

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):

July 20, 2004

CONTINENTAL AIRLINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	1-10323	74-2099724
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS 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)

On July 20, 2004, we issued a press release announcing our financial results for the second quarter of 2004. The press release is furnished herewith as Exhibit 99.1 and is incorporated herein by reference.

Item 9. Regulation FD Disclosure.

On July 20, 2004, we provided an update for investors presenting information relating to our financial and operational results for the second quarter of 2004 and other information. The update is furnished herewith as Exhibit 99.2 and is incorporated herein by reference.

SIGNATURE

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

CONTINENTAL AIRLINES, INC.

July 20, 2004

By: /s/ Jennifer L. Vogel

Jennifer L. Vogel

Senior Vice President, General Counsel  
and Secretary

EXHIBIT INDEX

99.1	Press Release
99.2	Investor Update



## News Release

**Contact:** Corporate Communications

**Houston:** 713.324.5080

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**News archive:** [continental.com/news/](http://continental.com/news/) **Address:** P.O. Box 4607, Houston, TX 77210-4607

### CONTINENTAL AIRLINES ANNOUNCES

#### SECOND QUARTER RESULTS

*Weak domestic yields and record high fuel prices continue to impact results*

HOUSTON, July 20, 2004 -- Continental Airlines (NYSE: CAL) today reported a second quarter net loss of \$17 million (\$0.26 loss per share), which included a special charge of \$19 million after taxes (\$30 million before taxes) due to the retirement of leased MD-80 aircraft.

Excluding the aircraft retirement charge, Continental achieved a net profit of

\$2 million (\$0.03 earnings per share) for the quarter, which compares favorably to the First Call mean estimate of \$0.09 loss per share.

A weak domestic fare environment caused in large part by the growth of low cost competitors and record high fuel prices continue to hurt the company's financial performance. The price of West Texas Intermediate crude oil hit an all-time high of \$42.33 per barrel on June 1, 2004, and continues at over \$40 per barrel.

"These results remain disappointing in a year where we hoped to break even," said Gordon Bethune, Continental's chairman and chief executive officer. "Our efforts to

return to profitability were overwhelmed by the continuing soft domestic yields, a record high cost of fuel, and a \$265 million burden of taxes and fees paid to the government over the last three months."

#### **Second Quarter Revenue and Capacity**

Second quarter passenger revenue improved 15.1 percent to \$2.3 billion versus the same period in 2003. Mainline revenue passenger miles increased 14.7 percent over the second quarter 2003 on a capacity increase of 12.4 percent, resulting in a mainline load factor of 78.1 percent, up 1.6 points year-over-year. Mainline capacity has now returned to the levels of the second quarter of 2000.

Due to intense competition with low cost carriers, mainline yields continue to be weak, decreasing 1.6 percent year-over-year. Industry fare discounting and record high fuel prices drove Continental's consolidated breakeven load factor up to 78.7 percent.

Revenue passenger miles for regional operations were 30.9 percent higher on a capacity increase of 25.6 percent versus the same period in 2003, driving regional load factor up 3.0 points to 73.2 percent.

Despite overall weakness in domestic yields, Continental continued to maintain a domestic length-of-haul adjusted yield and revenue per available seat mile (RASM) premium to the industry. Passenger revenue for the second quarter 2004 and period to period comparisons of related statistics by geographic region for the company's mainline and regional operations are as follows:

Percentage Increase (Decrease) in Second

Passenger

Revenue Passenger

(in millions) Revenue RASM ASMs

Domestic \$ 1,166 5.2% (0.3)% 5.5%

Transatlantic 360 32.0% 1.2% 30.5%

Latin America 245 9.8% (3.3)% 13.5%

Pacific 147 55.2% 23.2% 26.0%

Total Mainline \$ 1,918 12.9% 0.5% 12.4%

Regional \$ 413 26.3% 0.7% 25.6%

Total System \$ 2,331 15.1% 1.2% 13.7%

Beginning this quarter, Continental will supplementally disclose in its financial statements all taxes and fees remitted to various governmental entities that are charged on passenger tickets. For the first six months of 2004, those taxes and fees totaled \$509 million. In the current competitive environment, substantially all of these taxes and fees are absorbed by Continental. The Air Transport Association estimates that the total tax and fee burden borne by the U.S. airline industry will exceed \$14 billion in 2004, the same period for which they expect industry losses to be approximately \$3 billion.

### **Operational Results**

Abnormally severe weather throughout the Northeast, Southeast, Gulf of Mexico and Great Lakes regions posed significant operational challenges for the entire industry during the quarter. Despite bad weather, Continental had few flight cancellations and maintained a systemwide mainline completion factor of 99.7 percent. Continental's on-time performance for the quarter, as reported to the Department of Transportation, was 74.3 percent, a notable accomplishment given the weather and Air Traffic Control delays.

"Despite 52 days of severe thunderstorms affecting at least one of our hub cities of Houston, New York and Cleveland, we cancelled only about one-half of one percent of the almost 100,000 flights we flew this quarter," said Larry Kellner, Continental's president and chief operating officer. "Our co-workers did an outstanding job of serving our customers and capturing revenue in spite of Mother Nature's obstacles."

Continental won top honors in the OAG Airline of the Year Awards 2004. Continental was the first North American airline to win "Airline of the Year," in addition to "Best Executive/Business Class" and "Best Airline Based in North America."

More than 10 million travelers of 92 different nationalities collectively ranked Continental Airlines No. 1 in the Best Airline - North America category and No. 2 in the Best Airline - Transatlantic category in a survey commissioned by Skytrax Research of London, U.K. The survey was conducted between June 2003 and March 2004.

Continental began offering free, high-speed wireless Internet in all of its domestic Presidents Clubs, except at Chicago where the company shares a club with Northwest Airlines. Continental is on target to complete wireless service at its international clubs by the end of the year.

Continental added several new international routes during the second quarter including flights between Newark Liberty International and Edinburgh, Scotland; Oslo, Norway; and Punta Cana, Dominican Republic. The airline also added flights between Houston and Port of Spain, Trinidad; Roatan, Honduras; and Montego Bay, Jamaica. The company added domestic service from Newark Liberty to Sacramento and Albuquerque.

Continental's regional operations, marketed as Continental Express, began service between Houston and Puebla, Oaxaca, and Toluca, Mexico; and Tallahassee, Florida; from Mexico City to McAllen and San Antonio; and from

Newark Liberty to St. John's, Newfoundland.

## Second Quarter Financial Results

Continental's mainline cost per available seat mile (CASM) increased 8.7 percent (CASM decreased 6.5 percent excluding special items and holding fuel rate constant) in the second quarter compared to the same period last year, with the increase largely due to the security fee reimbursement of \$176 million in the second quarter 2003 and record high fuel prices.

"We continue to work on removing costs that our customers don't value," said Jeff Misner, Continental senior vice president and chief financial officer. "While we are making good progress on our initiatives, it is clear that we have much more work to do to become profitable in this weak domestic fare environment."

The \$30 million special charge is for future obligations for rent and return conditions related to six leased MD-80 aircraft that were retired during the quarter. The company's 10 remaining MD-80 aircraft will be retired by January 2005.

In June, Continental filed an election with the IRS to preserve the company's eligibility for deficit reduction contribution relief under the recently enacted Pension Funding Equity Act. Under that legislation, Continental may reduce pension contributions otherwise due in 2004. The company continues to evaluate its 2004 contribution options to fund the pension plan and expects to make a decision regarding

the funding by mid-September 2004.

During the second quarter, Continental took delivery of one Boeing 757-300 and three Boeing 737-800s, and expects to take delivery of five additional Boeing 737-800s over the remaining six months of 2004.

The airline ended the second quarter with a record \$1.9 billion in cash and short-term investments, of which \$177 million is restricted.

## Corporate Background

Continental Airlines is the world's sixth-largest airline with more than 2,900 daily departures throughout the Americas, Europe and Asia. Continental serves 149 domestic and 119 international destinations - more than any other airline in the world - and nearly 200 additional points are served via codeshare partner airlines. With more than 42,000 employees, the airline has hubs serving New York, Houston, Cleveland and Guam, and carries approximately 51 million passengers per year. In 2004, Continental has earned awards and critical acclaim for both its operation and its corporate culture. *FORTUNE* ranks Continental one of the 100 Best Companies to Work For in America, an honor it has earned for six consecutive years, and also ranks Continental as the top airline in its Most Admired Global Companies in 2004. The carrier won major awards at the 2004 OAG Airline of the Year Awards including "Airline of the Year," "Best Airline Based in North America" and "Best Executive/Business Class." For more company information, visit [continental.com](http://continental.com).

Continental Airlines will conduct a regular quarterly telephone briefing today to discuss these results and the company's financial and operating outlook with the financial

community and news media at 9:30 a.m. CT/10:30 a.m. ET. To listen to a live broadcast of this briefing, go to [continental.com/company](http://continental.com/company).

This press release may contain forward-looking statements that are not limited to historical facts, but reflect the Company's current beliefs, expectations or intentions regarding future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ from those in the forward-looking statements. For examples of such risks and uncertainties, please see the risk factors set forth in the Company's 2003 10-K and its other securities filings, which identify important matters such as terrorist attacks, domestic and international economic conditions, the significant cost of aircraft fuel, labor costs, competition and industry conditions including the demand for air travel, airline pricing environment and industry capacity decisions, regulatory matters 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.

The financial statement deconsolidation of ExpressJet in November 2003 affects the comparability of quarter-to-quarter financial results in all line items except passenger revenue. Post-deconsolidation, Continental's proportionate share of ExpressJet's net income is reflected in equity in the income of affiliates. Payments made to ExpressJet under Continental's capacity purchase agreement, previously eliminated in consolidation, are reported in ExpressJet capacity purchase, net, in 2004. See the attached table "ExpressJet Deconsolidation Impact" for a year-over-year comparison of individual items excluding the impact of ExpressJet deconsolidation.

## CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES

### FINANCIAL SUMMARY

(In millions of dollars, except per share data) (Unaudited)

	Three Months		%
	Ended June 30,		Increase/ (Decrease)
	<u>2004</u>	<u>2003</u>	<u>(Decrease)</u>
Operating Revenue:			
Passenger (excluding related taxes/fees of \$265 and \$237, respectively) (a):			
Mainline	\$1,918	\$1,699	12.9 %
Regional	413	327	26.3 %
Cargo, mail and other	<u>183</u>	<u>190</u>	(3.7)%
	<u>2,514</u>	<u>2,216</u>	13.4 %
Operating Expenses:			
Wages, salaries and related costs	711	762	(6.7)%
Aircraft fuel and related taxes	387	318	21.7 %
ExpressJet capacity purchase, net	328	-	NM
Aircraft rentals	222	224	(0.9)%
Landing fees and other rentals	161	152	5.9 %
Maintenance, materials and repairs	102	126	(19.0)%
Depreciation and amortization	104	110	(5.5)%
Bookings fees, credit card discounts and sales	100	102	(2.0)%
Passenger servicing	76	73	4.1 %
Commissions	40	36	11.1 %
Other	210	237	(11.4)%
Fleet impairment losses and other special charges (b)	30	14	NM
Security fee reimbursement (c)	<u>-</u>	<u>(176)</u>	NM
	<u>2,471</u>	<u>1,978</u>	24.9 %
Operating Income	<u>43</u>	<u>238</u>	(81.9)%
Nonoperating Income (Expense):			
Interest expense	(97)	(97)	-
Interest capitalized	3	6	(50.0)%
Interest income	6	3	100.0 %

Equity in the income of affiliates	17	5	NM
Other, net	<u>3</u>	<u>4</u>	(25.0)%
	<u>(68)</u>	<u>(79)</u>	(13.9)%
Income (Loss) before Income Taxes and Minority Interest	(25)	159	NM
Income Tax Benefit (Provision)	8	(67)	NM
Minority Interest	<u>-</u>	<u>(13)</u>	NM
Net Income (Loss)	\$ <u>(17)</u>	\$ <u>79</u>	NM
Basic Earnings (Loss) per Share	\$ <u>(0.26)</u>	\$ <u>1.20</u>	NM
Diluted Earnings (Loss) per Share	\$ <u>(0.26)</u>	\$ <u>1.10</u>	NM
Shares Used for Computation:			
Basic	66.0	65.4	0.9 %
Diluted	66.0	74.5	(11.4)%

a. The taxes and fees are primarily U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign departure taxes.

b. During the second quarter of 2004, the company recorded a special charge of \$30 million related to the retirement of six leased MD-80 aircraft. The company recorded \$14 million of expense associated with the deferral of Boeing aircraft deliveries in the second quarter of 2003.

c. The company received \$176 million reimbursement of security fees in the second quarter of 2003.

NOTE: 2003 amounts include the consolidation of ExpressJet while 2004 does not.

(more)

## CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES

### FINANCIAL SUMMARY

(In millions of dollars, except per share data) (Unaudited)

	Six Months		%
	Ended June 30,		Increase/
	<u>2004</u>	<u>2003</u>	(Decrease)
Operating Revenue:			
Passenger (excluding related taxes/fees of \$509 and \$451, respectively) (a):			
Mainline	\$3,651	\$3,310	10.3 %
Regional	767	588	30.4 %
Cargo, mail and other	<u>365</u>	<u>360</u>	1.4 %
	<u>4,783</u>	<u>4,258</u>	12.3 %
Operating Expenses:			
Wages, salaries and related costs	1,399	1,541	(9.2)%
Aircraft fuel and related taxes	720	680	5.9 %
ExpressJet capacity purchase, net	645	-	NM
Aircraft rentals	442	446	(0.9)%
Landing fees and other rentals	319	304	4.9 %

Maintenance, materials and repairs	214	260	(17.7)%
Depreciation and amortization	207	226	(8.4)%
Bookings fees, credit card discounts and sales	201	193	4.1 %
Passenger servicing	145	143	1.4 %
Commissions	76	72	5.6 %
Other	422	477	(11.5)%
Fleet impairment losses and other special charges (b)	85	79	7.6 %
Security fee reimbursement (c)	<u>—</u>	<u>_(176)</u>	NM
	<u>4,875</u>	<u>4,245</u>	14.8 %
Operating Income (Loss)	<u>_(92)</u>	<u>13</u>	NM
Nonoperating Income (Expense):			
Interest expense	(195)	(196)	(0.5)%
Interest capitalized	8	13	(38.5)%
Interest income	11	8	37.5 %
Equity in the income of affiliates	31	6	NM
Other, net	<u>19</u>	<u>—</u>	NM
	<u>_(126)</u>	<u>_(169)</u>	(25.4)%
Loss before Income Taxes and	(218)	(156)	39.7 %
Minority Interest			
Income Tax Benefit	77	39	97.4 %
Minority Interest	<u>—</u>	<u>_(25)</u>	NM
Net Loss	<u>\$_(141)</u>	<u>\$_(142)</u>	(0.7)%
Basic and Diluted Loss per Share	<u>\$_(2.14)</u>	<u>\$_(2.18)</u>	(1.8)%
Shares used for Basic and Diluted Computation	65.9	65.3	0.9 %

- a. The taxes and fees are primarily U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign departure taxes.
- b. During the second quarter of 2004, the company recorded a special charge of \$30 million related to the retirement of six leased MD-80 aircraft. In the first quarter of 2004, the company recorded \$55 million of special charges primarily related to the termination of a services agreement and the retirement of three MD-80 aircraft. The second quarter of 2003 includes \$14 million of expenses associated with the deferral of Boeing 737 aircraft deliveries. In the first quarter of 2003, the company recorded a \$65 million impairment charge associated with MD-80 fleet and spare parts associated with retired aircraft.
- c. The company received \$176 million reimbursement of security fees in the second quarter of 2003.

NOTE: 2003 amounts include the consolidation of ExpressJet while 2004 does not.

(more)

## CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES

	Three Months		%
	Ended June 30,		Increase/
	<u>2004</u>	<u>2003</u>	<u>(Decrease)</u>
<b>Mainline Jet Operations (except as noted):</b>			
Revenue passengers (thousands)	10,809	10,120	6.8 %
Revenue passenger miles (millions)	16,829	14,673	14.7 %
Available seat miles (millions)	21,547	19,168	12.4 %
Cargo ton miles (millions)	248	225	10.2 %
Passenger load factor:			
Mainline jet	78.1%	76.5%	1.6 points
Domestic	78.6%	78.3%	0.3 points
International	77.4%	73.8%	3.6 points
Consolidated (a)	77.6%	75.9%	1.7 points
Consolidated breakeven passenger load factor (a) (b)	78.7%	70.1%	8.6 points
Passenger revenue per available seat mile (cents)	8.90	8.86	0.5 %
Total revenue per available seat mile (cents)	9.75	9.81	(0.6)%
Average yield per revenue passenger mile (cents)	11.39	11.58	(1.6)%
Cost per available seat mile (cents) (c)	9.42	8.67	8.7 %
Cost per available seat mile, holding fuel rate constant (cents) (c)	9.02	8.67	4.0 %
Special charge expense and security fee reimbursement per available mile (cents)	0.14	(0.83)	NM
Average price per gallon of fuel, excluding fuel taxes (cents)	109.00	83.90	29.9 %
Average price per gallon of fuel, including fuel taxes (cents)	113.35	88.10	28.7 %
Fuel gallons consumed (millions)	341	308	10.7 %
Aircraft in fleet at end of period	352	358	(1.7)%
Average stage length (miles)	1,323	1,252	5.7 %
<b>Regional Jet Operations:</b>			
Revenue passenger miles (millions)	1,906	1,456	30.9 %
Available seat miles (millions)	2,603	2,073	25.6 %
Load factor	73.2%	70.2%	3.0 points
Aircraft in fleet at end of period	235	212	10.8%

- a. Includes regional jet operations.
- b. The percentage of seats that must be occupied by revenue passengers for us to break even on a net income basis. Special charges of \$19 million in the second quarter 2004 and the security fee reimbursement of \$111 and fleet impairment losses and other special items of \$8 million in the second quarter 2003 (all after taxes) included in the consolidated breakeven load factor account for 1.2 and (7.4) percentage points, respectively.
- c. Includes impact of special charges and security fee reimbursement.

(more)

## CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES

### STATISTICS

	Six Months		%
	Ended June 30,		
	<u>2004</u>	<u>2003</u>	<u>(Decrease)</u>
<b>Mainline Jet Operations (except as noted):</b>			
Revenue passengers (thousands)	20,544	19,365	6.1 %
Revenue passenger miles (millions)	31,542	27,947	12.9 %
Available seat miles (millions)	41,817	38,244	9.3 %
Cargo ton miles (millions)	498	458	8.7 %
Passenger load factor:			
Mainline jet	75.4%	73.1%	2.3 points
Domestic	75.2%	74.7%	0.5 points
International	75.7%	70.5%	5.2 points
Consolidated (a)	74.7%	72.4%	2.3 points
Consolidated breakeven passenger load factor (a) (b)	79.3%	77.2%	2.1 points
Passenger revenue per available seat mile (cents)	8.73	8.66	0.8 %
Total revenue per available seat mile (cents)	9.60	9.56	0.4 %
Average yield per revenue passenger mile (cents)	11.58	11.84	(2.2)%
Cost per available seat mile (cents) (c)	9.58	9.46	1.3 %
Cost per available seat mile, holding fuel rate constant (cents) (c)	9.37	9.46	(1.0)%
Special charge expense and security fee reimbursement per available mile (cents)	0.20	(0.24)	NM

Average price per gallon of fuel, excluding fuel taxes (cents)	104.80	91.17	15.0 %
Average price per gallon of fuel, including fuel taxes (cents)	108.88	95.44	14.1 %
Fuel gallons consumed (millions)	661	613	7.8 %
Aircraft in fleet at end of period	352	358	(1.7)%
Average stage length (miles)	1,310	1,254	4.5 %

**Regional Jet Operations:**

Revenue passenger miles (millions)	3,448	2,534	36.1 %
Available seat miles (millions)	5,003	3,840	30.3 %
Load factor	68.9%	66.0%	2.9 points
Aircraft in fleet at end of period	235	212	10.8%

a. Includes regional jet operations.

b. The percentage of seats that must be occupied by revenue passengers for us to break even on a net income basis. Special charges of \$54 million in 2004 and the security fee reimbursement of \$111 and fleet impairment losses and other special items of \$49 million in 2003 (all after taxes) included in the consolidated breakeven load factor account for 1.7 and (2.3) percentage points, respectively.

c. Includes impact of special charges and security fee reimbursement.

(more)

**CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES**

**EXPRESSJET DECONSOLIDATION IMPACT**

(In millions of dollars)

	<u>Components of Increase (Decrease)</u>				
	<u>As Reported</u> Three Months Ended June 30,		Increase (Decrease) related to ExpressJet	All Other Increase	% Increase (Decrease) Excluding
	<u>2004</u>	<u>2003</u>	<u>Deconsolidation (a)</u>	<u>(Decrease)</u>	<u>ExpressJet</u>
Operating Revenue:					
Passenger:					
Mainline	\$1,918	\$1,699	\$ -	\$219	12.9 %
Regional	413	327	-	86	26.3 %
Cargo, mail and other	<u>183</u>	<u>190</u>	<u>-(1)</u>	<u>-(6)</u>	(3.2)%
	<u>2,514</u>	<u>2,216</u>	<u>-(1)</u>	<u>299</u>	13.5 %

Operating Expenses:

Wages, salaries and related costs	711	762	(86)	35	5.2 %
Aircraft fuel and related taxes	387	318	(47)	116	42.8 %
ExpressJet capacity purchase, net	328	-	266	62	23.3 %
Aircraft rentals	222	224	-	(2)	(0.9)%
Landing fees and other rentals	161	152	(25)	34	26.8 %
Maintenance, materials and repairs	102	126	(34)	10	10.9 %
Depreciation and amortization	104	110	(4)	(2)	(1.9)%
Bookings fees, credit card discounts and sales	100	102	--	(2)	(2.0)%
Passenger servicing	76	73	(3)	6	8.6 %
Commissions	40	36	-	4	11.1 %
Other	210	237	(25)	(2)	(0.9)%
Fleet impairment losses and other special charges	30	14	-	16	NM
Security fee reimbursement	<u>—</u>	<u>_(176)</u>	<u>—3</u>	<u>173</u>	NM
	<u>2,471</u>	<u>1,978</u>	<u>—45</u>	<u>448</u>	22.1 %
Operating Income	<u>—43</u>	<u>—238</u>	<u>_(46)</u>	<u>(149)</u>	(77.6)%
Nonoperating Expense	<u>_(68)</u>	<u>_(79)</u>	<u>_(16)</u>	<u>—5</u>	7.9 %
Income (Loss) before Income Taxes and Minority Interest	(25)	159	(30)	(154)	NM
Income Tax Benefit (Provision)	8	(67)	(17)	(58)	NM
Minority Interest	<u>—</u>	<u>_(13)</u>	<u>_(13)</u>	<u>—</u>	NM
Net Income (Loss)	<u>\$_(17)</u>	<u>\$—79</u>	<u>\$—</u>	<u>\$(96)</u>	NM

a. Represents increase (decrease) in amounts had ExpressJet been deconsolidated in 2003 and reported using the equity method of accounting at the 53.1% ownership interest in effect at that time.

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**CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES**

**EXPRESSJET DECONSOLIDATION IMPACT**

**(In millions of dollars)**

Components of Increase (Decrease)

	<u>As Reported</u> Six Months <u>Ended June 30,</u>		Increase (Decrease) related to ExpressJet	All Other Increase	%
	<u>2004</u>	<u>2003</u>	<u>Deconsolidation (a)</u>	<u>(Decrease)</u>	Increase (Decrease) Excluding <u>ExpressJet</u>
Operating Revenue:					
Passenger:					
Mainline	\$3,651	\$3,310	\$ -	\$341	10.3 %
Regional	767	588	-	179	30.4 %
Cargo, mail and other	<u>365</u>	<u>360</u>	<u>(4)</u>	<u>9</u>	2.5 %
	<u>4,783</u>	<u>4,258</u>	<u>(4)</u>	<u>529</u>	12.4 %
Operating Expenses:					
Wages, salaries and related costs	1,399	1,541	(170)	28	2.0 %
Aircraft fuel and related taxes	720	680	(95)	135	23.1 %
ExpressJet capacity purchase, net	645	-	532	113	21.2 %
Aircraft rentals	442	446	-	(4)	(0.9)%
Landing fees and other rentals	319	304	(48)	63	24.6 %
Maintenance, materials and repairs	214	260	(64)	18	9.2 %
Depreciation and amortization	207	226	(9)	(10)	(4.6)%
Bookings fees, credit card discounts and sales	201	193	-	8	4.1 %
Passenger servicing	145	143	(6)	8	5.8 %
Commissions	76	72	-	4	5.6 %
Other	422	477	(59)	4	1.0 %
Fleet impairment losses and other special charges	85	79	-	6	7.6 %
Security fee reimbursement	<u>-</u>	<u>(176)</u>	<u>3</u>	<u>173</u>	NM
	<u>4,875</u>	<u>4,245</u>	<u>84</u>	<u>546</u>	12.6 %
Operating Income (Loss)	<u>(92)</u>	<u>13</u>	<u>(88)</u>	<u>(17)</u>	(22.7)%
Nonoperating Expense	<u>(126)</u>	<u>(169)</u>	<u>(31)</u>	<u>(12)</u>	(8.7)%
Loss before Income Taxes and Minority Interest	(218)	(156)	57	5	2.3 %
Income Tax Benefit	77	39	32	6	8.5 %

minority interest

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NM

Net Loss \$(141) \$(142) \$— \$(1) (0.7)%

a. Represents increase (decrease) in amounts had ExpressJet been deconsolidated in 2003 and reported using the equity method of accounting at the 53.1% ownership interest in effect at that time.

(more)

## CONTINENTAL AIRLINES, INC. AND SUBSIDIARIES

### NON-GAAP FINANCIAL MEASURES

	Three Months Ended June 30, 2004			
<b>Net Income (Loss) (in millions of dollars)</b>				
Net income (loss)		\$(17)		
Adjustments:				
Add: Fleet impairment losses and other special charges		<u>19</u>		
Net income excluding fleet impairment and other special charges (a)		\$ <u>2</u>		
<b>Earnings (Loss) per Share</b>	Three Months Ended June 30, 2004			
Diluted loss per share		\$(0.26)		
Adjustments:				
Add: Fleet impairment losses and other special charges per share		<u>0.29</u>		
Diluted earnings per share, excluding fleet impairment losses and other special charges (a)		\$ <u>0.03</u>		
	Three Months Ended June 30,		%	
<b>CASM Mainline Operations</b>	<u>2004</u>	<u>2003</u>	(Decrease)	
Cost per available seat mile (CASM) (cents)	9.42	8.67	8.7 %	

Adjustments:					
Add: Security Fee Reimbursement per available seat mile (cents)	-		0.90		NM
Less: Fleet impairment and other special charges (cents)	(0.14)		(0.07)		100.0 %
CASM excluding special items (cents) (a)	9.28		9.50		(2.3)%
Less: Current year fuel cost per available seat mile (cents) (b)	(1.79)		-		
Add: Current year fuel cost at prior year fuel price per available seat mile (cents) (b)	<u>1.39</u>		<u>-</u>		
CASM holding fuel rate constant and excluding special items (cents) (a) (b)	<u>8.88</u>		<u>9.50</u>		(6.5)%

- a. These financial measures provide management and investors the ability to measure and monitor Continental's performance on a consistent basis.
- b. Both the cost and availability of fuel are subject to many economic and political factors and are therefore beyond our control, therefore these financial measures provide management and investors the ability to measure and monitor Continental's performance on a consistent basis.

###



Sarah Zaozirny  
Director - Investor Relations

## Investor Update

Issue Date:

July 20, 2004

*This report 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 2003 10-K and our other securities filings, which identify important matters such as terrorist attacks, domestic and international economic conditions, the significant cost of aircraft fuel, labor costs, competition and industry conditions including the demand for air travel, airline pricing environment and industry capacity decisions, regulatory matters and the seasonal nature of the airline business. In addition to the foregoing risks, there can be no assurance that the company will be able to achieve the pre-tax benefits from the revenue-generating and cost-reducing initiatives discussed, some of which will depend, among other matters, on customer acceptance and competitor actions. 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.*

## Current News

**Second Quarter 2004 Results:** Today Continental reported a second quarter net loss of \$17 million (\$0.26 loss per share). These results include previously announced after-tax special charges of \$19 million due to the retirement of six leased MD-80 aircraft during the quarter. Excluding the aircraft retirement charge, Continental achieved a net profit of \$2 million (\$0.03 earnings per share).

**\$500 Million Cost Savings Initiative Update:** Year-to-date 6/30/04 we have realized approximately \$235 million of savings related to these initiatives and are on-target to reach our goal of \$500 million set for this year.

**Debt and Capital Leases:** For the quarter ending 6/30/04, total Debt and Capital Leases were \$6.0 billion, of which \$5.7 billion is debt. Of the \$5.7 billion in debt, \$457 million is current.

**2004 Non-Cash Pension Expense Estimate:** \$280 million

**Taxes and Fees Remitted to Governmental Entities:** Beginning this quarter, Continental will supplementally disclose all taxes and fees remitted to various governmental entities that are charged on passenger tickets. For the first six months of 2004, those taxes and fees totaled \$509 million. In the current competitive environment, substantially all of these taxes and fees are absorbed by Continental.

### Tax Sharing Agreement with ExpressJet Holdings, Inc.

During the second quarter, Continental recorded approximately \$12 million related to the tax-sharing agreement with ExpressJet. Continental expects to receive approximately \$48 million in 2004 and \$25 million in 2005 related to this agreement. For more information regarding this tax-sharing agreement, please see our 2003 10-K.

### Targeted Cash Balance

Excluding any potential cash contributions to our pension plan, Continental anticipates ending the third quarter of 2004 with an unrestricted cash and short-term investments balance of approximately \$1.5 billion.

### Debt & Capital Lease Payments

Debt principal & Capital Lease payments for the third quarter 2004 are estimated to be approximately \$170 million.

### Advanced Bookings - Six Week Outlook

Advanced bookings outlook by region through the end of August is as follows:

Domestic bookings are running about the same level as last year and we expect third quarter domestic load factor be about flat year-over-year (yoy). Domestic yields remain weak and we expect third quarter domestic yields to be down slightly (yoy).

TransAtlantic bookings are also about even with last year. Bookings currently indicate that third quarter TransAtlantic load factor will be up about a point yoy despite a capacity increase in this region of 25%.

Latin bookings are averaging a few points ahead of last year but we expect our third quarter Latin load factor will be about flat yoy.

Pacific bookings should finish well ahead of last year even as we move past the SARS period last year. We expect third quarter Pacific load factor will improve yoy by approximately 4-5 pts.

	2004 Estimated	
	<u>Year-over-Year %Change</u>	
<b>ASMs (Available Seat Miles)</b>	<u>3rd Qtr (E)</u>	<u>Full Year(E)</u>

Domestic	0.3%	2.0%
Latin America	13.1%	11.0%
Transatlantic	24.8%	21.0%
Pacific	4.6%	10.5%
Total Mainline System	6.9%	7.3%
Regional	19.2%	23.5%

2004 Estimate

<b>Load Factor</b>	<u>3<sup>rd</sup> Qtr.(E)</u>	<u>Full Year(E)</u>
Mainline	80 - 81%	76 - 77%
Regional	74 - 75%	71 - 72%

2004 Estimate (cents)

<b>Mainline Operating Statistics</b>	<u>3<sup>rd</sup> Qtr.(E)</u>	<u>Full Year(E)</u>
CASM (Cost per Available Seat Mile)	9.24 - 9.29	9.49 - 9.54
Less:		
Special items per ASM (a)	0.00	0.10
CASM Less Special Items (b)	9.24 - 9.29	9.39 - 9.44
Fuel Cost & Fuel Taxes per ASM	1.76	1.73
CASM Less Fuel, Fuel Taxes & Special Items (c)	7.48 - 7.53	7.66 - 7.71

2004 Estimate (cents)

<b>Consolidated Operating Statistics</b>	<u>3<sup>rd</sup> Qtr.(E)</u>	<u>Full Year(E)</u>
CASM	10.05 - 10.10	10.32 - 10.37
Less:		
Special items per ASM (a)	0.00	0.09
CASM Less Special Items (b)	10.05 - 10.10	10.23 - 10.28
Fuel Cost & Fuel Taxes per ASM	1.88	1.84
CASM less Fuel, Fuel Taxes & Special Items (c)	8.17 - 8.22	8.39 - 8.44

Consolidated is defined as mainline plus regional.

2004 Estimate

<b>Fuel Gallons Consumed</b>	<u>3<sup>rd</sup> Qtr.(E)</u>	<u>Full Year(E)</u>
Mainline	343 Million	1,320 Million
Regional	67 Million	260 Million
<b>Fuel Price per Gallon (including fuel taxes)</b>	\$1.13	\$1.10

Please note that we have changed the presentation of fuel price per gallon to include related taxes on fuel.

<b>Fuel Hedges</b>	% of Volume Hedged	Wtd. Average Strike Price of Caps
Third Quarter	20%	\$32.00/Barrel
	<u>25%</u>	<u>\$40.00/Barrel</u>
Third Quarter Total	45%	\$36.40/Barrel
Fourth Quarter	20%	\$32.00/Barrel
	<u>25%</u>	<u>\$40.00/Barrel</u>
Fourth Quarter Total	45%	\$36.50/Barrel

2004 Estimated Amounts (\$Millions)

<b>Selected Expense Amounts</b>	<u>3<sup>rd</sup> Qtr.(E)</u>	<u>Full Year(E)</u>
Aircraft Rent	\$225	\$890
Landing Fees & Other Rentals	\$165	\$645
Depreciation & Amortization	\$105	\$415
Net Interest Expense	\$90	\$350

**Continental Airlines, Inc. Tax Computation**2004 Estimate

	<u>3<sup>rd</sup> Qtr.(E).</u>	<u>Full Year(E).</u>	
Taxes on Profit/(Loss)	Tax Rate of 36.8%	Tax Rate of 36.8%	Debit /(Credit)
Permanent Tax Differences	<u>\$ 2.5 Million</u>	<u>\$10 Million</u>	Debit
Total Tax	Sum of the Above	Sum of the Above	Debit/(Credit)

Permanent tax differences are primarily related to non-deductible per diems, meals and entertainment.

During the second quarter Continental announced it had stopped recording income tax benefit on book losses. However, with the strength of June's performance and the volatility of our hedge positions, which are recorded in Other Comprehensive Income, we were able to record a tax benefit on book losses for the second quarter. Going forward, Continental expects to have minimal ability to benefit future book losses, subject to recognition of hedge or other gains.

2004 Estimate  
(\$Millions)

**Cash Capital Expenditures**

Fleet & Fleet Related	\$60
Non-Fleet	100
Rotable Parts & Capitalized Interest	<u>65</u>
Total	\$225
Net Purchase Deposits	<u>(110)</u>
Total Cash Capital Expenditures	\$115

**EPS Estimated Share Count**

Share count estimates for calculating basic and diluted earnings per share at different income levels are as follows:

**Third Quarter 2004 (Millions)**

Quarterly <u>Earnings Level</u>	Number of Shares		<u>Interest Addback</u>
	<u>Basic</u>	<u>Diluted</u>	
Over \$36	66.2	75.4	\$3.6
Between \$19 - \$36	66.2	71.2	\$1.4
Between \$0 - \$19	66.2	66.2	--
Net Loss	66.2	66.1	--

**Full Year 2004 (Millions)**

Year-to-date <u>Earnings Level</u>	Number of Shares		<u>Interest Addback</u>
	<u>Basic</u>	<u>Diluted</u>	
Over \$141	66.2	75.4	\$14.2
Between \$75 - \$141	66.2	71.3	\$5.7
Between \$0 - \$75	66.2	66.3	--
Net Loss	66.2	66.2	--

These share count charts are based upon several assumptions including market stock price and number of shares outstanding. The number of shares used in the actual EPS calculation will likely be different from those set forth above.

**Reconciliation of GAAP to Non-GAAP Financial Information**  
(millions except per share data)

Net Income and Diluted Earnings Per Share	2 <sup>nd</sup> Qtr 2004	
(in millions except per share data)	<u>Net Income (Loss)</u>	
Net Income (Loss)	\$(17)	
Items excluded: Fleet impairment and other special charges	<u>19</u>	

Net Income for Computing Diluted Earnings per Share Excluding Above Items		\$2
Shares		66.0
Diluted Earnings per Share, Excluding Above Items		\$0.03

**Reconciliation of GAAP to Non-GAAP Financial Information**  
(millions except CASM data)

<b>Mainline</b>	<u>3rd Qtr. Range(E)</u>		<u>Full Year Range(E)</u>	
Operating Expenses - GAAP	\$ 2,029	\$ 2,040	\$ 7,984	\$ 8,026
Items Excluded				
Special Items (a)	\$ -	\$ -	\$ (85)	\$ (85)
Aircraft Fuel & Related Taxes	<u>\$(388)</u>	<u>\$(388)</u>	<u>\$(1,452)</u>	<u>\$(1,452)</u>
Operating Expenses - Non GAAP	\$ 1,642	\$ 1,652	\$ 6,447	\$ 6,490
ASMs (millions)	21,960	21,960	84,130	84,130
CASM-GAAP (cents)	9.24	9.29	9.49	9.54
CASM Excluding Special Items (b)	9.24	9.29	9.39	9.44
CASM Excluding Fuel, Fuel Taxes & Special Items - Non-GAAP (cents) (c)	7.48	7.53	7.66	7.71
<b>Consolidated (Mainline plus Regional)</b>	<u>3rd Qtr. Range(E)</u>		<u>Full Year Range(E)</u>	
Operating Expenses - GAAP	\$ 2,479	\$ 2,491	\$ 9,756	\$ 9,803
Items Excluded (a)				
Special Items	\$ -	\$ -	\$ (85)	\$ (85)
Aircraft Fuel & Related Taxes	<u>\$(463)</u>	<u>\$(463)</u>	<u>\$(1,738)</u>	<u>\$(1,738)</u>
Operating Expenses - Non GAAP	\$ 2,016	\$ 2,028	\$ 7,934	\$ 7,981
ASMs	24,665	24,665	94,535	94,535
CASM-Non-GAAP (cents)	10.05	10.10	10.32	10.37
CASM Excluding Special Items (b)	10.05	10.10	10.23	10.28
CASM Excluding Fuel, Fuel Taxes & Special Items - Non-GAAP (cents) (c)	8.17	8.22	8.39	8.44

(a) Special items include \$55 million and \$30 million of pre-tax charges during the first and second quarters of 2004, respectively, primarily relating to MD80 aircraft retirements.

(b) Cost per available seat mile excluding special items is computed by subtracting special items from operating expenses and dividing by available seat miles. This statistic provides management and investors the ability to measure and monitor Continental's cost performance on a consistent basis.

(c) Cost per available seat mile excluding fuel, fuel taxes and special items is computed by multiplying fuel price per gallon, including fuel taxes, by fuel gallons consumed and subtracting that amount from operating expenses then dividing by available seat miles. This statistic provides management and investors the ability to measure and monitor Continental's cost performance absent fuel price volatility. Both the cost and availability of fuel are subject to many economic and political factors and therefore are beyond our control.