 757-200 aircraft and four Boeing 737-700 aircraft when the loans for these aircraft are funded in November 2008. During the first nine months of 2008, we borrowed \$135 million secured by two Boeing 737-900ER aircraft and four Boeing 757-200 aircraft. We expect to receive the remaining loan proceeds of \$133 million related to three Boeing 757-200 and five Boeing 737-700 aircraft described above in November 2008.

In October 2008, we reached an agreement in principle with Boeing for it to provide backstop financing for all of the additional 14 Boeing 737-900ER aircraft scheduled for delivery in 2009. As a result, we have obtained financing or financing commitments for all 21 Boeing aircraft scheduled for delivery through the end of 2009, subject to customary closing conditions. However, we do not have backstop financing or any other financing currently in place for the balance of the Boeing aircraft on order. Further financing will be needed to satisfy our capital commitments for our firm order aircraft and other related capital expenditures. We can provide no assurance that the backstop financing or any other financing not already in place for our aircraft deliveries will be available to us when needed on acceptable terms or at all. Since the commitments for firm order aircraft are non-cancelable and assuming no breach of the agreement by Boeing, if we are unable to obtain financing and cannot otherwise satisfy our commitment to purchase these aircraft, the manufacturer could exercise its rights and remedies under applicable law, such as seeking to terminate the contract for a material breach, selling the aircraft to one or more other parties and suing us for damages to recover for any resulting losses incurred by the manufacturer.

During the first nine months of 2007, we incurred \$190 million in principal amount of floating rate indebtedness pursuant to existing finance agreements secured by two 777-200ER aircraft that were delivered in March and April 2007. This indebtedness consists of \$156 million of senior notes due in 2019 and \$34 million of junior notes due in 2014.

In January 2007, \$170 million in principal amount of our 4.5% Convertible Notes due on February 1, 2007 was converted by the holders into 4.3 million shares of our Class B common stock at a conversion price of \$40 per share. The remaining \$30 million in principal amount was paid on February 1, 2007.

Other Liquidity Matters

Short-term and Long-term Investments. At September 30, 2008, we held student loan-related auction rate securities with a par value of \$292 million and a fair value of \$260 million. This total includes \$140 million par value (\$125 million fair value) classified as short-term investments, \$5 million (par and fair value) that is collateral for estimated future workers' compensation claims and is classified as restricted cash, cash equivalents and short-term investments and \$147 million par value (\$130 million fair value) classified as long-term investments. At December 31, 2007, these securities totaled \$387 million (par and fair value), including \$285 million in short-term investments and \$102 million in restricted cash, cash equivalents and short-term investments. These securities

are variable-rate debt instruments with contractual maturities generally greater than ten years and whose interest rates are reset every 7, 28 or 35 days, depending on the terms of the particular instrument. These securities are secured by pools of student loans guaranteed by state-designated guaranty agencies and reinsured by the United States government. All of the auction rate securities we hold are senior obligations under the applicable indentures authorizing the issuance of the securities. Auctions for these securities began failing in the first quarter of 2008 and continued to fail through the third quarter, resulting in our continuing to hold such securities and the issuers of these securities paying interest adjusted to the maximum contractual rates. Accordingly, we reclassified such securities to long-term assets during the first quarter of 2008. However, as of September 30, 2008, we concluded that it was appropriate to report auction rate securities with a par value of \$145 million and a fair value of \$130 million as current assets. We made this determination after one broker offered us a put right permitting us to sell to the broker at par in 2010 all auction rate securities previously purchased from that broker. The broker has also committed to loan us 75% of the par value of these securities at any time until the put is exercised. Based on these developments, we determined that these securities had sufficient liquidity to be reported as short-term investments at September 30, 2008. Based upon our cash requirements and other existing liquid assets, the failure of these auctions and our continuing to hold these securities did not have a material impact on our liquidity during the quarter.

Financeable Assets. At September 30, 2008, we had approximately \$5.9 billion (including current maturities) of long-term debt and capital lease obligations. We do not currently have any undrawn lines of credit or revolving credit facilities and substantially all of our otherwise readily financeable assets are encumbered. However, our unrestricted investment in student loan-related auction rate securities are not pledged as collateral under any of our debt. We were in compliance with all debt covenants at September 30, 2008.

Credit Ratings. At September 30, 2008, our senior unsecured debt was rated B3 by Moody's and B- by Standard & Poor's. These ratings are significantly below-investment grade. Although we obtained favorable terms in the April 2007 issuance of \$1.1 billion in pass through certificates (discussed above under "Sources and Uses of Cash"), our current credit ratings increase the costs we incur when issuing debt, adversely affect the terms of such debt and limit our financing options. Additional reductions in our credit ratings could further increase our borrowing costs and reduce the availability of financing to us in the future. We do not have any debt obligations that would be accelerated as a result of a credit rating downgrade. However, we would have to post additional collateral of approximately \$285 million under our domestic bank-issued credit card and American Express processing agreements if our senior unsecured debt rating were to fall below Caa3 as rated by Moody's or CCC- as rated by Standard & Poor's. If requested, we would also be required to post additional collateral of up to \$39 million under our worker's compensation program if our senior unsecured debt rating were to fall below B3 as rated by Moody's or CCC+ as rated by Standard & Poor's.

Bank Card Processing Agreements. In connection with the amendment of the Bankcard Agreement, we also amended our domestic bank-issued credit card processing agreement to extend the term of the agreement until December 31, 2016 and modify certain provisions in the agreement. As a result of the amendment of that processing agreement, the requirement that we maintain a minimum EBITDAR (generally, earnings before interest, income taxes, depreciation, amortization, aircraft rentals, certain nonoperating income (expense) and special items) to fixed charges (interest and aircraft rentals) ratio for the preceding 12 months has been eliminated as a trigger requiring the posting of additional collateral.

The covenants contained in the Chase processing agreement require that we post additional cash collateral if we fail to maintain (1) a minimum level of unrestricted cash, cash equivalents and short-term investments, (2) a minimum ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities of 0.25 to 1.0 or (3) a minimum senior unsecured debt rating of at least Caa3 and CCC- from Moody's and Standard & Poor's, respectively.

We have also recently entered into a new credit card processing agreement with American Express. Under the terms of that agreement, if a covenant trigger under the Chase processing agreement results in our posting additional collateral under that agreement, we would be required to post additional collateral under the American Express processing agreement. The amount of additional collateral required under the American Express processing agreement would be based on a percentage of the value of unused tickets (for travel at a future date) purchased by customers using the American Express card. The percentage for purposes of this calculation is the same as the percentage applied under the Chase processing agreement, after taking into account certain other risk protection maintained by American Express.

Under these processing agreements and based on our current air traffic liability exposure (as defined in each agreement), we would be required to post collateral up to the following amounts if we failed to comply with the covenants described above:

- a total of \$95 million if our unrestricted cash, cash equivalents and short-term investments balance falls below \$2.0 billion;
- a total of \$285 million if we fail to maintain the minimum unsecured debt ratings specified above;
- a total of \$538 million if our unrestricted cash, cash equivalents and short-term investments balance (plus any collateral posted at Chase) falls below \$1.4 billion or if our ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities falls below 0.25 to 1.0; and
- a total of \$1.2 billion if our unrestricted cash, cash equivalents and short-term investments balance (plus any collateral posted at Chase) falls below \$1.0 billion or if our ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities falls below 0.22 to 1.0.

The amounts shown above are incremental to the current collateral we have posted with these companies.

Depending on our unrestricted cash, cash equivalents and short-term investments balance at the time, the posting of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the minimum balance of \$1.0 billion required under our \$350 million secured term loan facility, resulting in a default under that facility. We are currently in compliance with all of the covenants under the agreements.

Fuel Hedges. Because our fuel derivatives were in a loss position at September 30, 2008 resulting from the recent significant decline in crude oil prices, we were required to post collateral with our counterparties totaling \$22 million. These amounts are reported in prepayments and other current assets in our consolidated balance sheet. At October 15, 2008, our required collateral was \$71 million due to decreases in crude oil prices.

Pension Plans. We have noncontributory defined benefit pension plans in which substantially all of our U.S. employees participate, other than Chelsea Food Services and CMI employees. Future benefit accruals for our pilots under the pilot-only defined benefit pension plan ceased as of May 31, 2005. Funding requirements for defined benefit pension plans are determined by government regulations. During the first nine months of 2008, we contributed \$102 million to our defined benefit pension plans, satisfying our minimum funding requirements during calendar year 2008.

Due to the significant decline in the aggregate value of the assets held by the trust for our defined benefit pension plans since December 2007, we now estimate that our minimum funding requirements with respect to our defined benefit pension plans will be greater than what we have previously disclosed. Based on recent performance, we now estimate that our minimum funding requirements for 2009 will be approximately \$110 million. This amount represents our estimate of the minimum funding requirements as determined by government regulations, and is subject to change based on numerous assumptions, including the performance of the assets in the plans. See "Critical Accounting Policies and Estimates" in Part II, Item 7 of our 2007 Form 10-K for a discussion of our assumptions regarding our pension plans.

Other Matters

Geographic Revenue Allocation. During 2008, we changed our methodology for allocating revenue associated with our frequent flyer program to geographic areas of our mainline segment. The change did not impact segment or consolidated passenger revenue, but did affect passenger revenues for the geographic areas within the mainline segment. Prior year revenues by region have been reclassified to reflect this change. Mainline passenger revenue by area for the fourth quarter of 2007 reflecting this change is as follows (in millions):

Domestic	\$1,389
Trans-Atlantic	646
Latin America	364
Pacific	<u>242</u>
Total Mainline	<u>\$2,641</u>

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our 2007 Form 10-K except as follows:

Aircraft Fuel. As of September 30, 2008, our projected fuel requirements were hedged as follows, excluding contracts with a bankrupt counterparty:

	<u>Maximum Price</u>		<u>Minimum Price</u>	
	<u>% of Expected Consumption</u>	<u>Weighted Average Price (per gallon)</u>	<u>% of Expected Consumption</u>	<u>Weighted Average Price (per gallon)</u>
<u>Fourth Quarter 2008</u>				
WTI crude oil collars	31%	\$3.44	30%	\$2.82
WTI crude oil call options	22	3.21	N/A	N/A
Heating oil collars	<u>4</u>	3.96	<u>4</u>	3.63
Total	<u>57%</u>		<u>34%</u>	
<u>2009</u>				
WTI crude oil collars	14%	\$3.40	14%	\$2.53
WTI crude oil call options	<u>2</u>	3.21	<u>N/A</u>	N/A
Total	<u>16%</u>		<u>14%</u>	

At September 30, 2008, our fuel derivatives, including contracts with a bankrupt counterparty, were in a net loss position of \$174 million. This fair value is reported in accrued other current liabilities in our consolidated balance sheet. We estimate that a 10% decrease in the price of crude oil and heating oil at September 30, 2008 would increase our obligation related to the fuel derivatives outstanding at that date by approximately \$100 million.

The parent company of one of the counterparties to our fuel derivative contracts declared bankruptcy on September 15, 2008. The counterparty filed for bankruptcy protection on October 3, 2008 and has ceased writing new contracts. Based on these developments concerning the counterparty's creditworthiness, we determined that our fuel derivative contracts with this counterparty, which had a fair value of a net liability of \$38 million at September 15, 2008 and extend through March 2009, are no longer considered highly effective hedges. Therefore, we discontinued hedge accounting for these contracts as of September 15, 2008 and all future changes in the contracts' fair values will be reported in earnings. These contracts represent 16% and 5% of our expected fuel needs for the fourth quarter of 2008 and the year 2009, respectively.

Foreign Currency. At September 30, 2008, we had forward contracts outstanding to hedge the following cash inflows (primarily from passenger ticket sales) in foreign currencies:

- 32% of our projected Canadian dollar-denominated cash inflows through 2008
- 29% of our projected British pound-denominated cash inflows through 2008
- 24% of our projected Japanese yen-denominated cash inflows through 2009
- 8% of our projected euro-denominated cash inflows through 2009

At September 30, 2008, the fair value of our foreign currency hedges was \$11 million and is included in prepayments and other assets in our consolidated balance sheet. We estimate that a uniform 10% strengthening in the value of the U.S. dollar relative to each foreign currency would have the following impact on our existing forward contracts at September 30, 2008 (in millions):

	<u>Increase in Fair Value</u>	<u>Increase in Underlying Exposure</u>	<u>Resulting Net Loss</u>
Canadian dollar	\$ 3	\$ (6)	\$ (3)
British pound	7	(11)	(4)
Japanese yen	14	(44)	(30)
Euro	10	(71)	(61)

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer performed an evaluation of our disclosure controls and procedures, which have been designed to provide reasonable assurance that the information required to be disclosed by Continental in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to Continental's management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. They concluded that the controls and procedures were effective as of September 30, 2008 to provide reasonable assurance of the achievement of these objectives. While our disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well it may be designed or administered.

Changes in Internal Controls. There was no change in our internal control over financial reporting during the quarter ended September 30, 2008, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

During the period between 1997 and 2001, we reduced or capped the base commissions that we paid to domestic travel agents, and in 2002 we eliminated those base commissions. These actions were similar to those also taken by other air carriers. We are a defendant, along with several other air carriers, in two lawsuits brought by travel agencies that purportedly opted out of a prior class action entitled Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C., Eastern District of North Carolina), filed on June 21, 2000, in which the defendant airlines prevailed on summary judgment that was upheld on appeal. These similar suits against Continental and other major carriers allege violations of antitrust laws in reducing and ultimately eliminating the base commissions formerly paid to travel agents. The pending cases are Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 2003 and Swope Travel Agency, et al. v. Orbitz LLC et al. (U.S.D.C., Eastern District of Texas), filed on June 5, 2003. By order dated November 10, 2003, these actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. On September 14, 2006, the judge for the consolidated lawsuit issued an order dismissing 28 plaintiffs in the Swope case for their failure to properly opt-out of the Hall case. Consequently, a total of 90 travel agency plaintiffs remained in the two cases. On October 29, 2007, the judge for the consolidated lawsuit dismissed the case for failure to meet the heightened pleading standards established earlier in 2007 by the U.S. Supreme Court's decision in Bell Atlantic Corp. v. Twombly. The plaintiffs have appealed to the Sixth Circuit Court of Appeals. In each of these cases, we believe the plaintiffs' claims are without merit, and we intend to vigorously defend any appeal. Nevertheless, a final adverse court decision awarding substantial money damages could have a material adverse effect on our results of operations, financial condition or liquidity.

Item 1A. Risk Factors

Part I, Item 1A, "Risk Factors," of our 2007 Form 10-K includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our 2007 Form 10-K.

Risk Factors Relating to the Company

Fuel prices or disruptions in fuel supplies could have a material adverse effect on us. Expenditures for fuel and related taxes represent the largest single cost of operating our business. Our operations depend on the availability of jet fuel supplies, and our results are significantly impacted by changes in the cost of fuel. Jet fuel prices, which have been extremely volatile in recent months, have increased significantly in 2007 and 2008 and continue to be very high compared to historical levels. Although we have experienced some success in raising ticket prices (primarily through increased fuel surcharges) and adding or increasing other fees, we have been unable to raise fares (including fuel surcharges) or fees sufficiently to keep pace with recent significant increases in fuel prices, and we may not be able to raise fares or fees further to offset escalating fuel prices in the future. Conversely, lower fuel prices may result in lower fares through the reduction or elimination of fuel surcharges. Additionally, lower fuel prices may result in increased industry capacity, especially to the extent that reduced fuel costs justify increased utilization by airlines of less fuel efficient aircraft that are unprofitable during periods of higher fuel prices. We are also at risk for all of our regional carriers' fuel costs on flights flown for us under capacity purchase agreements.

Fuel prices and supplies are influenced significantly by international political and economic circumstances, such as increasing demand by developing nations, conflicts or instability in the Middle East or other oil producing regions and diplomatic tensions between the U.S. and oil producing nations, as well as OPEC production decisions, disruptions of oil imports, environmental concerns, weather, refinery outages or maintenance and other unpredictable events. For example, a major hurricane making landfall along the U.S. Gulf Coast could cause widespread disruption to oil production, refinery operations and pipeline capacity in that region, possibly resulting in significant increases in the price of jet fuel and diminished availability of jet fuel supplies.

Further increases in jet fuel prices or disruptions in fuel supplies, whether as a result of natural disasters or otherwise, could have a material adverse effect on our results of operations, financial condition and liquidity.

We routinely hedge a portion of our future fuel requirements. There can be no assurance that, at any given point in time, our hedge contracts will provide any particular level of protection against increased fuel costs or that our counterparties will be able to perform under our hedge contracts, such as in the case of a counterparty's bankruptcy. Additionally, a deterioration in our financial condition could negatively affect our ability to enter into new hedge contracts in the future.

We have decided to change our global airline alliance, which could involve significant transition and integration risks. Earlier this year, we entered into framework agreements with United, Lufthansa and Air Canada, pursuant to which we are winding down and exiting our participation in our current alliance, SkyTeam, and plan to join United, Lufthansa and Air Canada (and other member airlines) in Star Alliance. This change from SkyTeam to Star Alliance could involve significant transition and integration risks, both because we are required to end our participation in SkyTeam and wind down our existing SkyTeam relationships prior to our being able to participate in Star Alliance and because we may incur costs and/or a loss of revenue (or a delay in anticipated increased revenue from the new alliance) in connection with these changes. The significant transition and integration risks include:

- our inability to terminate our existing agreements with SkyTeam members and to commence participation in Star Alliance in the transition period we have anticipated, including as a result of the failure of Delta and Northwest to consummate their proposed merger;
- significant revenue dilution as we wind down our participation in SkyTeam and/or insufficient or delay in receipt of revenue from our participation in Star Alliance, including due to an inability to maintain our key customer and business relationships as we transition to Star Alliance;
- our incurrence, as a result of the wind down of our SkyTeam relationships, of costs in excess of our expectations and/or costs of an unanticipated nature, the amount and timing of which cannot be estimated at this time, but which could be material individually or in the aggregate;
- an inability to join or a delay in joining Star Alliance due to lack of applicable approvals or difficulty in satisfying entrance requirements, including the requirement that we enter into certain bilateral agreements with each member of Star Alliance; and
- difficulties integrating our technology processes with Star Alliance members.

In addition, the full implementation of some of the arrangements contemplated by our framework agreements require the approval of domestic and foreign regulatory agencies. These agencies may impose requirements, limitations or costs on us or on Star Alliance members, or require us or them to divest slots, gates, routes or other assets, which may impair the value to us of entering the alliance or make participation in the alliance by us or them unattractive, and in certain cases could prevent us from consummating the transactions contemplated by the framework agreements.

If any of these risks or costs materialize, they could have a material adverse effect on our business, results of operations and financial condition.

Our high leverage may affect our ability to satisfy our significant financing needs or meet our obligations. As is the case with many of our principal competitors, we have a high proportion of debt compared to our capital. We have a significant amount of fixed obligations, including debt, aircraft leases and financings, leases of airport property and other facilities and pension funding obligations. At September 30, 2008, we had approximately \$5.9 billion (including current maturities) of long-term debt and capital lease obligations.

In addition, we have substantial commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. We have recently obtained a backstop financing commitment for up to 14 Boeing 737-900ER aircraft scheduled for delivery in 2009 provided as part of the agreement in principle with Boeing to reschedule aircraft and, as a result, we have obtained financing or financing commitments for all 21 Boeing aircraft scheduled for delivery through the end of 2009, subject to customary conditions. However, we do not have backstop financing or any other financing currently in place for our other aircraft on order. Further financing will be needed to satisfy our capital commitments for our firm aircraft and other related capital expenditures. Recent disruptions in the global credit markets have resulted in a diminished availability of financing and significantly higher costs for financing that is obtainable. We can provide no assurance that the backstop financing or any other financing not already in place for our aircraft deliveries and other capital needs will be available to us when needed on acceptable terms or at all.

Failure to meet our financial covenants would adversely affect our liquidity. Our bank-issued credit card processing agreement contains financial covenants which require, among other things, that we post additional cash collateral if we fail to maintain (1) a minimum level of unrestricted cash, cash equivalents and short-term investments, (2) a minimum ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities of 0.25 to 1.0 or (3) a minimum senior unsecured debt rating of at least Caa3 and CCC- from Moody's and Standard & Poor's, respectively.

We have also recently entered into a new credit card processing agreement with American Express. Under the terms of that agreement, if a covenant trigger under the Chase processing agreement results in our posting additional collateral under that agreement, we would be required to post additional collateral under the American Express processing agreement. The amount of additional collateral required under the American Express processing agreement would be based on a percentage of the value of unused tickets (for travel at a future date) purchased by customers using the American Express card. The percentage for purposes of this calculation is the same as the percentage applied under the Chase processing agreement, after taking into account certain other risk protection maintained by American Express.

Under these processing agreements and based on our current air traffic liability exposure (as defined in each agreement), we would be required to post collateral up to the following amounts if we failed to comply with the covenants described above:

- a total of \$95 million if our unrestricted cash, cash equivalents and short-term investments balance falls below \$2.0 billion;
- a total of \$285 million if we fail to maintain the minimum unsecured debt ratings specified above;
- a total of \$538 million if our unrestricted cash, cash equivalents and short-term investments balance (plus any collateral posted at Chase) falls below \$1.4 billion or if our ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities falls below 0.25 to 1.0; and
- a total \$1.2 billion if our unrestricted cash, cash equivalents and short-term investments balance (plus any collateral posted at Chase) falls below \$1.0 billion or if our ratio of unrestricted cash, cash equivalents and short-term investments to current liabilities falls below 0.22 to 1.0.

The amounts shown above are incremental to the current collateral we have posted with these companies.

Depending on our unrestricted cash, cash equivalents and short-term investments balance at the time, the posting of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the minimum balance of \$1.0 billion required under our \$350 million secured term loan facility, resulting in a default under that facility. We are currently in compliance with all of the covenants under these agreements.

Our obligations for funding our defined benefit pension plans are affected by factors beyond our control. We have defined benefit pension plans covering substantially all of our U.S. employees other than employees of Chelsea Food Services and CMI. The timing and amount of our funding requirements under these plans depend upon a number of factors, including labor negotiations and changes to pension plan benefits as well as factors outside of our control, such as asset returns, interest rates and changes in pension laws. Changes to these and other factors that can significantly increase our funding requirements could have a material adverse effect on our financial condition.

Our net operating loss carryforwards may be limited. At December 31, 2007, we had estimated net operating loss carryforwards ("NOLs") of \$3.7 billion for federal income tax purposes that expire beginning in 2009 and continuing through 2025. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period.

In the event of an ownership change, utilization of our NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate (which is 4.65% for September 2008). Any unused annual limitation may be carried over to later years.

As a result of our common stock trading at depressed market prices in recent months (relative to the prices at which our stock has generally traded during the previous three-year period), the cost associated with acquiring a sufficient number of shares of our common stock to become a holder of 5% or more of the outstanding shares has decreased significantly. This decline in the cost of reaching the 5% ownership threshold has increased the likelihood that we will experience an "ownership change" for purposes of Section 382, as increases in share holdings by, or that result in a person becoming, a holder of 5% or more of the outstanding shares of our common stock are aggregated for purposes of determining whether such a change has occurred. Although we cannot currently predict whether or when such an "ownership change" may occur, if we were to experience an ownership change under current conditions, our annual NOL utilization could be limited to approximately \$80 million per year. The imposition of this limitation on our ability to use our NOLs to offset future taxable income could cause U.S. federal income taxes to be paid earlier than otherwise would be paid if such limitation were not in effect and could cause such NOLs to expire unused, reducing or eliminating the benefit of such NOLs. In addition, depending on the market value of our common stock at the time of any such ownership change, we may be required to recognize a significant non-cash tax charge, the amount of which we cannot estimate at this time.

Risk Factors Relating to the Industry

The airline industry is highly competitive and susceptible to price discounting. The U.S. airline industry is characterized by substantial price competition, especially in domestic markets. Carriers use discount fares to stimulate traffic during periods of slack demand or when they begin service to new cities or have excess capacity to generate cash flow and to establish or increase market share. Some of our competitors have substantially greater financial resources (including more favorable hedges against fuel price increases) and/or lower cost structures than we do. In recent years, the domestic market share held by low-cost carriers has increased significantly and is expected to continue to increase, which has significantly changed the airline industry. The increased market presence of low-cost carriers, which engage in substantial price discounting, has diminished the ability of the network carriers to maintain sufficient pricing structures in domestic markets to achieve profitability. We cannot predict whether or for how long these trends will continue.

In addition to price competition, airlines also compete for market share by increasing the size of their route system and the number of markets they serve. Several of our domestic competitors are continuing to increase their international capacity, including service to some destinations that we currently serve. Additionally, the "open skies" agreement between the U.S. and the European Union, which became effective on March 30, 2008, is resulting in increased competition from European and U.S. airlines in these international markets, and may give rise to additional consolidation or better integration opportunities among European carriers. The increased competition in these international markets, particularly to the extent our competitors engage in price discounting, may have a material adverse effect on our results of operations, financial condition or liquidity.

We are also facing stronger competition from carriers that have emerged from bankruptcy, including Delta, Northwest, US Airways and United. Carriers typically emerge from bankruptcy with substantially lower costs than ours achieved by cost reductions through, among other things, reducing or discharging debt, lease and pension obligations and reducing wages and benefits. Additionally, we may face stronger competition from carriers that participate in industry consolidation, including the proposed merger of Delta and Northwest discussed below, and from expanded airline alliances and joint ventures. Through consolidation, carriers have the opportunity to significantly expand the reach of their networks, which is of primary importance to business travelers, and to achieve cost reductions by eliminating redundancy in their networks and their management structures. Through participation in airline alliances and/or joint ventures, carriers granted anti-trust immunity by the appropriate regulatory authorities are able to coordinate their routes, pool their revenues and costs and enjoy other mutual benefits, such as frequent flier program reciprocity, achieving many of the benefits of consolidation. For example, Air France-KLM, Delta and Northwest have received anti-trust immunity to form a new trans-Atlantic joint venture among those airlines and to coordinate routes, fares, schedules and other matters among those airlines, Alitalia and CSA Czech Airlines. American Airlines, British Airways and Iberia have requested anti-trust immunity for a similar trans-Atlantic joint venture, which would also involve many of the same benefits. There may be additional consolidation or changes in airline alliances and/or joint ventures in the future, any of which could change the competitive landscape for the airline industry and have a material affect on us.

The airline industry may experience further consolidation that would affect our competitive position. Since its deregulation in 1978, the U.S. airline industry has undergone substantial consolidation and additional consolidation may occur in light of the announcement in April 2008 by Delta and Northwest of their definitive agreement to merge. On September 25, 2008, Delta and Northwest reported that their respective stockholders had approved the pending merger between the airlines, which remains subject to the approval of the U.S. Department of Justice. If consummated, this merger will change the competitive environment for us and the entire airline industry. As a result of the announcement of the Delta/Northwest merger agreement, we conducted a comprehensive review of our strategic alternatives and on April 27, 2008 we announced that we had determined that the best course for us was not to merge with another airline at such time. We cannot predict whether the proposed merger of Delta and Northwest will occur, or the impact on us of this or any other consolidation within the airline industry.

Expanded government regulation could further increase our operating costs and restrict our ability to conduct our business. Airlines are subject to extensive regulatory and legal compliance requirements that result in significant costs and can adversely affect us. Additional laws, regulations, airport rates and charges and growth constraints have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenue. In addition, to address concerns about airport congestion, the FAA has designated certain airports, including Newark Liberty International Airport ("New York Liberty") and New York's John F. Kennedy International Airport ("Kennedy") and LaGuardia Airport ("LaGuardia") as "high density traffic airports," and imposed operating restrictions at these three airports. Although we do not believe that these current operating restrictions will have a material adverse effect on our operations at New York Liberty, we cannot predict the impact of future capacity constraints or allocations or other restrictions on our operations that might be imposed by the FAA, Congress or other regulators, which might have a material adverse effect on us.

The FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures.

Some FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement and other environment concerns, commuter aircraft safety and increased inspections and maintenance procedures to be conducted on older aircraft.

Many aspects of airlines' operations also are subject to increasingly stringent federal, state, local and foreign laws protecting the environment, including the imposition of additional taxes on airlines or their passengers. Future regulatory developments in the U.S. and abroad could adversely affect operations and increase operating costs in the airline industry. For example, future actions that may be taken by the U.S. government, foreign governments (including the European Union), or the International Civil Aviation Organization to address concerns about climate change and air emissions from the aviation sector are unknown at this time, but the effect on us and our industry is likely to be adverse and could be significant. Among those potential actions is the European Union's consideration of an emissions trading scheme applicable to all flights operating in the European Union, including flights to and from the United States.

Additional restrictions on airline routes and takeoff and landing slots have been or may be proposed that could affect rights of ownership and transfer. Moreover, the FAA recently issued rules that maintain current slot holdings of airlines at New York Liberty, Kennedy and LaGuardia, except for the annual withdrawal through 2013 and auction to the highest bidder of (i) 2% of each airline's slots at New York Liberty and Kennedy that exceed 20 and (ii) 2% of each airline's slots at LaGuardia. In addition, these rules provide that the FAA will withdraw and retire 5% of each airline's slots at LaGuardia. The withdrawal and auctioning to the highest bidder of our slots could have a material adverse effect on us by causing us to incur substantial costs to successfully bid for them or by reducing our slot portfolio, requiring us to terminate flights associated with these slots and increasing our costs to operate at these airports.

Further, the ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because appropriate slots or facilities are not made available. We cannot provide assurance that current laws and regulations, or laws or regulations enacted in the future, will not adversely affect us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

From July 1, 2008 through October 15, 2008, Continental borrowed a total of \$222 million to finance the deliveries of four new Boeing 737-800 aircraft and two new Boeing 737-900ER aircraft by issuing equipment notes ("Equipment Notes") secured by those aircraft. This amount is in addition to the \$689 million borrowed in the period from January 1, 2008 to June 30, 2008 to finance the deliveries of 18 Boeing aircraft through the issuance of such Equipment Notes. The funds used to purchase the Equipment Notes were raised in April 2007 through the sale of \$1.1 billion of three classes of pass-through certificates. The proceeds from this sale of pass-through certificates are held in escrow pending delivery of each aircraft.

Pursuant to the April 2007 note purchase agreement (the "Note Purchase Agreement"), the Equipment Notes are issued in three series: Series A, bearing interest at the rate of 5.983% per annum, Series B, bearing interest at the rate of 6.903% per annum, and Series C, bearing interest at the rate of 7.339% per annum. The interest on the Equipments Notes and the escrowed funds is payable semiannually on each April 19 and October 19, beginning on October 19, 2007. The principal payments on the Equipment Notes are scheduled on April 19 and October 19 in certain years, beginning on April 19, 2010. The final payments will be due on April 19, 2022, in the case of the Series A and Series B Equipment Notes, and April 19, 2014, in the case of the Series C Equipment Notes.

Maturity of the Equipment Notes may be accelerated upon the occurrence of certain events of default, including failure by Continental (in some cases after notice or the expiration of a grace period, or both) to make payments under the applicable indenture when due or to comply with certain covenants, as well as certain bankruptcy events involving Continental. The Equipment Notes issued with respect to each aircraft will be secured by a lien on such aircraft and will also be cross-collateralized by the other aircraft financed pursuant to the Note Purchase Agreement.

Continental expects to issue an additional \$236 million in Equipment Notes as it applies this financing to the next six Boeing 737 aircraft scheduled for delivery from October 15, 2008 through the first quarter of 2009.

Item 6. Exhibits.

- 3.1 Amended and Restated Certificate of Incorporation of Continental, as amended through June 6, 2006 - incorporated by reference to Exhibit 3.1 to Continental's Annual Report on Form 10-K for the year ended December 31, 2006 (File no. 1-10323).
- 3.1(a) Certificate of Designation of Series A Junior Participating Preferred Stock, included as Exhibit A to Exhibit 3.1.
- 3.1(a)(i) Certificate of Amendment of Certificate of Designation of Series A Junior Participating Preferred Stock - incorporated by reference to Exhibit 3.1(b) to Continental's Annual Report on Form 10-K for the year ended December 31, 2001 (File no. 1-10323).
- 3.1(a)(ii) Certificate of Increase - Series A Junior Participating Preferred Stock - incorporated by reference to Exhibit 3.1(a)(ii) to Continental's Quarterly Report on Form 10-Q for the period ended June 30, 2008 (File no. 1-10323).

- 3.2 Bylaws of Continental, as amended through October 17, 2007 - incorporated by reference to Exhibit 3.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (File no. 1-10323).
- 10.1 First Amendment dated August 29, 2008 to the Second Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated as of June 5, 2008. (1)
- 10.2* Employment Agreement dated as of August 31, 2008 between Continental and Zane Rowe.
- 31.1 Rule 13a-14 (a)/15d-14 (a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14 (a)/15d-14 (a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certifications.

*This exhibit relates to management contracts or compensatory plans or arrangements.

1. Continental has applied to the Commission for confidential treatment of a portion of this exhibit.

SIGNATURES

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

CONTINENTAL AIRLINES, INC.

Registrant

Date: October 20, 2008

by: /s/ Chris Kenny
 Chris Kenny
 Vice President and Controller
 (Principal Accounting Officer and
 duly authorized officer of the Registrant)

INDEX TO EXHIBITS OF CONTINENTAL AIRLINES, INC.

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August 29, 2008

Mr. James B. Ream

Chief Executive Officer

ExpressJet Holdings, Inc.

700 North Sam Houston Parkway West, Suite 200

Houston, TX 77067

First Amendment (this "First Amendment") to that certain Second Amended and Restated Capacity Purchase Agreement among Continental Airlines, Inc. ("Continental"), ExpressJet Holdings, Inc. ("Holdings"), XJT Holdings, Inc. ("XJT") and ExpressJet Airlines, Inc. ("ExpressJet" and, collectively with Holdings and XJT, "Contractor") dated as of June 5, 2008 (the "Second Amended and Restated CPA")

As you are aware, Continental and Contractor are parties to the Second Amended and Restated CPA. Continental and Contractor each desires to amend the Second Amended and Restated CPA as specifically provided below in this First Amendment, with such amendments to be effective as of the date of this First Amendment:

Section 1. As soon as reasonably practicable, but in no event more than ten (10) days after the date hereof, Continental shall purchase from Contractor for the total sum of \$[**CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT**] the operating rights held by Contractor for flights arriving and departing from Westchester County Airport at White Plains, New York (HPN) (and no margin shall be payable in connection therewith). On or before the date of such payment by Continental, Contractor agrees to execute a bill of sale substantially in the form of Exhibit A hereto conveying such operating rights to Continental.

Section 2. Contractor agrees that all of Contractor's CPA Records shall be maintained in accordance with generally accepted accounting principles consistently applied.

Section 3. The revised Appendix 1 to Schedule 3 attached to this First Amendment hereby replaces in its entirety the Appendix 1 to Schedule 3 attached to the Second Amended and Restated CPA. Continental and Contractor agree that nothing in this Section 3 or in Appendix 1 to Schedule 3 attached hereto shall in any way (i) amend or modify the provisions of Section 2.01(b) of the Second Amended and Restated CPA, or (ii) create or disclaim (or be deemed, construed or implied to create or disclaim) any obligation other than as is expressly and specifically provided for in this Section 3 (and in Appendix 1 to Schedule 3 attached hereto).

Section 4. Contractor and Continental agree that Continental is not obligated under the Second Amended and Restated CPA to pay for, with respect to Contractor's "reorganization value in excess of amounts allocable to identifiable assets, net", any of Contractor's write-off, depreciation, amortization or impairment.

Section 5. Contractor and Continental further agree that no accelerated depreciation expense associated with capital expenditures related to any Covered Aircraft that is recognized by Contractor due to the anticipated removal of such Covered Aircraft from service under the Second Amended and Restated CPA shall be chargeable to Continental under the Second Amended and Restated CPA until such time as notice is given pursuant to Section 2.05 thereof that such Covered Aircraft will no longer be a Covered Aircraft thereunder.

Section 6. Contractor agrees that Continental's obligation to pay or reimburse Contractor for costs or expenses pursuant to Section 2.08 of the Second Amended and Restated CPA includes only the obligation to pay Contractor's reasonable, out-of-pocket costs or expenses, without profit.

Section 7. Capitalized terms not defined herein shall be defined as provided in the Second Amended and Restated CPA. From and after the date of this First Amendment, references in the Second Amended and Restated CPA to "this Agreement" shall mean and refer to the Second Amended and Restated CPA as amended by this First Amendment. Except as specifically amended or modified hereby, the Second Amended and Restated CPA shall remain in effect as written. The Second Amended and Restated CPA, as amended or modified by this First Amendment, is hereby ratified and confirmed in all respects, and shall be deemed to constitute the entire understanding of the parties relating to its subject matter (and further that any prior or contemporaneous oral commitments shall have no force or effect), and such agreement, as so amended hereby, may not be further amended, modified or changed except by further agreement in writing signed by the parties hereto. This First Amendment may be executed by the parties hereto in any number of separate counterparts, all of which shall constitute one agreement. All signatures need not be on one counterpart.

If Contractor is in agreement with the above, please indicate its agreement by having an authorized representative sign below in the spaces provided and return a signed copy of this First Amendment to the undersigned at the address above.

Very truly yours,

CONTINENTAL AIRLINES, INC.

By: /s/ Larry Kellner

Name: Larry Kellner

Title: Chairman and Chief Executive Officer

Agreed:

EXPRESSJET HOLDINGS, INC.

By: /s/ James B. Ream

Name: James B. Ream

Title: President and Chief Executive Officer

XJT HOLDINGS, INC.

By: /s/ James B. Ream

Name: James B. Ream

Title: President and Chief Executive Officer

EXPRESSJET AIRLINES, INC.

By: /s/ James B. Ream

Name: James B. Ream

Title: President and Chief Executive Officer

cc: Continental Airlines, Inc.

1600 Smith Street, HQSLG, Houston, Texas 77002

Attention: General Counsel

Telecopy No.: (713) 324-5161

ExpressJet Holdings, Inc.

700 North Sam Houston Parkway West, Suite 200, Houston, Texas 77067

Attention: Vice President & General Counsel

Telecopy No.: (832) 353-1141

Appendix 1 to Schedule 3

§[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] * for each actual block hour (which shall be the "block hour" rate referred to in Schedule 3.A.1.a of this Agreement).

* This Base Compensation Rate shall be adjusted to the extent provided pursuant to the terms of Section 3.02 of this Agreement.

In addition, for each calendar month beginning with the month of September 2008 and extending through (and including) June 2009 (such period from September 1, 2008 through June 30, 2009, being herein referred to as the "Review Period"), Continental and Contractor, as part of the monthly flight reconciliation process pursuant to Section 3.06(b) of this Agreement, shall compare the number of Actual Monthly Block Hours for such calendar month with the number of Baseline Monthly Block Hours for such calendar month, and Continental shall pay Contractor **§[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** for each Extra Monthly Payment Hour, if any, for such month, provided that, in no event shall Continental be required (a) to pay an amount greater than **§[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** for any one month or **§[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** in the aggregate in respect of Extra Monthly Payment Hours during the Review Period or (b) to make any payment under this paragraph in respect of any calendar month after the Review Period.

After the Review Period, Contractor shall pay Continental an amount equal to **§[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** for each Aggregate Accrued Block Hour, if any, existing as of June 30, 2009, subject to the proviso at the end of this paragraph (such payment to be made in July 2009 as part of the monthly flight reconciliation process pursuant to Section 3.06(b) of this Agreement). In addition, during each calendar month beginning with the month of July 2009 and extending through (and including) the end of the Base Term or, if earlier, the date on which Contractor has paid an aggregate amount equal to the Aggregate Extra Payments (such period being herein referred to as the "Make-up Period"), Continental and Contractor, as part of the monthly flight reconciliation process pursuant to Section 3.06(b) of this Agreement, shall compare the number of Actual Monthly Block Hours for such calendar month with the number of Baseline Monthly Block Hours for such calendar month, and Contractor shall pay Continental **§[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR**

CONFIDENTIAL TREATMENT] per Make-up Payment Hour, if any, for such month, provided that, in no event shall all such monthly payments in the aggregate made by Contractor pursuant to this paragraph exceed the Aggregate Extra Payments.

Solely for the purposes of calculating amounts payable under the two preceding paragraphs of this Appendix 1 to Schedule 3, the following terms shall have the definitions set forth below:

"Accrued Block Hours" means, for each calendar month in the Review Period for which Actual Monthly Block Hours exceeds Baseline Monthly Block Hours, the number of hours by which Actual Monthly Block Hours for such month exceeds Baseline Monthly Block Hours for such month.

"Actual Monthly Block Hours" means, for each calendar month, (a) the total actual block hours flown by Contractor pursuant to this Agreement during such calendar month, plus (b) the total block hours that are scheduled by Continental to be flown pursuant to a Final Monthly Schedule in accordance with this Agreement but which are not actually flown because the flight is not operated during such calendar month by Contractor as a result of a Controllable Cancellation.

"Aggregate Accrued Block Hours" means the aggregate of all Accrued Block Hours from prior months in the Review Period, less the number of Accrued Block Hours previously applied to reduce the number of Extra Monthly Payment Hours pursuant to the last clause in the definition thereof.

"Aggregate Extra Payments" means the aggregate amount of payments made by Continental in respect of Extra Monthly Payment Hours during the Review Period.

"Baseline Monthly Block Hours" means the following number of block hours for each calendar month set forth below:

For September 2008: [XXX];

For October 2008: [XXX];

For November 2008: [XXX];

For December 2008: [XXX];

For January 2009: [XXX];

For February 2009: [XXX];

For March 2009: [XXX];

For April 2009: [XXX];

For May 2009: [XXX]; and

For June 2009: [XXX].

Following June 2009,

For each July: [XXX];

For each August: [XXX];

For each September: [XXX];

For each October: [XXX];

For each November: [XXX];

For each December: [XXX];

For each January: [XXX];

For each February: [XXX];

For each March: [XXX];

For each April: [XXX];

For each May: [XXX]; and

For each June: [XXX].

"Extra Monthly Payment Hours" means, at the end of each calendar month in the Review Period in which Baseline Monthly Block Hours exceeds Actual Monthly Block Hours, the number of hours by which Baseline Monthly Block Hours exceeds Actual Monthly Block Hours, reduced by the number of Aggregate Accrued Block Hours, if any, existing at the beginning of such calendar month.

"Make-up Payment Hours" means, for each calendar month in the Make-up Period for which Actual Monthly Block Hours exceeds Baseline Monthly Block Hours, the number of hours by which Actual

Monthly Block Hours for such month exceeds the Baseline Monthly Block Hours for such month.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

["XXX" REPRESENTS CONFIDENTIAL INFORMATION OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.]

Exhibit A

BILL OF SALE

For Certain Slot Assets at White Plains

KNOW ALL MEN BY THESE PRESENTS:

THAT for and in consideration of the sum of Three Million, Three Hundred Fifteen Thousand, Seventy Two U.S. Dollars and Forty Six Cents (US \$[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]) and other good and valuable consideration, the undersigned EXPRESSJET AIRLINES, INC. (formerly Continental Express, Inc.), a Delaware corporation ("SELLER"), does as of the date hereof, grant convey, transfer, sell, deliver and set over unto CONTINENTAL AIRLINES, INC., a Delaware corporation ("BUYER"), and to BUYER'S successors, transferees and assigns forever, all operating rights and allocations from Westchester County at Westchester County Airport, White Plains, New York ("HPN"), including any take-off and landing and enplanement and deplanement rights, and together with any associated ramp airplane parking rights at HPN, in each case as are related to the six slots set forth on Schedule 1, as well as any and all other rights, titles and interests of SELLER appertaining thereto or to any other slots at HPN held by SELLER as of the date hereof (the "White Plains Slot Assets"); and

THAT SELLER hereby warrants to BUYER, its successors, transferees and assigns, that SELLER is the owner of the White Plains Slot Assets and the White Plains Slot Assets are hereby conveyed to BUYER free and clear of all liens, claims, charges and encumbrances of any nature whatsoever other than liens attributable to BUYER. SELLER agrees with BUYER, its successors, transferees and assigns, that SELLER will warrant and defend such title forever against all claims and demands whatsoever by, through or under SELLER, but not otherwise. SELLER shall use commercially reasonable efforts to obtain any consent or approval at no cost to SELLER from Westchester County or any other entity asserting jurisdiction or authority over the White Plains Slot Assets, if necessary, to effectuate the purposes of this conveyance.

EXCEPT FOR THE WARRANTY OF TITLE TO SELLER'S INTEREST IN THE WHITE PLAINS SLOTS ASSETS AS SET FORTH ABOVE, SELLER EXPRESSLY DISCLAIMS, NEGATES AND EXCLUDES ALL WARRANTIES, WHETHER STATUTORY, EXPRESS OR IMPLIED, REGARDING THE WHITE PLAINS SLOTS ASSETS, INCLUDING, WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND BUYER ACCEPTS SELLER'S INTEREST IN THE WHITE PLAINS SLOTS ASSETS "AS IS" AND "WITH ALL FAULTS".

Upon execution of this Bill of Sale and the payment by BUYER to SELLER of the amount set forth above, SELLER agrees that BUYER shall have no further obligations to SELLER in respect of the White Plains Slot Assets arising after the date hereof under (i) that certain Indemnity Agreement dated January 15, 2008 or (ii) any capacity purchase agreement between BUYER and SELLER.

IN WITNESS WHEREOF, the undersigned SELLER has caused this instrument to be executed this ____ day of August, 2008.

EXPRESSJET AIRLINES, INC.

By: _____

Name: Phung Ngo Burns

Title: Staff Vice President

Finance and Controller

Interim CFO

Schedule 1

White Plains Slot Assets

<u>Slot Number</u>	<u>Time</u>
1	0830
2	0900
3	0930
4	1330
5	1730
6	1900

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company" or "Continental"), and **ZANE C. ROWE** ("Executive"), effective as of the Effective Date (as defined below).

W I T N E S S E T H:

WHEREAS, Company and Executive are parties to that certain Employment Agreement dated as of December 1, 2007 (the "Existing Agreement"); and

WHEREAS, on May 13, 2008, Company announced the planned retirement of the current Executive Vice President and Chief Financial Officer of Company, Jeffrey J. Misner, effective August 31, 2008 and, in connection therewith, the Board of Directors of Company has elected and appointed Executive to the office of Executive Vice President and Chief Financial Officer of Company effective as of the day following the effective date of the retirement of Jeffrey J. Misner (or upon Mr. Misner's earlier death or incapacity) (the "Effective Date"); and

WHEREAS, the parties desire to enter into this Agreement to replace and supersede the Existing Agreement in its entirety, effective as of the Effective Date; and

WHEREAS, the Human Resources Committee of the Board of Directors of Company (the "HR Committee") has authorized the execution, delivery and performance by Company of this Agreement;

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

ARTICLE 1: EMPLOYMENT AND DUTIES

1.1 **Employment; Effective Date.** Company agrees to employ Executive and Executive agrees to be employed by Company, beginning as of the Effective Date and continuing for the period of time set forth in Article 2 of this Agreement, subject to the terms and conditions of this Agreement.

1.2 **Positions.** Company shall employ Executive in the position of Executive Vice President and Chief Financial Officer of Company, or in such other positions as the parties may agree. Neither the Board of Directors of Company (the "Board of Directors") nor any other officer or representative of Company shall assign to Executive any duties materially inconsistent with the duties associated with the positions described in this paragraph 1.2 as such duties are constituted as of the Effective Date.

1.3 **Duties and Services.** Executive agrees to serve in the officer positions referred to in paragraph 1.2 and to perform diligently and to the best of Executive's abilities the duties and services appertaining to such office or offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices that the parties may agree upon from time to time.

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

2.1 **Term.** Unless sooner terminated pursuant to other provisions hereof, Company agrees to employ Executive for the period beginning on the Effective Date and ending on September 1, 2009 (the "Initial Term"). Said term of employment shall be extended automatically for a successive one-year period as of the last day of the Initial Term and as of the last day of each successive one-year period of time thereafter that this Agreement is in effect (each such successive one-year extended term being referred to herein as an "Extended Term"); provided, however, that if, prior to the date which is six months before the last day of the Initial Term or any such Extended Term, as applicable, either party shall give written notice to the other that no such automatic extension shall occur, then Executive's employment shall terminate on the last day of the Initial Term or Extended Term, as applicable, during which such notice is given.

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

- (i) upon Executive's death;
- (ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance that renders Executive mentally or physically incapable of performing the material duties and services required of Executive hereunder on a full-time basis during such period;
- (iii) Executive's gross negligence or willful misconduct in the performance of, or Executive's abuse of alcohol or drugs rendering Executive unable to perform, the material duties and services required of Executive pursuant to this Agreement;
- (iv) upon the conviction or plea of *nolo contendere* of Executive for a felony or any crime involving moral turpitude;
- (v) upon Executive committing an act of deceit or fraud intended to result in personal and unauthorized enrichment of Executive at Company's expense;
- (vi) upon Executive's material breach of a material obligation of Executive under this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Company to Executive; or
- (vii) for any other reason whatsoever, in the sole discretion of the Board of Directors.

For purposes of this Agreement, if Executive's employment is terminated by Company pursuant to clauses (i), (ii), (iii), (iv), (v) or (vi) above, then such termination shall be for "Cause", and if Executive's employment is terminated by Company pursuant to clause (vii) above, then such termination shall be "without Cause."

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

- (i) a material diminution in Executive's authority, duties, or responsibilities from those applicable to Executive as of the Effective Date, including a change in the reporting structure so that Executive reports other than to the Chief Executive Officer or President of Company;
- (ii) a material change in the geographic location at which Executive must perform services, which for purposes of this Agreement shall mean Company requiring Executive to be permanently based more than 50 miles outside the city limits of Houston, Texas;
- (iii) a material diminution in Executive's base salary;
- (iv) a material breach by Company of any provision of this Agreement (including, without limitation, paragraphs 1.2, 3.2, or 3.7 of this Agreement); or
- (v) for any other reason whatsoever, in the sole discretion of Executive.

For purposes of this Agreement, Executive's employment by Company will be considered to have been terminated by Executive for "Good Reason" if such termination of employment is by Executive for a reason encompassed by paragraphs 2.3(i), (ii), (iii), or (iv). Further, notwithstanding the foregoing provisions of this paragraph 2.3 or any other provision in this Agreement to the contrary, any assertion by Executive of a termination of employment for Good Reason shall not be effective unless all of the following conditions are satisfied: (1) the condition described in paragraphs 2.3(i), (ii), (iii), or (iv) giving rise to Executive's termination of employment must have arisen without Executive's written consent; (2) Executive must provide written notice to Company of such condition in accordance with paragraph 5.2 within 90 days of the initial existence of the condition; (3) the condition specified in such notice must remain uncorrected for 30 days after receipt of such notice by Company; and (4) the date of Executive's termination of employment must occur within 180 days after the initial existence of the condition specified in such notice.

2.4 Notice of Termination. If Company or Executive desires to terminate Executive's employment hereunder at any time prior to expiration of the term of employment as provided in paragraph 2.1, it or Executive shall do so by giving written notice to the other party in accordance with paragraph 5.2 that it or Executive has elected to terminate Executive's employment hereunder and stating the effective date and reason for such termination, provided that no such action shall alter or amend any other provisions hereof or rights arising hereunder.

2.5 Certain Determinations under Section 409A of the Code. For all purposes of this Agreement, Executive shall be considered to have terminated employment with Company when Executive incurs a "separation from service" with Company within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder; provided, however, that whether such a separation from service has occurred shall be determined based upon a reasonably anticipated permanent reduction in the level of bona fide services to be performed to no more than 20% (or 49% if Executive will no longer serve as an officer of Company) of the average level of bona fide services provided in the immediately preceding 36 months. Executive hereby agrees to be bound by Company's determination of its "specified employees" (as such term is defined in Section 409A of the Code) provided such determination is in accordance with any of the methods permitted under the regulations issued under Section 409A of the Code.

ARTICLE 3: COMPENSATION AND BENEFITS

3.1 Base Salary. During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) \$374,544 or (ii) such amount as the parties may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 Cash Bonus Programs. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date (including, without limitation, any such program maintained for the year during which the Effective Date occurs) at a level that is not less than the highest participation level made available to any Company executive (other than Company's Chief Executive Officer and Company's President); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of Executive's annual base salary in an amount that is at least as great as that in effect on the Effective Date (i.e., an annual cash bonus opportunity of 0%, if entry level goal is not met, and if entry level goal is met, between 50% and 150% of annual base salary, depending on achievement of entry, target and stretch goals).

3.3 Life Insurance. During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.8, and based on a Severance Period (as such term is defined in paragraph 4.8) of 36 months). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment (based on a Severance Period of 36 months), and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive on or as soon as practicable following the day on which the tax with respect to such income is remitted by or on behalf of Executive (but not later than the end of the taxable year following the year in which such tax is remitted) an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries within 30 days after the date of Executive's death an amount equal to the sum of (1) the difference between the Termination Payment (based on a Severance Period of 36 months) and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

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

3.5 Supplemental Executive Retirement Plan.

(i) **Base Benefit.** Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be an annual amount (that is payable as a

monthly straight life annuity) equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 26 years) times (c) Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of years (including partial years) beginning September 6, 2006, through the end of Executive's period of employment with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") with respect to credited service ("Actual Years of Service"), and (2) if the Termination Payment (as such term is defined in paragraph 4.8) becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), an additional three years of service. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) \$[374,544] or (B) the average of the five highest annual cash compensation amounts paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred pursuant to any deferred compensation plan of Company), but shall exclude (i) any Termination Payment paid to Executive under this Agreement, (ii) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (iii) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company (including RSUs awarded under Company's Long Term Incentive and RSU Program (the "NLTIP/RSU Program")), and (iv) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

(ii) Offset for CARP or Other Benefit. Any provisions of the Plan to the contrary notwithstanding, the Base Benefit shall be reduced by the actuarial equivalent (as defined below) of the pension benefit, if any, paid or payable to Executive from the CARP or from any other defined benefit nonqualified supplemental retirement plan provided to Executive by Company. In making such reduction, the Base Benefit and the benefit paid or payable under the CARP or any such other defined benefit nonqualified supplemental retirement plan shall be determined under the provisions of each plan as if payable in the form of a monthly straight life annuity beginning on the Retirement Date (as defined below). The net benefit payable under this Plan shall then be actuarially adjusted based on the actuarial assumptions set forth in paragraph 3.5(vii) for the actual time of payment.

(iii) Normal Retirement Benefits. Executive's benefit under the Plan shall be paid only in a lump sum payment in an amount that is the actuarial equivalent, based on the actuarial assumptions set forth in paragraph 3.5(vii), of the Base Benefit for the life of Executive paying equal monthly installments beginning on the Retirement Date (the "Normal Retirement Benefit"). The Normal Retirement Benefit shall be paid to Executive on or within five business days following the Retirement Date or, if later and if required to satisfy the provisions of Section 409A(a)(2)(B)(i) of the Code, on or within five business days after the Section 409A Payment Date. If the Section 409A Payment Date is after the Retirement Date, then payment of the Normal Retirement Benefit (with interest on such benefit from the Retirement Date to the actual date of payment at the Aa Corporate Bond Rate (as defined in paragraph 3.5(vii)) shall be paid by Company to Executive (or, in the event of Executive's death, Executive's Beneficiary) not earlier than but as soon as practicable on, and in any event within five business days after, the Section 409A Payment Date. For purposes hereof: (a) "Beneficiary" is defined as (1) Executive's surviving spouse, if Executive is married on the date of Executive's death, or (2) Executive's estate, if Executive is not married on the date of Executive's death; (b) "Retirement Date" is defined as the first day of the month coincident with or next following the later of (1) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (2) the date of Executive's retirement from employment with Company; and (c) "Section 409A Payment Date" is defined as the earlier of (1) the date of Executive's death or (2) the date which is six months after the date of termination of Executive's employment with Company.

(iv) Early Retirement Benefits. Notwithstanding the provisions of paragraph 3.5(iii), if Executive's employment with Company is terminated, for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Company shall pay Executive the Normal Retirement Benefit on or within five business days following the first day of the month coinciding with or next following Executive's termination of employment (the "Earliest ERB Payment Date") or, if required to satisfy the provisions of Section 409A(a)(2)(B)(i) of the Code, on or within five business days after the Section 409A Payment Date (an "Early Retirement Benefit"); provided, however, that the amount of the benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit (determined as if payment would be made on the Earliest ERB Payment Date) to be the actuarial equivalent of the value of the Normal Retirement Benefit (based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for such time of payment). If payment of the Early Retirement Benefit must be delayed beyond the Earliest ERB Payment Date to satisfy the provisions of Section 409A(a)(2)(B)(i) of the Code as provided in the preceding sentence, then payment of the Early Retirement Benefit (with interest on such benefit from the Earliest ERB Payment Date to the actual date of payment at the Aa Corporate Bond Rate) shall be paid by Company to Executive (or, in the event of Executive's death after the Earliest ERB Payment Date, Executive's Beneficiary) not earlier than but as soon as practicable on, and in any event within five business days after, the Section 409A Payment Date.

(v) Death Benefit. Except (a) as provided in paragraph 3.5(iii) if the Section 409A Payment Date is after the Retirement Date, (b) as provided in paragraph 3.5(iv) if the payment of the Early Retirement Benefit must be delayed beyond the Earliest ERB Payment Date to satisfy the provisions of Section 409A(a)(2)(B)(i) of the Code, and (c) as provided in the remaining provisions of this paragraph 3.5(v), no benefits shall be paid under the Plan if Executive dies prior to the date Executive's benefit is paid pursuant to paragraphs 3.5(iii) or 3.5(iv), as applicable. In the event of Executive's death prior to payment of Executive's benefit pursuant to paragraphs 3.5(iii) or 3.5(iv) (other than under the circumstances described in clauses (a) or (b) of the preceding sentence, in which case the benefits described in paragraphs 3.5(iii) or 3.5(iv), as applicable, shall be paid in full), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a death benefit payable only as a lump sum payment in an amount that is the actuarial equivalent of a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, been entitled to elect and elected a joint and 50% survivor annuity and begun to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive been entitled to elect and elected a joint and 50% survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death. Such benefit shall be paid on or within 10 business days following the first day of the month coincident with or next following the date of Executive's death; provided, however, that if Executive dies prior to reaching age 60, then the amount of such benefit shall be reduced based on the principles used for the reductions described in the proviso to the first sentence of paragraph 3.5(iv).

(vi) Unfunded Benefit. The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Code and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that Executive must rely upon the general credit of Company for payment of benefits under the Plan. Company has established a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally-recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property

determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded; provided, however, that (a) to the extent that the payment of any amount due under this paragraph 3.5 is or may be delayed by reason of Section 409A(a)(2)(B)(i) of the Code, Company shall, on or as soon as practicable after the date of Executive's termination of employment with Company, contribute to the trust the amount necessary to assure that the trust has sufficient funds to pay on the Section 409A Payment Date the amount payable pursuant to this paragraph 3.5 (including any interest provided for in this paragraph 3.5 based on the assumption that payment will be delayed for six months), and (b) notwithstanding the foregoing, in no event shall money and/or property be transferred to the trust during any period in which such transfer would result in adverse tax consequences to Executive pursuant to Section 409A(b)(3) of the Code. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vii) Actuarial Equivalent. For purposes of the Plan, the terms "actuarial equivalent" or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to Executive's spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining lump sum benefits payable under the CARP; provided, however, that with respect to the discount rate used to calculate benefits under the Plan, the discount rate shall be the Aa Corporate Bond Rate. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse. The term "Aa Corporate Bond Rate" shall mean the average of the Moody's daily long-term corporate bond yield averages for Aa-rated corporate bonds published by Moody's Investors Service, for the three-month period ending on the last day of the second month preceding the date Executive (or, in the case of Executive's death, Executive's spouse) is to receive the lump sum payment (determined without regard to any delay in such payment that may be required by reason of Section 409A(a)(2)(B)(i) of the Code), as determined by the Actuary (or, if such yield information is no longer so published, then the average of the daily corporate bond yields for a comparable sample of Aa-rated corporate bonds of comparable tenor determined in good faith by the Actuary). Upon request, Company shall cause the Actuary to compute the Aa Corporate Bond Rate for a specified period and the amount of the applicable lump sum payment for Executive (or, in the case of Executive's death, Executive's spouse) and shall deliver such information to Executive or such spouse.

(viii) Medicare Payroll Taxes. Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan. Any payment by Company to Executive pursuant to this paragraph 3.5(viii) shall be made on or as soon as practicable following the day on which the required tax is remitted by or on behalf of Executive (but not later than the end of the taxable year following the year in which such tax is remitted).

3.6 Other Perquisites. During Executive's employment hereunder, Executive shall be afforded the following benefits as incidences of Executive's employment:

(i) **Automobile** - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on terms at least as favorable to Executive as provided in the applicable policy adopted by the HR Committee that is in effect as of the Effective Date. If the automobile is leased, then, except as provided in the following sentence, Company agrees to take such actions as may be necessary to permit Executive, at Executive's option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying at such time the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii), (iv), (v) or (vi)), then:

(1) if the automobile is owned by Company, Company shall (A) transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate), on the Section 409A Payment Date, and (B) to the extent the aggregate value of the use of the automobile and any other miscellaneous separation pay benefits subject to Section 409A of the Code that are provided to Executive during the period following Executive's termination of employment and preceding the Section 409A Payment Date have an aggregate value in excess of the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year in which Executive's termination of employment occurs, Executive shall pay to Company, on a monthly basis until the end of such period, the fair market value of the use of the automobile for such month, and Company shall reimburse Executive or Executive's estate (as applicable) (with interest thereon at the Aa Corporate Bond Rate (as defined in paragraph 3.5(vii)), but determined as of the last day of the second month preceding the first day of the month coinciding with or next following the date of Executive's termination of employment)) for any such payments not later than the fifth day following the date upon which title to the automobile is so transferred; or

(2) if the automobile is leased by Company, Company shall (A) transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate), at the conclusion of the lease term (but in no event prior to the Section 409A Payment Date), and (B) continue to make all payments under the lease and permit Executive (or Executive's estate, as applicable) to use the automobile during the remainder of such lease term or, if later, until the automobile is so transferred to Executive (or Executive's estate, as applicable); provided, however, that to the extent the aggregate value of the use of the automobile and any other miscellaneous separation pay benefits subject to Section 409A of the Code that are provided to Executive during the period following Executive's termination of employment and preceding the Section 409A Payment Date have an aggregate value in excess of the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year in which such termination occurs, Executive shall pay to Company, on a monthly basis until the end of such period, the fair market value of the use of the automobile (but in no event less than the payment required under the lease) for such month, and Company shall reimburse Executive or Executive's estate (as applicable) (with interest thereon at the Aa Corporate Bond Rate (as defined in paragraph 3.5(vii)), but determined as of the last day of the second month preceding the first day of the month coinciding with or next following the date of Executive's termination of employment)) for any such payments not later than the fifth day following the end of such period.

(ii) **Business and Entertainment Expenses** - Subject to Company's standard policies and procedures with respect to expense

reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel to the extent such business specifically includes spouses. Company shall also pay on behalf of Executive the expenses of one athletic club selected by Executive.

(iii) **Parking** - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice in a location that is the same as or equivalent to that regularly used by Company's senior executives.

(iv) **Other Company Benefits** - Executive and, to the extent applicable, Executive's family, dependents and beneficiaries, shall be allowed to participate in all benefits, plans and programs, including improvements or modifications of the same, which are now, or may hereafter be, available to similarly situated Company employees. Such benefits, plans and programs may include, without limitation, profit sharing plan, thrift plan, annual physical examinations, health insurance or health care plan, life insurance, disability insurance, pension plan, pass privileges on Continental Airlines, Flight Benefits (as such term is defined in paragraph 4.8) and the like. Company shall not, however, by reason of this paragraph be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any such benefit plan or program, so long as such changes are similarly applicable to executive employees generally; provided, however, that Company shall not change, amend or discontinue Executive's Flight Benefits without Executive's prior written consent.

3.7 Corporate Amenities. During the period of this Agreement, Company shall take no action that materially reduces the corporate amenities enjoyed by Executive below the level of corporate amenities enjoyed by any other executive of Company other than Company's Chief Executive Officer and President.

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 By Expiration. If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of Executive's employment, except that (A) (i) the benefits described in paragraph 3.5 shall continue to be payable, (ii) Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, and the death benefit rights shall be provided as described in paragraphs 4.7 and 4.8, (iii) Executive and Executive's eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.8) for the remainder of Executive's lifetime, (iv) Executive shall be paid on the effective date of such termination for Executive's accrued and unused vacation benefits up to a maximum of four weeks, (v) any amounts reimbursable but unpaid to Executive at the date of such termination shall be reimbursed to Executive pursuant to the provisions of paragraph 3.6 and any amounts owed but unpaid to Executive under any plan, policy or program of Company (other than Company's vacation policy, which is addressed in clause (iv) above) as of the date of termination shall be paid to Executive at the time and to the extent provided by, and in accordance with the terms of, such plan, policy or program and this Agreement, and (vi) Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i) (provided, however, that to the extent any miscellaneous separation pay benefits subject to Section 409A of the Code that are provided to Executive during the first six-months following Executive's termination of employment have an aggregate value in excess of the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year in which such termination occurs, Executive shall pay to Company, at the time such benefits are provided, the fair market value of such benefits, and Company shall reimburse Executive (with interest thereon at the Aa Corporate Bond Rate (as defined in paragraph 3.5(vii), but determined as of the last day of the second month preceding the first day of the month coinciding with or next following the date of Executive's termination of employment) for any such payment not later than the fifth day following the expiration of such six-month period), and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination (but in no event later than the earlier of the latest date upon which the option could have expired by its original terms under any circumstances or the tenth anniversary of the original date of grant of the option), (ii) if such termination occurs prior to the date upon which a Change in Control (as such term is defined in paragraph 4.8) occurs, pay to Executive, at the same time as Payment Amounts with respect to Awards are paid to other participants under the NLTIP/RSU Program (or, if a Change in Control occurs prior to such payment date and prior to the date for which a potential payment under the NLTIP/RSU Program ceases to exist for the relevant Award, on the date upon which such Change in Control occurs), all Payment Amounts with respect to Awards made to Executive under the NLTIP/RSU Program for which a potential payment under the NLTIP/RSU Program exists as of the date of Executive's termination of employment, as if Executive had remained employed by Company in Executive's current position through the date that would entitle Executive to the maximum payment with respect to such Awards under the NLTIP/RSU Program (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), (iii) if such termination occurs on or after the date upon which a Change in Control occurs, pay to Executive, within five business days after the date of such termination, all Payment Amounts with respect to Awards made to Executive under the NLTIP/RSU Program for which a potential payment under the NLTIP/RSU Program exists as of the date of Executive's termination of employment, as if Executive had remained employed by Company in Executive's current position through the date that would entitle Executive to the maximum payment with respect to such Awards under the NLTIP/RSU Program (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), (iv) pay Executive on the effective date of such termination a lump sum, cash payment in an amount equal to the Termination Payment (provided, however, that if the payment of the Termination Payment would be subject to additional taxes and interest under Section 409A of the Code because the timing of such payment is not delayed as provided in Section 409A(a)(2)(B)(i) of the Code and the regulations thereunder, then such amount shall be paid within five business days after the Section 409A Payment Date), and (v) provide Executive with Outplacement and Related Services (as such term is defined in paragraph 4.8 and for the time periods described therein; provided, however, that to the extent the benefits provided to Executive under clause (2) of the definition of Outplacement and Related Services and any other miscellaneous separation pay benefits subject to Section 409A of the Code that are provided to Executive during the first six-months following Executive's termination of employment have an aggregate value in excess of the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year in which such termination occurs, Executive shall pay to Company, at the time such benefits are provided, the fair market value of such benefits, and Company shall reimburse Executive (with interest thereon at the Aa Corporate Bond Rate (as defined in paragraph 3.5(vii), but determined as of the last day of the second month preceding the first day of the month coinciding with or next following the date of Executive's termination of employment)) for any such payment not later than the fifth day following the expiration of such six-month period). Capitalized terms used in clauses (ii) and (iii) of the preceding sentence that are not defined elsewhere in this Agreement have the meanings ascribed thereto in the NLTIP/RSU Program as in effect on the Effective Date. If the payment of the Termination Payment is delayed as provided in the parenthetical set forth in clause (B)(iv) of the first sentence of this paragraph, then (1) interest on such delayed payment for the period beginning on the date of Executive's termination of employment and ending on the date of the payment of the Termination Payment at the Aa Corporate Bond Rate (as determined as provided in clause (B)(v) of the first sentence of this paragraph) shall also be paid by Company to Executive at the time of the payment of the Termination

Payment, and (2) Company shall, on or as soon as practicable after the date of Executive's termination of employment, contribute cash in an amount equal to the Termination Payment plus the interest described in clause (1) of this sentence (based on the assumption that the payment will be delayed for six months) to an irrevocable grantor ("rabbi") trust of which Executive is the sole beneficiary and the trustee of which is a nationally-recognized and solvent bank or trust company that is not affiliated with Company (subject to the claims of Company's creditors, as required pursuant to applicable Internal Revenue Service guidance to prevent the imputation of income to Executive prior to distribution from the trust), pursuant to which the Termination Payment plus applicable interest shall be payable from the trust at the time provided herein, provided that (x) to the extent such amount is paid to Executive by Company, the trust shall pay such amount to Company, and (y) in no event shall cash be transferred to the trust during any period in which such transfer would result in adverse tax consequences to Executive pursuant to Section 409A(b)(3) of the Code.

4.2 By Company. If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that Company shall provide Executive with the payments and benefits described in clause (A) of the first sentence of paragraph 4.1 (except that the automobile benefit described in clause (A)(vi) of such sentence shall not be provided if the reason for such termination is encompassed by paragraphs 2.2 (iii), (iv), (v) or (vi)), and:

(i) if such termination shall be without Cause, then Company shall provide Executive with the payments and benefits described in clause (B) of the first sentence of paragraph 4.1 and take the actions described in the last sentence of paragraph 4.1 (if applicable); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination (or such longer period as provided for under the circumstances in applicable option awards, but in no event later than the earlier of the latest date upon which the option could have expired by its original terms under any circumstances or the tenth anniversary of the original date of grant of the option), (2) if such termination occurs prior to the date upon which a Change in Control occurs, pay to Executive (or Executive's estate), at the same time as Payment Amounts with respect to Awards are paid to other participants under the NLTIP/RSU Program (or, if a Change in Control occurs prior to such payment date and prior to the date for which a potential payment under the NLTIP/RSU Program ceases to exist for the relevant Award, on the date upon which such Change in Control occurs), all Payment Amounts with respect to Awards made to Executive under the NLTIP/RSU Program for which a potential payment under the NLTIP/RSU Program exists as of the date of Executive's termination of employment, as if Executive had remained employed by Company in Executive's current position through the date that would entitle Executive to the maximum payment with respect to such Awards under the NLTIP/RSU Program (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), (3) if such termination occurs on or after the date upon which a Change in Control occurs, pay to Executive (or Executive's estate), within five business days after the date of such termination, all Payment Amounts with respect to Awards made to Executive under the NLTIP/RSU Program for which a potential payment under the NLTIP/RSU Program exists as of the date of Executive's termination of employment, as if Executive had remained employed by Company in Executive's current position through the date that would entitle Executive to the maximum payment with respect to such Awards under the NLTIP/RSU Program (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), and (4) if termination was due to Executive's death, provide Executive's designated beneficiary or beneficiaries with the benefits contemplated under paragraph 3.3. Capitalized terms used in clauses (2) and (3) of the preceding sentence that are not defined elsewhere in this Agreement have the meanings ascribed thereto in the NLTIP/RSU Program as in effect on the Effective Date.

4.3 By Executive. If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that Company shall provide Executive with the payments and benefits described in clause (A) of the first sentence of paragraph 4.1, and, if such termination shall be by Executive for Good Reason, then Company shall provide Executive with the payments and benefits described in clause (B) of the first sentence of paragraph 4.1 and take the actions described in the last sentence of paragraph 4.1 (if applicable).

4.4 Certain Additional Payments by Company. Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Code), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive on or as soon as practicable following the day on which the Excise Tax is remitted by or on behalf of Executive (but not later than the end of the taxable year following the year in which the Excise Tax is remitted) an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments; provided, however, that Company's obligation to pay Executive a Gross-up Payment with respect to an Excise Tax relating to Section 409A of the Code is conditioned on Executive having, on and after the Effective Date, cooperated with Company to execute any amendment to the provisions hereof or any other agreement or arrangement reasonably necessary to avoid the imposition of such Excise Tax, but only to the minimum extent necessary to avoid the application of such Excise Tax and only to the extent that Executive would not, as a result, suffer (i) any reduction in the total present value of the amounts otherwise payable to Executive, or the benefits otherwise to be provided to Executive, by Company or (ii) any material increase in the risk of Executive not receiving such amounts or benefits, it being agreed that, upon request of Executive, Company shall establish and fully fund (other than during any period in which such funding would result in adverse tax consequences to Executive pursuant to Section 409A(b)(3) of the Code) an irrevocable grantor ("rabbi") trust as described in the last sentence of paragraph 4.1 with respect to any amounts (plus interest thereon as so described) proposed to be deferred in payment to Executive under the terms of this proviso. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and

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

4.5 Payment Obligations Absolute. Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against Executive or anyone else; provided that all payments and other Company obligations under this Article 4 shall be subject to Executive's execution, within 50 days after the date of Executive's termination of employment, of a general release and waiver substantially in the form attached as Exhibit A to this Agreement, which has become irrevocable. Company agrees to execute such form of release and waiver concurrently with the execution thereof by Executive. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.8 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

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

4.7 Flight Benefits.

(i) Scope; Effectiveness. Paragraphs 4.7 and 4.8 set forth the terms and conditions of Flight Benefits provided to Executive; provided, however, that if Executive would be subject to additional taxes and interest under Section 409A of the Code if Executive's right to use Executive's annual allotment of Flight Benefits is not delayed as provided in Section 409A(a)(2)(B)(i) of the Code and the regulations thereunder, then, during the six-month period following Executive's termination of employment, Executive shall be able to use Executive's Annual Travel Limit and Annual Gross Up Limit (as such terms are defined in paragraph 4.8) until the time that such benefits used (together with any other miscellaneous separation pay benefits subject to Section 409A of the Code that are provided to Executive during such period) have an aggregate value equal to the applicable dollar amount under Section 402(g)(1)(B) of the Code for the year in which such termination of employment occurs.

(ii) Restrictions on Use; Consequences of Misuse.

(a) Personal Use Restriction. Executive agrees that the Flight Benefits are to be used principally for personal reasons and may not be used for business purposes (other than business purposes on behalf of Company, and other than business usage that is incidental or de minimus, defined as amounting to less than 10% of the total value (valued as the usage of the Annual Travel Limit is calculated) of flights on the CO System charged to Executive's UATP card (as such terms are defined in paragraph 4.8) during any calendar year), and that credit availability on Executive's UATP card may be suspended if (A) such UATP card is used for business purposes other than as described above and (B) after receiving written notice from Company to cease such usage, Executive continues to use Executive's UATP card for such business purposes.

(b) Booking and Ticketing; Accounting; Reimbursement.

(1) No tickets issued on the CO System in connection with the Flight Benefits may be purchased other than directly from Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued.

(2) Executive shall be responsible for all charges on Executive's UATP card in excess of the Annual Travel Limit or that are not for flights on the CO System. Executive agrees to reimburse Company, after receipt of an invoice or other accounting statement, for all charges on Executive's UATP card that are not for flights on the CO System and that are not otherwise reimbursable to Executive under the applicable policies of Company for reimbursement of business expenses of officers of Company, or that are for tickets in excess of the Annual Travel Limit or that violate the restrictions set forth in this paragraph 4.7, which reimbursement shall be made promptly (and in any event within 45 days after receipt of such invoice or other accounting statement). Executive agrees that the credit availability under Executive's UATP card may be suspended if Executive does not timely reimburse Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit; provided, that, immediately upon Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card will be restored.

(iii) Imputed Income. The sole cost to Executive of flights on the CO System pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO System charged on Executive's UATP card, or as otherwise required by law, and reported to Executive as required by applicable law. For purposes of tax reporting of Flight Benefits, it is the practice of Company to calculate taxable amounts based on the fiscal period commencing November 1 and ending on the following October 31 (for example, Flight Benefits utilized (i.e. "flown") during the twelve-month period from November 1, 2007 to October 31, 2008 are reported as a taxable benefit for year 2008). Company shall have sole discretion to change this practice, including if additional reporting tools become available to process Flight Benefits data or as required by law. With respect to any period for which Company is obligated to provide the Annual Gross Up Limit, Executive will provide to Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit Company to calculate accurately the amount to be paid to Executive.

(iv) Section 409A Matters. It is intended that the Flight Benefits program described in this Agreement comply with the limitations and requirements of Section 409A of the Code to the extent applicable, and all provisions herein shall be construed and interpreted in accordance with such intent. If Company reasonably determines in good faith that any provision of such program, when considered individually or in connection with the terms of any other nonqualified deferred compensation plan maintained by Company or any affiliate of Company, violates Section 409A of the Code, such provision will not be effected but will instead be interpreted and amended to comply with Section 409A of the Code, and any corrections of operation or administration necessary to comply with Section 409A of the Code shall be implemented; provided, however, that no such

interpretation, amendment or correction shall result in Executive being treated worse than other Company officers in the same or a lower officer category than Executive.

(v) **Additional Survivor Benefits.** Upon Executive's death, in addition to the lifetime benefits provided pursuant to paragraphs 4.8(ix)(c) and (d), Executive's surviving spouse and children will be permitted to continue to use (in the proportions specified in Executive's last will and testament or, if not so specified or if Executive dies intestate, in equal proportions) an additional travel limit that shall be granted annually on January 1 of each calendar year during the ten calendar year period beginning January 1st of the calendar year following Executive's death and ending on December 31st of the year of the tenth anniversary of the Executive's death (such annual survivor benefit amount to be \$15,000), which annual amount shall be adjusted upon any change in the valuation methodology used by Company for imputed income from flights for U.S. federal income tax purposes so as to preserve an annual benefit level for purchase of tickets on the CO System at least as favorable as the benefit in effect on January 1, 2008. Upon Executive's death, Company shall issue UATP cards in the names of Executive's surviving spouse and children, as applicable. In determining any adjustment pursuant to the first sentence of this subparagraph, Company shall be entitled to rely on its good faith calculation as verified by its internal audit department or independent auditors, which calculation will be provided to the Executive's surviving spouse and children upon request. Company will provide Executive's surviving spouse and children an annual statement specifying the survivor benefit and any adjustments described in this subparagraph. Any portion of the annual survivor benefit described in this subparagraph that remains unused at the end of the calendar year for which it was awarded shall terminate and be of no further use or value. All restrictions, duties and obligations of Executive, and all rights of Company, relating to Executive's usage of Flight Benefits contained in this Agreement shall be applicable to usage of Executive's Flight Benefits by Executive's surviving spouse and children, and the provision of such Flight Benefits to Executive's surviving spouse and children shall be conditioned upon written acknowledgement of and agreement thereto by Executive's surviving spouse and children who may use such Flight Benefits.

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

(i) "affiliates" means any entity controlled by, controlling, or under common control with Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity;

(ii) "Annualized Compensation" shall mean an amount equal to the sum of (1) Executive's annual base salary pursuant to paragraph 3.1 in effect immediately prior to Executive's termination of employment hereunder and (2) an amount equal to 125% of the amount described in the foregoing clause (1);

(iii) "Annual Travel Limit" means an amount granted annually (on a calendar-year basis and effective January 1 of each year) by Company to Executive (such amount to be the same for each officer within an officer category and no less than the amount granted with respect to Executive for the flight benefits program year 2007; provided that, if Flight Benefits are provided to Executive after Executive's termination of employment pursuant to this Agreement, then each annual grant for a calendar year beginning after such termination of employment shall, subject to the remaining provisions of this subparagraph, be in an amount equal to the amount of the annual grant Executive received for the year in which such termination of employment occurred), which annual amount shall be adjusted upon any change in the valuation methodology used by Company to calculate imputed income from flights for U.S. federal income tax purposes so as to preserve such annual benefit level for purchases of tickets on the CO System (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the prior valuation methodology, then the Annual Travel Limit would be increased by 15%). In determining any adjustment, Company shall be entitled to rely on its good faith calculation, as verified by its internal audit department or independent auditors, which calculation will be provided to Executive upon request. Company will provide Executive an annual statement specifying the Annual Travel Limit and will notify Executive promptly of any adjustments to the Annual Travel Limit described in this subparagraph. Any portion of the Annual Travel Limit that remains unused at the end of the calendar year for which it was awarded shall expire and be of no further use or value;

(iv) "Annual Gross Up Limit" means an amount granted annually (on a calendar-year basis and effective January 1 of each year) by Company to Executive (such amount to be the same for each officer within an officer category and no less than the amount granted with respect to Executive for the flight benefits program year 2007; provided that, if Flight Benefits are provided to Executive after Executive's termination of employment pursuant to this Agreement, then each annual grant for a calendar year beginning after such termination of employment shall, subject to the remaining provisions of this subparagraph, be in an amount equal to the amount of the annual grant Executive received for the year in which such termination of employment occurred), which amount shall be adjusted upon any change in the valuation methodology used by Company to calculate imputed income from flights for U.S. federal income tax purposes so as to preserve such annual benefit level of tax gross up (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the prior valuation methodology, then the Annual Gross Up Limit would be increased by 15%). In determining any adjustment, Company shall be entitled to rely on its good faith calculation, as verified by its internal audit department or independent auditors, which calculation will be provided to Executive upon request. Company will provide Executive an annual statement specifying the Annual Gross Up Limit and will notify Executive promptly of any adjustments to the Annual Gross Up Limit described in this subparagraph. Any portion of the Annual Gross Up Limit that remains unused at the end of the calendar year for which it was awarded shall expire and be of no further use or value;

(v) "Change in Control" shall have the same meaning as is assigned to such term under the NLTIP/RSU Program as in effect on the Effective Date;

(vi) "Continuation Coverage" shall mean, subject to the limitations described in this paragraph 4.8(vi), the continued coverage of Executive and Executive's eligible dependents under the following Company welfare benefit plans available to a similarly situated Company executive who has not terminated employment (or the provision of similar benefits, which may include the provision of benefits under one or more insurance policies): medical, dental, term life insurance (in an amount equal to one times Executive's annual base salary rate on the effective date of termination, without regard to the life insurance benefit that might otherwise be available under standard Company policy), vision care, accidental death and dismemberment, and prescription drug. Such coverage shall be offered solely as an alternative to any COBRA continuation coverage applicable to any group health plan otherwise available to Executive (and each of Executive's dependents, if any) within the meaning of ERISA sections 601 through 608. Further, any such coverage shall be subject to the application of any Medicare or other coordination of benefits provisions under a particular welfare benefit plan. Such coverage shall be provided by Company at no greater contribution, deductible or co-pay cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment. The coverage described in this paragraph 4.8(vi) (or the receipt of similar benefits) shall be provided to Executive under one or more insurance policies so that

reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of similar benefits) shall be suspended during any period that Executive receives similar benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive similar benefits and notifying Company thereof;

(vii) "CO System" shall mean (1) flights operated by Company or any of its affiliates or any successor or successors thereto and (2) flights operated on behalf of Company by any third party under capacity purchase agreements with Company; provided that, unless otherwise communicated to Executive and subject to clause (2), CO System shall not include flights on any other carriers, including Continental Connection carriers and other alliance/codeshare carriers;

(viii) "Eligible Family Members" means, with respect to each annual benefit year, Executive's spouse or travel companion, dependent unmarried children through age 20 and through age 25 if full-time students, and a maximum of two parents (which may be biological or step-parents); provided that, if Flight Benefits are provided to Executive after Executive's termination of employment pursuant to this Agreement, then, following such termination of employment, an Eligible Family Member shall not include any individual with respect to whom a benefit described in paragraph 4.8(ix)(a) is taxable;

(ix) "Flight Benefits" shall mean flight benefits on each airline in the CO System consisting of the following (and such flight benefits shall be provided and construed in accordance with the terms and conditions set forth in paragraphs 4.7 and 4.8):

(a) highest priority space available flight passes, including appropriate flight pass identification cards, for Executive and Executive's Eligible Family Members;

(b) a Universal Air Travel Plan (UATP) card or, in the event of discontinuance of the UATP program, a similar charge card or other authorization mechanism permitting the purchase of air travel through direct billing to Company or any successor or successors thereto (which successor card or mechanism shall be deemed included as appropriate in all references herein to "UATP card") in Executive's name for charging (subject to the restrictions set forth in paragraph 4.7(ii)) on an annual, calendar year basis up to the Annual Travel Limit the purchase of tickets on the CO System (in any fare class) for travel by Executive, Executive's spouse, Executive's family and significant others as determined by Executive;

(c) Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's and children's names, such cards to be lifetime membership cards;

(d) a membership for Executive and Executive's spouse and children in Company's Presidents Club (or any successor program), such memberships to be lifetime memberships (subject to the terms and conditions of membership, including minimum age requirements); and

(e) payment by Company to Executive of an annual (calendar year) amount up to the Annual Gross Up Limit sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from any flight benefits extended to Executive pursuant to paragraphs 4.8(ix)(a) through (d) or otherwise provided as a result of Executive's service as an employee of Company, and any payment by Company to Executive pursuant to this paragraph 4.8(ix)(e) shall be made on or as soon as practicable following the day on which the required tax is remitted by or on behalf of Executive (but not later than the end of the taxable year following the year in which such tax is remitted);

(x) "Outplacement and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of 12 months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or the HR Committee (with such approval not to be unreasonably withheld), and (2) a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas;

(xi) "Severance Period" shall mean:

(1) in the case of a termination of Executive's employment with Company that occurs within two years after the date upon which a Change in Control occurs, a period commencing on the date of such termination and continuing for 36 months; or

(2) in the case of a termination of Executive's employment with Company that occurs prior to a Change in Control or after the date which is two years after a Change in Control occurs, a period commencing on the date of such termination and continuing for 24 months; and

(xii) "Termination Payment" shall mean an amount equal to Executive's Annualized Compensation multiplied by a fraction, the numerator of which is the number of months in the Severance Period and the denominator of which is 12.

ARTICLE 5: MISCELLANEOUS

5.1 Interest and Indemnification. If any payment to Executive provided for in this Agreement is not made by Company when due, Company shall pay to Executive interest on the amount payable from the date that such payment should have been made until such payment is made, which interest shall be calculated at 3% plus the prime or base rate of interest announced by JPMorgan Chase Bank (or any successor thereto) at its principal office in Houston, Texas (but not in excess of the highest lawful rate), and such interest rate shall change when and as any such change in such prime or base rate shall be announced by such bank. If Executive shall obtain any money judgment or otherwise prevail with respect to any litigation brought by Executive or Company to enforce or interpret any provision contained herein, Company, to the fullest extent permitted by applicable law, hereby indemnifies Executive for Executive's reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to Executive should have been made under this Agreement until such judgment shall have been paid in full, which interest shall be calculated at the rate set forth in the preceding sentence. Any reimbursement of attorneys' fees and disbursements required under this paragraph 5.1 and any reimbursement of costs and expenses required under paragraph 3.6(ii) or paragraph 4.4 shall be made by Company

upon or as soon as practicable following receipt of supporting documentation reasonably satisfactory to Company (but in any event not later than the close of Executive's taxable year following the taxable year in which the fee, disbursement, cost or expense is incurred by Executive); provided, however, that, upon Executive's termination of employment with Company, in no event shall any additional reimbursement be made prior to the date that is six months after the date of Executive's termination of employment to the extent such payment delay is required under Section 409A(a)(2)(B)(i) of the Code; provided that interest at the rate specified above in this Section 5.1 shall be paid to Executive with respect to any time period that reimbursement is so delayed and such interest shall be paid at the same time as the reimbursement. In no event shall any reimbursement be made to Executive for such fees, disbursements, costs and expenses incurred after the later of (1) the tenth anniversary of the date of Executive's death or (2) the date that is ten years after the date of Executive's termination of employment with Company.

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

If to Company: Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

If to Executive: At the most recent address on file with Company

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

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

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

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

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

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

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

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

5.10 Successors. This Agreement shall be binding upon and inure to the benefit of Company and any successor of Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Except as provided in the preceding sentence or in paragraph 3.3 (regarding assignment of life insurance benefits), this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party. The parties intend that the provisions of this Agreement benefiting Executive's estate or Executive's surviving spouse and children shall be enforceable by them.

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

5.12 Entire Agreement. Except as provided in the benefits, plans, and programs referenced in paragraph 3.6(iv) and any awards under Company's stock incentive plans or programs, Annual Executive Bonus Program, NLTIP/RSU Program or similar plans or programs, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement shall automatically terminate and no longer be of any force or effect, and neither party shall have any rights or obligations thereunder. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

5.13 Deemed Resignations. Any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of Company and each affiliate of Company, and an automatic resignation of Executive from the Board of Directors (if applicable) and from the board of directors of any affiliate of Company, and from the board of directors or similar governing body of any corporation, limited liability company or other entity in which Company or any affiliate holds an equity interest and with respect to which board or similar governing body Executive serves as Company's or such affiliate's designee or other representative.

5.14 No Solicitation. During Executive's employment hereunder and for a period of two years following the date of Executive's termination of employment, Executive hereby agrees not to, directly or indirectly, solicit or hire or assist any other person or entity in soliciting or hiring any employee of Company or any of its subsidiaries to perform services for any entity (other than Company or its subsidiaries), or attempt to induce any such employee to leave the employ of Company or its subsidiaries.

5.15 Confidentiality. During Executive's employment hereunder and thereafter, Executive shall hold in strict confidence any Proprietary or

Confidential Information related to Company or its subsidiaries, except that Executive may disclose such information as required by law, court order, regulation or similar order. For purposes of this Agreement, the term "Proprietary or Confidential Information" shall mean all information relating to Company, its subsidiaries or affiliates (such as business plans, trade secrets, or financial information of strategic importance to Company or its subsidiaries or affiliates) that is not generally known in the airline industry, that was learned, discovered, developed, conceived, originated or prepared during Executive's employment with Company and the disclosure of which would be harmful to the business prospects, financial status or reputation of Company or its subsidiaries or affiliates at the time of any disclosure by Executive.

5.16 **Injunctive Relief.** Executive hereby agrees that it is impossible to measure in money the damages which will accrue to Company by reason of a failure by Executive to perform any of Executive's obligations under paragraphs 5.14 and 5.15. Accordingly, if Company or any of its affiliates institutes any action or proceeding to enforce paragraphs 5.14 or 5.15, to the extent permitted by applicable law, Executive hereby waives the claim or defense that Company or its affiliates has an adequate remedy at law, and Executive shall not urge in any such action or proceeding the claim or defense that any such remedy at law exists.

5.17 **Delayed Payment Restriction.** Notwithstanding any provision in this Agreement to the contrary, if any payment or benefit provided for herein would be subject to additional taxes and interest under Section 409A of the Code if Executive's receipt of such payment or benefit is not delayed until the Section 409A Payment Date, then such payment or benefit shall not be provided to Executive (or Executive's estate, if applicable) until the Section 409A Payment Date (and, at that time, Executive shall also receive interest thereon from the date such payment or benefit would have been provided in the absence of this paragraph until the date of receipt of such payment or benefit at the Aa Corporate Bond Rate (as defined in paragraph 3.5(vii), but determined as of the last day of the second month preceding the first day of the month coinciding with or next following the date of Executive's termination of employment)). Upon request of Executive, Company shall establish and fully fund (other than during any period in which such funding would result in adverse tax consequences to Executive pursuant to Section 409A(b)(3) of the Code) an irrevocable grantor ("rabbi") trust as described in the last sentence of paragraph 4.1 with respect to any amounts (plus interest thereon) required to be deferred in payment to Executive pursuant to the preceding sentence. This paragraph shall not apply to any payment or benefit otherwise described in the first sentence of this paragraph if another provision of this Agreement is intended to cause Executive's receipt of such payment or benefit to satisfy the requirements of Section 409A(a)(2)(B)(i) of the Code.

[Signatures begin on following page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on August 29, 2008, to be effective as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By: /s/ Jennifer L. Vogel

Name: Jennifer L. Vogel

Title: Senior Vice President,

General Counsel, Secretary
and Chief Compliance Officer

"EXECUTIVE"

/s/ Zane C. Rowe

Zane C. Rowe

APPROVED:

/s/ Charles Yamarone

Charles Yamarone

Chair, Human Resources Committee

EXHIBIT A

TO

EMPLOYMENT AGREEMENT

Form of Release Agreement

(to be executed by Company and Executive)

In consideration of the benefits provided by Company to Executive, Executive hereby releases Continental Airlines, Inc. ("Continental") and each of its subsidiaries and affiliates and their respective stockholders, officers, directors, employees, representatives, agents and attorneys from any and all claims or liabilities, known or unknown, of any kind, including, without limitation, any and all claims and liabilities relating to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, or relating to the cessation of such employment or under the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 1981, the Texas Commission on Human Rights Act, and any other statutory, tort, contract or common law cause of action, other than claims or liabilities arising from a breach by Continental of (i) its post-employment obligations under that certain Employment Agreement effective as of _____ between Continental and Executive (the "Employment Agreement"), (ii) its obligations under the Continental Retirement Plan ("CARP"), under Executive's outstanding grants of stock options or restricted stock, under outstanding awards under the Continental Airlines, Inc. Annual Executive Bonus Program (the "Annual Bonus Program"), the NLTIP/RSU Program, or under any other compensation plan or program of Continental (such capitalized but undefined terms having the meanings attributed to them in the Employment Agreement), or (iii) its obligations under existing agreements governing Executive's flight benefits relating to other airlines. Continental hereby releases Executive from any and all claims or liabilities, known or unknown, of any kind in any way relating to or pertaining to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, other than fraud or intentional malfeasance or claims arising from a breach by Executive of the Employment Agreement or of Executive's obligations under the CARP, under Executive's outstanding grants of stock options or restricted stock, under outstanding awards under the Annual Executive Bonus Program or the NLTIP/RSU Program, under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines. These releases are to be broadly construed in favor of the released persons. These releases do not apply to any rights or claims that may arise after the date of execution of this Release Agreement by Executive and Continental. Both parties agree that this Release Agreement is not and shall not be construed as an admission of any wrongdoing or liability on the part of either party. Notwithstanding the foregoing, the post-employment obligations created by the Employment Agreement, the CARP, Executive's outstanding option grants and grants of restricted stock, outstanding awards under the Annual Executive Bonus Program and the NLTIP/RSU Program, or outstanding awards under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines, are not released.

Executive acknowledges that, by Executive's free and voluntary act of signing below, Executive agrees to all of the terms of this Release Agreement and intends to be legally bound thereby.

Executive acknowledges that Executive has received a copy of this Release Agreement on [date that Executive receives Release Agreement]. Executive understands that Executive may consider whether to agree to the terms contained herein for a period of [twenty-one] [forty-five] days after the date Executive has received this Release Agreement. Accordingly, Executive may execute this Release Agreement by [date [21] [45] days after Release Agreement is given to Executive], to acknowledge Executive's understanding of and agreement with the foregoing. [Add if 45 days applies: Executive acknowledges that attached to this Release Agreement are (i) a list of the positions and ages of those employees selected for termination (or participation in the exit incentive or other employment termination program) and (ii) a list of the ages of those employees not selected for termination (or participation in such program).] Executive acknowledges that Executive has been and is hereby advised to consult with an attorney prior to executing this Release Agreement.

This Release Agreement will become effective, enforceable and irrevocable on the eighth day after the date on which it is executed by Executive (the "Effective Date"). During the seven-day period prior to the Effective Date, Executive may revoke Executive's agreement to accept the terms hereof by serving written notice in accordance with Section 5.2 of the Employment Agreement to Company of Executive's intention to revoke. However, the Termination Payment provided for in the Employment Agreement will be delayed until the Effective Date.

CERTIFICATION

I, Lawrence W. Kellner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Continental Airlines, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 20, 2008

/s/ Lawrence W. Kellner

Lawrence W. Kellner

Chairman of the Board and

Chief Executive Officer

CERTIFICATION

I, Zane C. Rowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Continental Airlines, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 20, 2008

/s/ Zane C. Rowe

Zane C. Rowe

Executive Vice President and

Chief Financial Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Continental Airlines, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: October 20, 2008

/s/ Lawrence W. Kellner

Lawrence W. Kellner

Chairman of the Board and

Chief Executive Officer

/s/ Zane C. Rowe

Zane C. Rowe

Executive Vice President and

Chief Financial Officer