UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

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 X No _____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12B-2 of the Exchange Act). Yes X No _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _No __X__

---

As of October 14, 2005, 67,049,625 shares of Class B common stock were outstanding.

TABLE OF CONTENTS


| | | |
|---|---|---|
| **PART I** | **FINANCIAL INFORMATION** | **PAGE** |
| Item 1. | Financial Statements - | |
| | Consolidated Statements of Operations | 3 |
| | Consolidated Balance Sheets - | |
| | Assets | 4 |
| | Liabilities and Stockholders' Equity | 5 |
| | Condensed Consolidated Statements of Cash Flows | 6 |
| | Notes to Consolidated Financial Statements | 7 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 25 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 45 |
| Item 4. | Controls and Procedures | 45 |
| **PART II** | **OTHER INFORMATION** | |
| Item 1. | Legal Proceedings | 47 |

| | | |
|---|---|---|
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 47 |
| Item 3. | Defaults Upon Senior Securities | 47 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 47 |
| Item 5. | Other Information | 47 |
| Item 6. | Exhibits | 48 |
| | Signatures | 49 |
| | Index to Exhibits | 50 |


# PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Operating Revenue: | | | | |
| Passenger (excluding fees and taxes of $315, $280, $884, and $787, respectively) | $2,760 | $2,393 | $7,647 | $6,837 |
| Cargo, mail and other | 241 | 209 | 716 | 625 |
| | 3,001 | 2,602 | 8,363 | 7,462 |
| Operating Expenses: | | | | |
| Aircraft fuel and related taxes | 684 | 414 | 1,729 | 1,134 |
| Wages, salaries and related costs | 646 | 703 | 2,009 | 2,102 |
| ExpressJet capacity purchase, net | 406 | 347 | 1,140 | 992 |
| Aircraft rentals | 234 | 224 | 689 | 666 |

| | | | | |
|---|---|---|---|---|
| Landing fees and other rentals | 182 | 171 | 535 | 494 |
| Distribution costs | 154 | 139 | 445 | 416 |
| Maintenance, materials and repairs | 116 | 107 | 334 | 321 |
| Depreciation and amortization | 97 | 104 | 293 | 313 |
| Passenger services | 91 | 84 | 252 | 229 |
| Special charges | 3 | 22 | 46 | 107 |
| Other | 279 | 265 | 836 | 763 |
| | 2,892 | 2,580 | 8,308 | 7,537 |
| Operating Income (Loss) | 109 | 22 | 55 | (75) |
| Nonoperating Income (Expense): | | | | |
| Interest expense | (106) | (97) | (304) | (292) |
| Interest capitalized | 4 | 3 | 9 | 11 |
| Interest income | 21 | 8 | 47 | 19 |
| Income from affiliates | 27 | 29 | 67 | 83 |
| Gain on disposition of ExpressJet Holdings shares | - | - | 98 | - |
| Other, net | 6 | 17 | 3 | 13 |
| | (48) | (40) | (80) | (166) |
| Income (Loss) before Income Taxes | 61 | (18) | (25) | (241) |
| Income Tax Benefit | - | - | - | 40 |
| Net Income (Loss) | $ 61 | $ (18) | $ (25) | $ (201) |
| Earnings (Loss) per Share: | | | | |
| Basic | $ 0.91 | $ (0.28) | $ (0.37) | $ (3.05) |
| Diluted | $ 0.80 | $ (0.29) | $ (0.38) | $ (3.09) |
| Shares Used for Computation: | | | | |
| Basic | 67.0 | 66.3 | 66.8 | 66.1 |
| Diluted | 81.9 | 66.3 | 66.8 | 66.1 |

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, 2005 (Unaudited) | December 31, 2004 | September 30, 2004 (Unaudited) |
|---|---|---|---|
| Current Assets: | | | |
| Cash and cash equivalents | $ 1,579 | $ 1,055 | $1,173 |
| Restricted cash | 247 | 211 | 192 |
| Short-term investments | 344 | 403 | 366 |
| Total cash, cash equivalents and short-term investments | 2,170 | 1,669 | 1,731 |
| Accounts receivable, net | 546 | 472 | 541 |
| Spare parts and supplies, net | 241 | 214 | 213 |
| Deferred income taxes | 154 | 166 | 172 |
| Note receivable from ExpressJet Holdings, Inc. | 45 | 81 | 54 |
| Prepayments and other | 293 | 222 | 247 |
| Total current assets | 3,449 | 2,824 | 2,958 |
| Property and Equipment: | | | |
| Owned property and equipment: | | | |
| Flight equipment | 6,680 | 6,744 | 6,745 |
| Other | 1,301 | 1,262 | 1,251 |
| | 7,981 | 8,006 | 7,996 |
| Less: Accumulated depreciation | 2,213 | 2,053 | 1,989 |
| | 5,768 | 5,953 | 6,007 |
| Purchase deposits for flight equipment | 126 | 105 | 113 |
| Capital leases 3 | 362 | 396 | 396 |
| Less: Accumulated amortization | 122 | 140 | 135 |
| | 240 | 256 | 261 |
| Total property and equipment | 6,134 | 6,314 | 6,381 |
| Routes | 486 | 615 | 615 |
| Airport operating rights, net | 138 | 236 | 242 |
| Intangible pension asset | 63 | 108 | 124 |
| Investment in affiliates | 163 | 156 | 236 |
| Note receivable from ExpressJet Holdings, Inc. | - | 18 | 45 |
| Other assets, net | 239 | 240 | 231 |
| Total Assets | $10,672 | $10,511 | $10,832 |

(continued on next page)

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

| LIABILITIES AND STOCKHOLDERS' EQUITY | September 30, 2005 (Unaudited) | December 31, 2004 | September 30, 2004 (Unaudited) |
|---|---|---|---|
| Current Liabilities: | | | |
| Current maturities of long-term debt and capital leases | $ 620 | $ 670 | $ 382 |
| Accounts payable | 741 | 766 | 815 |
| Air traffic and frequent flyer liability | 1,527 | 1,157 | 1,182 |
| Accrued payroll | 253 | 281 | 299 |
| Accrued other liabilities | 445 | 385 | 409 |
| Total current liabilities | 3,586 | 3,259 | 3,087 |
| Long-Term Debt and Capital Leases | 5,337 | 5,167 | 5,463 |
| Deferred Income Taxes | 154 | 378 | 407 |
| Accrued Pension Liability | 1,079 | 1,132 | 895 |
| Other | 381 | 420 | 404 |
| Commitments and Contingencies | | | |
| Stockholders' Equity: | | | |
| Preferred Stock - $.01 par, 10,000,000 shares authorized; one share of Series B issued and outstanding, stated at par value | - | - | - |
| Class B common stock - $.01 par, 200,000,000 shares authorized; 92,539,037, 91,938,816 and 91,937,192 issued | 1 | 1 | 1 |
| Additional paid-in capital | 1,416 | 1,408 | 1,409 |
| Retained earnings | 449 | 474 | 682 |
| Accumulated other comprehensive loss | (590) | (587) | (375) |
| Treasury stock - 25,489,291, 25,476,881 and 25,471,881 shares, at cost | (1,141) | (1,141) | (1,141) |
| Total stockholders' equity | 135 | 155 | 576 |
| Total Liabilities and Stockholders' Equity | $ 10,672 | $ 10,511 | $ 10,832 |

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)**

| | Nine Months Ended September 30, 2005 (Unaudited) | Nine Months Ended September 30, 2004 (Unaudited) |
|---|---|---|
| Net cash provided by operating activities | $453 | $ 488 |
| Cash Flows from Investing Activities: | | |

| | | |
|---|---|---|
| Capital expenditures | (123) | (134) |
| Purchase deposits paid in connection with future aircraft deliveries | (116) | (19) |
| Purchase deposits refunded in connection with aircraft delivered | 90 | 124 |
| Sale (purchase) of short-term investments, net | 59 | 65 |
| Proceeds from dispositions of property and equipment | 42 | - |
| Increase in restricted cash | (36) | (22) |
| Other | 1 | 14 |
| Net cash (used in) provided by investing activities | (83) | 28 |
| | | |
| Cash Flows from Financing Activities: | | |
| Payments on long-term debt and capital lease obligations | (305) | (357) |
| Proceeds from issuance of long-term debt | 433 | - |
| Other | 26 | 15 |
| Net cash provided by (used in) financing activities | 154 | (342) |
| | | |
| Net Increase in Cash and Cash Equivalents | 524 | 174 |
| | | |
| Cash and Cash Equivalents - Beginning of Period | 1,055 | 999 |
| | | |
| Cash and Cash Equivalents - End of Period | $1,579 | $1,173 |
| | | |
| Investing and Financing Activities Not Affecting Cash: | | |
| Property and equipment acquired through the issuance of debt | $ - | $ 214 |
| Contribution of ExpressJet Holdings stock to pension plan | $ 130 | $ - |

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 Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Form 10-K/A"). 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.

Primarily due to record-high fuel prices and the continued weak domestic fare environment, the current U.S. domestic network carrier financial environment continues to be poor and could deteriorate further. During the third quarter of 2005, Hurricane Katrina and Hurricane Rita caused widespread disruption to oil production, refinery operations and pipeline capacity along certain portions of the U.S. Gulf Coast. As a result of these disruptions, the price of jet fuel increased significantly and the availability of jet fuel supplies was diminished. Additionally, Hurricane Rita forced us to suspend service for 36 hours at our largest hub, Houston's Bush Intercontinental Airport, costing us an estimated $25 million. 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 position or liquidity.

Among the many factors that threaten us are the continued rapid growth of low-cost carriers and resulting downward pressure on domestic fares, high fuel costs, high labor costs for our flight attendants, excessive taxation, increased security costs and significant pension liabilities. These factors are discussed in the "Overview" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2004 Form 10-K/A. In addition to competition from low-cost carriers, we may face stronger competition from Delta Air Lines, Inc. and Northwest Airlines Corp. if those carriers, each of which filed for bankruptcy protection in September 2005, are able to achieve substantial cost reductions in bankruptcy through, among other things, reduction or discharge of debt, lease and pension obligations and wage and benefit reductions.

We have had substantial losses since September 11, 2001, the magnitude of which is not sustainable. We have attempted to return to profitability by implementing the majority of $1.1 billion of annual cost-cutting and revenue-generating measures since 2002, and we have also made significant progress toward our goal of achieving an additional annual $500 million reduction in pay and benefits costs. We finalized changes to wages, work rules and benefits for all employees except our flight attendants and certain employees of our wholly-owned subsidiary CMI who are subject to collective bargaining agreements. We began implementing these changes in early April 2005, which, when fully implemented, are expected to result in approximately $418 million of annual pay and benefits cost savings on a run-rate basis.

A significant portion of the cost savings from our work groups, both unionized and non-unionized, will be derived from changes to benefits and work rules. Our ability to achieve certain of the cost reductions will depend on effective implementation of new work rules, actual productivity improvements and implementation of changes in technology pertaining to employee work rules and benefits.

The current levels of pay and benefits for our flight attendants are not competitive. We have reengaged in negotiations with our flight attendants concerning pay and benefit reductions, and, at our request, on July 6, 2005, the National Mediation Board appointed a federal mediator to assist us in reaching an agreement for pay and benefit reductions with our flight attendants, who are represented by the IAM.

Although revenue trends have been improving, we still expect to incur a significant loss in the fourth quarter and full year 2005 due in large part to record high fuel prices. As a result of escalating prices, fuel expense is our single largest operating expense item for the first time in our history. We have been able to implement some fare increases on certain domestic and international routes in recent months, but these increases have not fully offset the substantial increase in fuel prices.

Taking into consideration our expected fourth quarter loss, $356 million of debt and capital lease principal payments due in the fourth quarter of 2005 and the $65 million cash pension contribution we made in October 2005, we currently expect that our unrestricted cash and short-term investments balance as of December 31, 2005 will be approximately $1.4 billion, not including any fourth quarter capital market transactions or other financings, except for previously announced aircraft financing transactions.

We also believe that under current conditions, absent adverse factors outside of our control, such as additional terrorist attacks, hostilities involving the United States, a further delay in the restart of the Gulf Coast refineries or further significant increases in crude oil prices, our existing liquidity and projected 2006 cash flows will be sufficient to fund current operations and other financial obligations through 2006. However, we have significant financial obligations due in 2007 and thereafter, and it is possible that we will have inadequate liquidity to meet those obligations if the current adverse domestic fare environment for network carriers does not improve materially, fuel prices remain high and we are unable to increase our revenue or decrease our costs considerably or raise additional liquidity through financing activities and/or by selling non-strategic assets. Our recent pay and benefit cost reductions are helping us reduce our overall costs, but we do not expect that these reductions in and of themselves will provide sufficient liquidity or restore our long-term profitability in the current environment.

**NOTE 1 - EARNINGS (LOSS) PER SHARE**

Components. 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, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Numerator: | | | | |
| Numerator for basic earnings per share - net income (loss) | $ 61 | $(18) | $(25) | $(201) |
| Effect of dilutive securities - interest expense on: | | | | |
| 5% Convertible Notes | 2 | - | - | - |
| 4.5% Convertible Notes | 2 | - | - | - |
| Reduction in our proportionate equity in ExpressJet Holdings, Inc. ("Holdings") resulting from the assumed conversion of Holdings' convertible securities | - | (1) | (1) | (3) |
| Numerator for diluted earnings per share - net income (loss) after assumed conversions and effect of dilutive securities of equity investee | $ 65 | $(19) | $(26) | $(204) |
| Denominator: | | | | |
| Denominator for basic earnings (loss) per share - weighted average shares | 67.0 | 66.3 | 66.8 | 66.1 |

| | | | | |
|---|---|---|---|---|
| Effect of dilutive securities: | | | | |
| 5% Convertible Notes | 8.8 | - | - | - |
| 4.5% Convertible Notes | 5.0 | - | - | - |
| Employee stock options | 1.1 | - | - | - |
| Dilutive potential common shares | 14.9 | - | - | - |
| Denominator for diluted earnings (loss) per share - adjusted weighted-average shares after assumed conversions | 81.9 | 66.3 | 66.8 | 66.1 |

Potential Common Shares. Weighted average options to purchase approximately 5.0 million, 6.2 million, 5.4 million and 6.3 million shares of our Class B common stock were not included in the computation of diluted earnings (loss) per share for each of the three months ended September 30, 2005 and 2004 and each of the nine months ended September 30, 2005 and 2004, respectively, because the options' exercise prices were greater than the average market price of the common shares during the relevant periods or the effect of including the options would have been antidilutive. In addition, 4.1 million potential common shares related to our 6% Convertible Junior Subordinated Debentures Held by Subsidiary Trust were excluded from the computation of earnings per share for the three months ended September 30, 2005 and 17.9 million potential common shares related to our 5% Convertible Notes, 4.5% Convertible Notes and 6% Convertible Junior Subordinated Debentures Held by Subsidiary Trust were excluded from the computation of diluted earnings per share for the three months ended September 30, 2004 and each of the nine months ended September 30, 2005 and 2004 because they were antidilutive.

**NOTE 2 - FLEET INFORMATION**

Operating Fleet. As shown in the following table, our operating aircraft fleet consisted of 350 mainline jets and 261 regional jets at September 30, 2005, excluding aircraft out of service. The regional jets are leased by ExpressJet Airlines, Inc. ("ExpressJet") from us and are operated by ExpressJet as Continental Express. Our purchase commitments (firm orders) for aircraft, as well as options to purchase or lease additional aircraft as of September 30, 2005 are also shown below.

| Aircraft Type | Total Aircraft | Owned | Leased | Firm Orders | Options |
|---|---|---|---|---|---|
| 787-800 | - | - | - | 10 | 5 |
| 777-200ER | 18 | 6 | 12 | 2 | - |
| 767-400ER | 16 | 14 | 2 | - | - |
| 767-200ER | 10 | 9 | 1 | - | - |
| 757-300 | 10 | 9 | 1 | 7 (a) | - |
| 757-200 | 41 | 13 | 28 | - | - |
| 737-900 | 12 | 8 | 4 | 3 | - |
| 737-800 | 96 | 26 | 70 | 25 | 6 |
| 737-700 | 36 | 12 | 24 | 15 | 19 |
| 737-500 | 63 | 15 | 48 | - | - |
| 737-300 | 48 | 15 | 33 | - | - |
| Mainline jets | 350 | 127 | 223 | 62 | 30 |
| ERJ-145XR | 91 | - | 91 | 13 | 75 |
| ERJ-145 | 140 | 18 | 122 | - | - |
| ERJ-135 | 30 | - | 30 | - | - |
| Regional jets | 261 | 18 | 243 | 13 | 75 |
| Total | 611 | 145 | 466 | 75 | 105 |

a. Used aircraft to be leased, including two aircraft delivered but not yet placed into service.

During the first nine months of 2005, we placed into service five new 737-800 aircraft, one of which was delivered in late 2004 and the other four of which were delivered in the third quarter of 2005. In addition, we leased three used 757-300 aircraft in the third quarter of 2005, one of which was placed into service before quarter end. ExpressJet took delivery of and placed into service 16 ERJ-145XR aircraft during the first nine months of 2005, including five

such aircraft in the third quarter.

Also during the first nine months of 2005, we removed three 737-300 aircraft and two MD-80 aircraft from service. The 737-300 aircraft were removed from service in conjunction with the expiration of their leases.

Substantially all of the aircraft and engines we own are subject to mortgages. A significant portion of our spare parts inventory is also encumbered.

Firm Order and Option Aircraft. On March 30, 2005, we confirmed our previously announced agreement with Boeing for a firm order of ten new 787-800 aircraft, with the first 787 expected to be delivered in 2009. On July 28, 2005, we announced that we had ordered two additional 777-200ER from Boeing. These 777 aircraft are scheduled for delivery in the first quarter of 2007. On September 30, 2005, we reached an agreement with General Electric Company to provide the engines for the 787 aircraft. In addition to the ten firm aircraft on order, we have options to purchase five additional 787 aircraft. We also have an agreement to lease eight used 757-300 aircraft, three of which were delivered in the third quarter of 2005.

Taking these new agreements into consideration, as of September 30, 2005, we had firm purchase commitments for new aircraft and related spare engines with an estimated aggregate cost of approximately $2.7 billion. In addition, we have lease commitments for five used 757-300 aircraft not yet delivered and options to purchase an additional 30 Boeing aircraft. We are scheduled to take delivery of six Boeing aircraft over the remaining three months of 2005 (three new 737-800s and three used 757-300s) and eight in 2006 (six new 737-800s and two used 757-300s), with delivery of the remaining 46 Boeing aircraft occurring from 2007 through 2011. The recently resolved strike by Boeing's machinists has resulted in delays in scheduled deliveries of some aircraft, which we anticipate will not be significant and will not have a material adverse effect on our operations.

In May 2005, we obtained a lease financing commitment from a third party for the seven new Boeing 737-800 aircraft scheduled to be delivered in 2005. We also have backstop lease financing for the six 737-800 aircraft expected to be delivered in 2006 and the two 777-200ER aircraft expected to be delivered in 2007. By virtue of these agreements, we have secured financing for all Boeing aircraft scheduled to be delivered through 2007. However, we currently do not have backstop financing or any other financing in place for the remainder of the Boeing firm aircraft that are scheduled to be delivered between 2008 and 2011. Further financing will be needed to satisfy our capital commitments for our firm aircraft. We can provide no assurance that sufficient financing will be available for the aircraft on order or other related capital expenditures, or for our capital expenditures generally.

As of September 30, 2005, ExpressJet had firm commitments for 13 regional jets from Empresa Brasileira de Aeronautica S.A. ("Embraer"), with an estimated cost of approximately $300 million. ExpressJet currently anticipates taking delivery of five of these firm commitment regional jets during the fourth quarter of 2005, with the remainder being delivered in 2006. ExpressJet does not have an obligation to take any of these firm Embraer aircraft that are not financed by a third party and leased to either ExpressJet or us. Under the capacity purchase agreement between us and ExpressJet, we have agreed to lease as lessee and sublease to ExpressJet the regional jets that are subject to ExpressJet's firm purchase commitments. In addition, under the capacity purchase agreement with ExpressJet, we generally are obligated to purchase all of the capacity provided by these new aircraft as they are delivered to ExpressJet.

Out-of-Service Aircraft. In addition to the above operating aircraft, we had 15 MD-80 aircraft permanently removed from service as of September 30, 2005. The nine owned out-of-service MD-80 aircraft are being carried at an aggregate fair market value of $16 million, and the remaining rentals on the six leased out-of-service MD-80 aircraft have been accrued. We are currently exploring lease or sale opportunities for the out-of-service aircraft. We cannot predict when or if purchasers, lessees or sublessees can be found, and it is possible that our owned MD-80 aircraft could suffer additional impairment. In addition, three leased 737-300 aircraft were out of service at September 30, 2005 in preparation for their return to the lessors.

Additionally, we have 12 Embraer 120 turboprop aircraft and nine ATR 42 turboprop aircraft out-of-service. We own nine and lease 12 of these aircraft. The nine owned aircraft are being carried at an aggregate fair value of $8 million, and the remaining rentals on the leased aircraft have been accrued. We currently sublease three of the leased out-of-service turboprop aircraft to a third party and are exploring lease or sale opportunities for the remaining out-of-service aircraft, subject to the same uncertainties as the out-of-service mainline aircraft discussed above.

In the third quarter of 2005, we reduced our allowance for future lease payments and return conditions related to permanently grounded aircraft by $15 million following negotiated settlements with the aircraft lessors in an improving aircraft market.

**NOTE 3 - LONG-TERM DEBT**

Secured Loan Facility. In June 2005, we and our two wholly-owned subsidiaries, Air Micronesia, Inc. ("AMI") and Continental Micronesia, Inc. ("CMI"), closed on a $350 million secured loan facility. AMI and CMI have unconditionally guaranteed the loan made to us, and we and AMI have unconditionally guaranteed the loan made to CMI.

The facility consists of two loans, both of which have a term of six years and are non-amortizing, except for certain mandatory prepayments described below. The loans accrue interest at a floating rate determined by reference to the three-month London Interbank Offered Rate, known as LIBOR, plus 5.375% per annum. The loans and guarantees are secured by certain of our U.S.-Asia routes and related assets, all of the outstanding common stock of AMI and CMI and substantially all of the other assets of AMI and CMI, including route authorities and related assets.

The loan documents require us to maintain a minimum balance of unrestricted cash and short-term investments of $1.0 billion dollars at the end of each month. The loans may become due and payable immediately if we fail to maintain the monthly minimum cash balance and upon the occurrence of other customary events of default under the loan documents. If we fail to maintain a minimum balance of unrestricted cash and short-term investments of $1.125 billion, we and CMI will be required to make a mandatory aggregate $50 million prepayment of the loans. In addition, if the ratio of the outstanding loan balance to the value of the collateral securing the loans, as determined by periodic appraisals, is greater than 48%, we and CMI will be required to post additional collateral or prepay the loans to reestablish a loan-to-collateral value ratio of not greater than 48%. We are currently in compliance with these covenants.

Credit Card Marketing Agreement. In March 2005, we extended our current agreement with Chase Manhattan Bank USA, N.A. ("Chase") to jointly market credit cards. In addition to reaching an agreement on advertising and other marketing commitments, Chase agreed to increase the rate it pays for mileage credits under our frequent flyer program. In April 2005, Chase purchased $75 million of mileage credits under the program which will be redeemed for mileage purchases in 2007 and 2008 and recognized as revenue consistent with other mileage sales in 2007 and 2008. In consideration for the advance purchase of mileage credits, we have provided a security interest to Chase in certain transatlantic routes. The $75 million purchase of mileage credits has been treated as a loan from Chase and is reported as long-term debt on our balance sheet and will be reduced ratably in 2007 and 2008 as the mileage credits are redeemed. The new agreement extends through the end of 2009.

Maturities. Maturities of long-term debt due through December 31, 2005 and over the next four years are as follows (in millions):

| | |
|---|---|
| October 1, 2005 through December 31, 2005 | $349 |
| Year ending December 31, | |
| 2006 | 525 |
| 2007 | 937 |
| 2008 | 632 |
| 2009 | 460 |

**NOTE 4 - STOCK PLANS AND AWARDS**

Pro Forma Information. We account for our stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." No stock-based employee compensation cost for our stock option plans is reflected in our consolidated statements of operations, as all options granted under our plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the pro forma effect on net income (loss) and earnings (loss) per share if we had applied the fair value recognition provisions of Statement of Financial Account Standards No. 123 ("SFAS 123"), "Accounting for Stock-based Compensation," for the three and nine months ended September 30, 2005 and 2004 (in millions except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net income (loss), as reported | $ 61 | $ (18) | $ (25) | $(201) |
| Deduct total stock-based employee compensation expense determined under SFAS 123, net of tax for the nine months ended September 30, 2004 | (8) | (1) | (19) | (4) |
| Net income (loss), pro forma | $ 53 | $ (19) | $ (44) | $ (205) |
| Basic earnings (loss) per share: | | | | |
| As reported | $0.91 | $(0.28) | $(0.37) | $(3.05) |
| Pro forma | $0.79 | $(0.29) | $(0.66) | $(3.10) |
| Diluted earnings (loss) per share: | | | | |
| As reported | $0.80 | $(0.29) | $(0.38) | $(3.09) |
| Pro forma | $0.70 | $(0.30) | $(0.67) | $(3.15) |

Grants of Options to Employees. In connection with the pay and benefit cost reductions discussed herein, on March 30, 2005 we issued to substantially all employees, except flight attendants, officers, employees of CMI and certain international employees, stock options for approximately 8.5 million shares of our Class B common stock with an exercise price of $11.89 per share. The exercise price was the closing price of our common stock on the date of grant. The options represent approximately 12.7 percent of the currently outstanding shares of our common stock. The options become exercisable in three equal installments on the first, second and third anniversaries of the date of grant, and have terms of either six or eight years.

Employee Stock Purchase Plan. All of our employees (including CMI employees) are eligible to participate in the 2004 Employee Stock Purchase Plan. At the end of each fiscal quarter, participants may purchase shares of our Class B common stock at a discount of 15% off the fair market value of the stock on either the first day or the last day of the quarter (whichever is lower), subject to a minimum purchase price of $10 per share. This discount is reduced to zero as the fair market value approaches $10 per share. If the fair market value is below the $10 per share minimum price on the last day of a quarter, then the participants will not be permitted to purchase common stock for such quarterly purchase period and we will refund to those participants the amount of their unused payroll deductions. In the aggregate, 3,000,000 shares may be purchased under the plan. These shares may be newly issued or reacquired shares. During the first nine months of 2005, 573,848 shares of Class B common stock were issued to participants at a weighted-average purchase price of $10.06 per

share.

Pending Accounting Pronouncement. In December 2004, the Financial Accounting Standards Board ("FASB") issued a revision of SFAS 123, "Share Based Payment" ("SFAS 123R"), which requires companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is to be estimated using an option-pricing model. The resulting cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. Under the original SFAS 123, this accounting treatment was optional with pro forma disclosures required.

We are required to adopt SFAS 123R no later than January 1, 2006. It will be effective for all awards granted after that date and for the unvested portion of awards granted prior to the adoption date. The expense that will be recognized with respect to such unvested awards will be based on the grant-date fair value and vesting schedule of those awards used in calculating the pro forma disclosures required under SFAS 123 and presented above. We anticipate that the impact of adopting SFAS 123R on our statement of operations will be similar to the pro forma impact of SFAS 123 presented above. Adoption of SFAS 123R will not affect our overall financial position or liquidity.

**NOTE 5 - COMPREHENSIVE INCOME (LOSS)**

We include in other comprehensive income (loss) changes in minimum pension liabilities and changes in the fair value of derivative financial instruments which qualify for hedge accounting. For the third quarter of 2005 and 2004, total comprehensive income amounted to $60 million and $6 million, respectively. For the nine months ended September 30, 2005 and 2004, total comprehensive income (loss) amounted to $(30) million and $(160) million, respectively. Total comprehensive income (loss) for the nine months ended September 30, 2005 includes $20 million of loss adjustments to the minimum pension liability resulting from the curtailment charge recorded during the first quarter of 2005 and settlement charge recorded during the third quarter of 2005 discussed in Note 6. The remaining difference between net income (loss) and total comprehensive income (loss) for each period was attributable to changes in the fair value of derivative financial instruments.

**NOTE 6 - EMPLOYEE BENEFIT PLANS**

Defined Benefit Pension Plan. Net periodic defined benefit pension expense for the three and nine months ended September 30, 2005 and 2004 included the following components (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Service cost | $ 13 | $ 38 | $ 73 | $113 |
| Interest cost | 37 | 38 | 115 | 114 |
| Expected return on plan assets | (31) | (29) | (92) | (87) |
| Amortization of prior service cost | 2 | 5 | 9 | 15 |
| Amortization of unrecognized net actuarial loss | 17 | 18 | 56 | 62 |
| Net periodic benefit expense | 38 | 70 | 161 | 217 |
| Curtailment loss (included in special charges) | - | - | 43 | - |
| Settlement charge (included in special charges) | 18 | - | 18 | - |
| Net benefit expense | $ 56 | $ 70 | $222 | $217 |

Under the new collective bargaining agreement with our pilots ratified on March 30, 2005, which we refer to as the "pilot agreement," future defined benefit accruals for pilots ceased and retirement benefits accruing in the future are provided through two new pilot-only defined contribution plans. As required by the pilot agreement, defined benefit pension assets and obligations related to pilots in our primary defined benefit pension plan (covering substantially all U.S. employees other than Chelsea Food Services ("Chelsea") and CMI employees) were spun out into a separate pilot-only defined benefit pension plan, which we refer to as the "pilot defined benefit pension plan." Subsequently, on May 31, 2005, future benefit accruals for pilots ceased and the pilot defined benefit pension plan was "frozen." As of that freeze date, all existing accrued benefits for pilots (including the right to receive a lump sum payment upon retirement) were preserved in the pilot defined benefit pension plan. Accruals for non-pilot employees under our primary defined benefit pension plan continue. Funding obligations for both defined benefit plans (the ongoing primary defined benefit pension plan and the pilot defined benefit pension plan) will continue to be determined under applicable law. However, the pilot agreement provides that we will not declare a cash dividend or repurchase our outstanding stock for cash until we have contributed at least $500 million (measured from March 30, 2005) to the pilot defined benefit pension plan. Through September 30, 2005, we have made $40 million of such contributions to this plan.

In March 2005, we recorded a $43 million non-cash curtailment charge in accordance with SFAS No. 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," ("SFAS 88") in connection with freezing the portion of our defined benefit pension plan related to our pilots, using actuarial assumptions consistent with those we used at December 31, 2004. SFAS 88 requires curtailment accounting if an event eliminates, for a significant number of employees, the accrual of defined benefits for some or all of their future services. In the event of a curtailment, a loss must be recognized for the unrecognized prior service cost associated with years of service no longer expected to be rendered.

During the third quarter of 2005, we recorded an $18 million non-cash settlement charge related to lump sum distributions from the pilot defined benefit pension plan to pilots who retired. 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 have additional non-cash settlement charges in the future in conjunction with lump-sum distributions to retiring pilots.

We contributed $59 million cash to our defined benefit pension plans during the three months ended September 30, 2005. We also contributed $65 million cash to our defined benefit pension plans on October 6, 2005, bringing year-to-date contributions to $304 million and meeting our pension contribution requirement for 2005.

Defined Contribution Plans for Pilots. As required by the new pilot agreement, two new pilot-only defined contribution plans were established effective September 1, 2005. One of these plans is a money purchase pension plan -- a type of defined contribution plan subject to the minimum funding rules of the Internal Revenue Code. Contributions under that plan are generally expressed as a percentage of applicable pilot compensation, subject to limits under the Internal Revenue Code. The initial contribution to that plan was based on applicable compensation since July 1, 2005. The other new pilot-only defined contribution plan is a 401(k) plan that was established by spinning off the pilot accounts in our pre-existing primary 401(k) plan (covering substantially all of our U.S. employees other than CMI employees) to a separate pilot-only 401(k) plan. Pilots may make elective pre-tax and/or post-tax contributions to the pilot-only 401(k) plan. In addition, the pilot agreement calls for employer contributions to the pilot-only 401(k) plan based on pre-tax profits during a portion of the term of the pilot agreement. To the extent the Internal Revenue Code limits preclude employer contributions called for by the pilot agreement, the disallowed amount will be paid directly to the pilots as current wages under a corresponding nonqualified arrangement.

401(k) Plan. Our defined contribution 401(k) employee savings plans cover substantially all employees. During the second quarter of 2005, company matching contributions were terminated for substantially all employees other than flight attendants, mechanics and CMI employees subject to collective bargaining agreements.

Retiree Medical Benefits. Effective April 1, 2005, we made changes to certain retiree medical programs made available to eligible retirees. The retiree medical programs are self-insured arrangements that permit retirees who meet certain age and service requirements to continue medical coverage between retirement and Medicare eligibility. Previously, we offered these benefits on a workgroup-by-workgroup basis and had the periodic option of discontinuing the benefits. Eligible retirees are required to pay a portion of the costs of their retiree medical benefits to the extent they do not have sufficient accumulated unused sick time at the time of their retirement. Plan benefits are subject to co-payments, deductibles and other limits as described in the plans.

We account for the retiree medical benefits plan under SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions," which requires recognition of the expected cost of benefits over the employee's service period. Following an amendment to the plan effective April 1, 2005, the accumulated postretirement benefit obligation under this plan was $240 million and our unrecognized prior service cost was also $240 million. The prior service cost will be recognized as expense over the remaining service period of currently active employees who will receive this benefit. The accumulated postretirement benefit obligation was calculated using a 5.75% discount rate and an assumed health care cost trend rate of 10% in 2005, declining to 5% in 2010 and thereafter. We recognized expense of $23 million related to this plan in the six months from April 1, 2005 through September 30, 2005. A one percent increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of April 1, 2005 by approximately $23 million and our run-rate annual expense by approximately $3 million. A one percent decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation as of April 1, 2005 by approximately $20 million and our run-rate annual expense by approximately $3 million.

Profit Sharing Plan. In January 2005, we announced that in connection with the pay and benefit reductions, we would be implementing an enhanced profit sharing program. The new program, which became effective April 1, 2005 and will be in place through 2009, creates an award pool of 30% of the first $250 million of annual pre-tax net income (as defined in the plan), 25% of the next $250 million and 20% of amounts over $500 million, subject to certain adjustments. Half of the profit-sharing pool will be allocated based on the relative share of the recently-agreed upon pay and benefit reductions and the other half will be allocated based on the relative wages of those work groups. Substantially all Continental employees will participate in the plan other than flight attendants, employees who participate in our management or officer bonus programs and certain non-U.S. employees.

**NOTE 7 - SPECIAL CHARGES**

In the first quarter of 2005, we recorded a $43 million non-cash curtailment charge relating to the freezing of the portion of our defined benefit pension plan attributable to pilots. In the third quarter of 2005, we recorded an $18 million non-cash settlement charge related to lump sum distributions from our pilot defined benefit pension plan to pilots who retired. These charges are discussed in Note 6. Also in the third quarter of 2005, we reduced our allowance for future lease payments and return conditions related to permanently grounded aircraft by $15 million following negotiated settlements with the aircraft lessors in an improving aircraft market.

In the nine months ended September 30, 2004, we recorded special charges of $70 million associated with future obligations for rent and return conditions related to 12 leased MD-80 aircraft that were permanently grounded during the period. In the first quarter of 2004, we recorded a non-cash charge of $34 million related to the termination of a 1993 service agreement with United Micronesia Development Association. The remaining $3 million of special charges in 2004 were related to the write-off of leasehold improvements and other items.

Activity related to the accruals for future lease payments and closure/under-utilization of facilities for the nine months ended September 30, 2005 is as follows (in millions):

| | Beginning Balance | Accrual | Payments | Other | Ending Balance |
|---|---|---|---|---|---|
| Allowance for future lease payments and return conditions | $116 | $ - | $(49) | $(19) | $48 |
| Closure/under-utilization of facilities | 14 | - | (2) | - | 12 |

**NOTE 8 - INVESTMENT IN EXPRESSJET AND REGIONAL CAPACITY PURCHASE AGREEMENT**

Investment in ExpressJet. Under our capacity purchase agreement with Holdings and ExpressJet, we purchase all of ExpressJet's capacity and are responsible for selling all of the seat inventory. As a result, we record the related passenger revenue and related expenses, with payments under the capacity purchase agreement reflected as a separate operating expense. Because of our ongoing ability to significantly influence Holdings' operations through our capacity purchase agreement, we account for our interest in Holdings using the equity method of accounting. Using equity accounting, we record our proportionate share of Holdings' net income in "income from affiliates" in our consolidated statements of operations.

On January 6, 2005, we contributed 6.0 million shares of Holdings common stock to our primary defined benefit pension plan. We recognized a gain of $51 million in the first quarter of 2005 related to this transaction. On April 7, 2005, we contributed an additional 6.1 million shares of Holdings common stock to our primary defined benefit pension plan. We recognized a gain of $47 million in the second quarter of 2005 related to this transaction. Our ownership of Holdings common stock following these transactions was 4.7 million shares, or an 8.6% interest in Holdings. These 4.7 million shares had a market value of $42 million at September 30, 2005. We do not currently intend to remain a stockholder of Holdings over the long term. Subject to market conditions, we intend to sell or otherwise dispose of all of our shares of Holdings common stock in the future.

In addition to the Holdings shares we own, our primary defined benefit pension plan held 6.9 million shares of Holdings common stock at September 30, 2005. These shares represented a 12.7% interest in Holdings. The independent fiduciary that manages the Holdings shares in our primary defined benefit pension plan sold 5.2 million shares to third parties during the nine months ended September 30, 2005. The combined interest in Holdings of our direct ownership and our pension plan at September 30, 2005 was 11.5 million shares, or 21.3% of Holdings' outstanding shares.

Capacity Purchase Agreement. Our capacity purchase agreement with Holdings and ExpressJet provides that we purchase in advance all of ExpressJet's capacity for a negotiated price, and we are at risk for reselling the capacity at market prices. Payments made under our capacity purchase agreement are reported as ExpressJet capacity purchase, net. ExpressJet capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. Such capacity purchase, net payments totaled $406 million and $1.1 billion in the three and nine months ended September 30, 2005 and $347 million and $992 million in the three and nine months ended September 30, 2004, respectively.

Tax Sharing Agreement. We recognized nonoperating income related to our tax sharing agreement with Holdings of $7 million and $21 million for the three and nine months ended September 30, 2005, respectively, and $14 million and $37 million in the three and nine months ended September 30, 2004, respectively.

**NOTE 9 - SEGMENT REPORTING**

We have two reportable segments: mainline and regional. 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 the passengers flying on both segments, (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 for the three and nine months ended September 30 by business segment is set forth below (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Operating Revenue: | | | | |
| Mainline | $2,521 | $2,198 | $7,026 | $6,290 |
| Regional | 480 | 404 | 1,337 | 1,172 |
| Total Consolidated | $3,001 | $2,602 | $8,363 | $7,462 |
| Operating Income (Loss): | | | | |
| Mainline | $ 165 | $ 80 | $ 240 | $ 82 |
| Regional | (56) | (58) | (185) | (157) |
| Total Consolidated | $ 109 | $ 22 | $ 55 | $ (75) |
| Net Income (Loss): | | | | |

| | | | | |
|---|---|---|---|---|
| Mainline | $ 118 | $ 15 | $ 160 | $ (112) |
| Regional | (57) | (33) | (185) | (89) |
| Total Consolidated | $ 61 | $ (18) | $ (25) | $ (201) |

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 ExpressJet, and expenses include all activity related to the regional operations.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Purchase Commitments. See Note 2 for a discussion of our aircraft purchase commitments.

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 in our financial statements.

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 $166 million at September 30, 2005 and having 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. Pursuant to US Airways' plan of reorganization under Chapter 11 of the United States Bankruptcy Code, which became effective on September 27, 2005, US Airways has assumed the lease agreement.

We also have letters of credit and performance bonds at September 30, 2005 in the amount of $55 million with expiration dates through June 2008.

General Guarantees and Indemnifications. We are the lessee under many real estate leases. It is common in such commercial lease transactions for us 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. 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 and other customary exclusions.

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 from banks in which the interest rate is based on LIBOR, we typically agree to reimburse the lenders for certain increased costs that they incur in carrying these loans as a result of any change in law and for any reduced returns with respect to these loans due to any change in capital requirements, subject in most cases to certain mitigation obligations of the lenders. We had $1.7 billion of floating rate debt at September 30, 2005.

In several financing transactions, with an aggregate carrying value of $1.1 billion, involving loans from non-U.S. banks, export-import banks and certain other lenders secured by aircraft, we bear the risk of any change in tax laws that would subject loan payments thereunder to non-U.S. lenders to withholding taxes, subject to customary exclusions. In addition, in cross-border aircraft lease agreements for two 757 aircraft, we bear the risk of any change in U.S. tax laws that would subject lease payments made by us to a resident of Japan to U.S. taxes, subject to customary exclusions. Our lease obligations for these two aircraft totaled $49 million at September 30, 2005.

We cannot estimate the potential amount of future payments under the foregoing indemnities and agreements.

Credit Card Processing Agreement. Our bank-issued credit card processing agreement contains certain financial covenants which require, among other things, that we maintain a minimum EBITDAR (generally, earnings before interest, taxes, depreciation, amortization and aircraft rentals, adjusted for special charges) to fixed charges (generally, interest and aircraft rentals) ratio of 0.9 to 1.0 through June 30, 2006 and 1.1 to 1.0 thereafter. The liquidity covenant requires us to maintain a minimum level of $1.0 billion of unrestricted cash and short-term investments. The agreement also requires that we must maintain a debt rating of at least Caa3 as rated by Moody's or CCC- as rated by Standard & Poor's. We are currently in compliance with all of the covenants. Failure to maintain compliance would result in our being required to post up to an additional $360 million of cash collateral, which would adversely affect our liquidity. Depending on our unrestricted cash 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 $1.0 billion minimum balance requirement under our $350 million secured loan facility, resulting in a default under such facility.

Employees. On February 28, 2005, we announced that we had reached tentative agreements on new contracts covering our pilots, flight attendants, mechanics, dispatchers and simulator engineers following negotiations with the Air Line Pilots Association International ("ALPA"), the IAM, the International Brotherhood of Teamsters ("Teamsters") and the Transport Workers Union ("TWU") (representing both dispatchers and simulator engineers). Each of these agreements was ratified on March 30, 2005 by the members of the covered work groups with the exception of the agreement with our flight attendants, which was not ratified. The unions with ratified agreements chose to go forward and implement their contracts despite the fact that the flight attendants did not ratify their agreement. All of these agreements will become amendable on December 31, 2008.

The National Mediation Board appointed a federal mediator to assist us in reaching an agreement for pay and benefit reductions with our flight attendants, who are represented by the IAM.

Environmental Matters. We could be responsible for environmental remediation costs primarily related to jet fuel and solvent contamination surrounding our aircraft maintenance hangar in Los Angeles. In 2001, the California Regional Water Quality Control Board ("CRWQCB") mandated a field study of the site, which was completed in September 2001. In April 2005, under the threat of a CRWQCB enforcement action, we began environmental remediation of jet fuel contamination surrounding our aircraft maintenance hangar pursuant to a work plan submitted to (and approved by) the CRWQCB and our landlord, the Los Angeles World Airports.

We have established a reserve for estimated costs of environmental remediation at Los Angeles and elsewhere in our system, based primarily on third party environmental studies and estimates as to the extent of the contamination and nature of the required remedial actions. We expect our total losses from all environmental matters to be $47 million, for which we were fully accrued at September 30, 2005. We have evaluated and recorded this accrual for environmental remediation costs separately from any related insurance recovery. We have not recognized any material receivables related to insurance recoveries at September 30, 2005.

Based on currently available information, we believe that our reserves for potential environmental remediation costs are adequate, although reserves could be adjusted as further information develops or circumstances change. However, we do not expect these items to materially affect our financial position, liquidity or results of operations.

IRS Examinations. During the quarter ended September 30, 2005, we entered into a final settlement agreement with the Internal Revenue Service ("IRS") resolving all matters raised by the IRS during its examination of our federal income tax returns through the year ended December 31, 1999. As a result of the settlement with the IRS and the associated deferred tax account reconciliation, deferred tax liabilities and long-term assets (primarily routes and airport operating rights) were reduced by $211 million to reflect the ultimate resolution of tax uncertainties existing at the point we emerged from bankruptcy in April 1993. The composition of the individual elements of deferred taxes recorded on the balance sheet was also adjusted; however, the net effect of these changes was entirely offset by an increase in the deferred tax valuation allowance due to our prior determination that it is more likely than not that our net deferred tax assets will ultimately not be realized. The settlement did not have a material impact on our results of operations, financial position or liquidity.

Legal Proceedings. During the period between 1997 and 2001, we reduced or capped the base commissions that we paid to travel agents, and in 2002 we eliminated the base commissions. This was similar to actions also taken by other air carriers. We are now a defendant, along with several other air carriers, in two remaining 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), 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 commission 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. Another such similar lawsuit, styled Paula Fausky, et al. v. American Airlines, et al. (U.S.D.C., Northern District of Ohio) and filed on May 8, 2003, was dismissed without prejudice in July 2005. By order dated November 10, 2003, the remaining actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has commenced.

In each of the foregoing cases, we believe the plaintiffs' claims are without merit and are vigorously defending the lawsuits. Nevertheless, a final adverse court decision awarding substantial money damages could have a material adverse effect on our financial position, liquidity and results of operations.

We and/or certain of our subsidiaries are defendants in various other lawsuits, including one suit relating to certain environmental claims, and proceedings arising in the normal course of business. Although the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on our financial position, liquidity or results of operations, it is our opinion, after consulting with outside counsel, that the ultimate disposition of such suits will not have a material adverse effect on our financial position, liquidity or results of operations.

**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. In connection therewith, please see the risk factors set forth in our 2004 Form 10-K/A, which identify important factors such as the consequences of our significant financial losses and high leverage, 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, the airline pricing environment and industry capacity decisions, regulatory matters and the seasonal nature of the airline business (the second and third quarters are generally stronger than the first and fourth quarters). In addition to the foregoing risks, there can be no assurance that we will be able to obtain the needed pay and benefit reductions from our flight attendants and CMI employees or that the ratified agreements and the pay and benefit reductions and work rule changes from other work groups will enable the company to achieve the cost reductions expected, which will depend, upon other matters, on timely and effective implementation of new work rules, actual productivity improvement, employee attrition, technology implementation, our level of business activity, relations with employees generally and the ultimate accuracy of certain assumptions on which our cost savings are based. 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.

General information about us can be found at *http://www.continental.com/company/ investor*. Our annual report 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").

**OVERVIEW**

Primarily due to record-high fuel prices and the continued weak domestic fare environment, the current U.S. domestic network carrier financial environment continues to be poor and could deteriorate further. During the third quarter of 2005, Hurricane Katrina and Hurricane Rita caused widespread disruption to oil production, refinery operations and pipeline capacity along certain portions of the U.S. Gulf Coast. As a result of these disruptions, the price of jet fuel increased significantly and the availability of jet fuel supplies was diminished. Additionally, Hurricane Rita forced us to suspend service for 36 hours at our largest hub, Houston's Bush Intercontinental Airport, costing us an estimated $25 million. 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 position or liquidity.

Among the many factors that threaten us are the continued rapid growth of low-cost carriers and resulting downward pressure on domestic fares, high fuel costs, high labor costs for our flight attendants, excessive taxation, increased security costs and significant pension liabilities. These factors are discussed in the "Overview" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2004 Form 10-K/A. In addition to competition from low-cost carriers, we may face stronger competition from Delta Air Lines, Inc. and Northwest Airlines Corp. if those carriers, each of which filed for bankruptcy protection in September 2005, are able to achieve substantial cost reductions in bankruptcy through, among other things, reduction or discharge of debt, lease and pension obligations and wage and benefit reductions.

We have had substantial losses since September 11, 2001, the magnitude of which is not sustainable. We have attempted to return to profitability by implementing the majority of $1.1 billion of annual cost-cutting and revenue-generating measures since 2002, and we have also made significant progress toward our goal of achieving an additional annual $500 million reduction in pay and benefits costs. We finalized changes to wages, work rules and benefits for all employees except our flight attendants and certain employees of our wholly-owned subsidiary CMI who are subject to collective bargaining agreements. We began implementing these changes in early April 2005, which, when fully implemented, are expected to result in approximately $418 million of annual pay and benefits cost savings on a run-rate basis.

A significant portion of the cost savings from our work groups, both unionized and non-unionized, will be derived from changes to benefits and work rules. Our ability to achieve certain of the cost reductions will depend on effective implementation of new work rules, actual productivity improvements and implementation of changes in technology pertaining to employee work rules and benefits.

The current levels of pay and benefits for our flight attendants are not competitive. We have reengaged in negotiations with our flight attendants concerning pay and benefit reductions, and, at our request, on July 6, 2005, the National Mediation Board appointed a federal mediator to assist us in reaching an agreement for pay and benefit reductions with our flight attendants, who are represented by the IAM.

Although revenue trends have been improving, we still expect to incur a significant loss in the fourth quarter and full year 2005 due in large part to record high fuel prices. As a result of escalating prices, fuel expense is our single largest operating expense item for the first time in our history. We have been able to implement some fare increases on certain domestic and international routes in recent months, but these increases have not fully offset the substantial increase in fuel prices.

Taking into consideration our expected fourth quarter loss, $356 million of debt and capital lease principal payments due in the fourth quarter of 2005 and the $65 million cash pension contribution we made in October 2005, we currently expect that our unrestricted cash and short-term investments balance as of December 31, 2005 will be approximately $1.4 billion, not including any fourth quarter capital market transactions or other financings, except for previously announced aircraft financing transactions.

We also believe that under current conditions, absent adverse factors outside of our control, such as additional terrorist attacks, hostilities involving the United States, a further delay in the restart of the Gulf Coast refineries or further significant increases in crude oil prices, our existing liquidity and projected 2006 cash flows will be sufficient to fund current operations and other financial obligations through 2006. However, we have significant financial obligations due in 2007 and thereafter, and it is possible that we will have inadequate liquidity to meet those obligations if the current adverse domestic fare environment for network carriers does not improve materially, fuel prices remain high and we are unable to increase our revenue or decrease our costs considerably or raise additional liquidity through financing activities and/or by selling non-strategic assets. Our recent pay and benefit cost reductions are helping us reduce our overall costs, but we do not expect that these reductions in and of themselves will provide sufficient liquidity or restore our long-term profitability in the current environment.

**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, 2005 as compared to the corresponding periods ended September 30, 2004.

***Comparison of Three Months Ended September 30, 2005 to Three Months Ended September 30, 2004***

**Consolidated Results of Operations**

We recorded consolidated net income of $61 million for the third quarter of 2005 as compared to a consolidated net loss of $18 million for the three months ended September 30, 2004. We consider the key measure of our performance to be operating income, which was $109 million for the third quarter of 2005, as compared to $22 million for the third quarter of 2004. Significant components of our consolidated operating results are as follows (in millions, except percentage changes):

| | Three Months Ended September 30, | | Increase | % Increase |
|---|---|---|---|---|
| | 2005 | 2004 | (Decrease) | (Decrease) |
| Operating Revenue: | | | | |
| Passenger | $2,760 | $2,393 | $367 | 15.3 % |
| Cargo, mail and other | 241 | 209 | 32 | 15.3 % |
| | 3,001 | 2,602 | 399 | 15.3 % |
| Operating Expenses: | | | | |
| Aircraft fuel and related taxes | 684 | 414 | 270 | 65.2 % |
| Wages, salaries and related costs | 646 | 703 | (57) | (8.1)% |
| ExpressJet capacity purchase, net | 406 | 347 | 59 | 17.0 % |

| | | | | |
|---|---|---|---|---|
| Aircraft rentals | 234 | 224 | 10 | 4.5 % |
| Landing fees and other rentals | 182 | 171 | 11 | 6.4 % |
| Distribution costs | 154 | 139 | 15 | 10.8 % |
| Maintenance, materials and repairs | 116 | 107 | 9 | 8.4 % |
| Depreciation and amortization | 97 | 104 | (7) | (6.7)% |
| Passenger services | 91 | 84 | 7 | 8.3 % |
| Special charges | 3 | 22 | (19) | NM |
| Other | 279 | 265 | 14 | 5.3 % |
| | 2,892 | 2,580 | 312 | 12.1 % |
| Operating Income | 109 | 22 | 87 | 395.5 % |
| Nonoperating Income (Expense) | (48) | (40) | 8 | 20.0 % |
| Income (Loss) before Income Taxes | 61 | (18) | 79 | NM |
| Income Tax Benefit | - | - | - | - |
| Net Income (Loss) | $ 61 | $ (18) | $ 79 | NM |

Operating Revenue. Passenger revenue increased 15.3%, primarily due to increased traffic and fares on international flights and more regional flying. Consolidated revenue passenger miles for the quarter increased 9.2% year-over-year on a capacity increase of 8.8%, which produced a consolidated load factor for the third quarter of 2005 of 81.1%, up 0.4 points over the same period in 2004. Consolidated yield increased 5.6% year-over-year. Consolidated passenger revenue per available seat mile ("RASM") for the quarter increased 6.0% year-over-year, primarily due to higher yield. The improved RASM reflects recent fare increases and our efforts to manage the revenue associated with the emerging trend of customers booking closer to flight dates and an improved mix of local versus flow traffic.

The table below shows passenger revenue for the quarter ended September 30, 2005 and period to period comparisons for passenger revenue, RASM and available seat miles ("ASMs") by geographic region for our mainline and regional operations:

| | Passenger Revenue | Percentage Increase (Decrease) in Third Quarter 2005 vs Third Quarter 2004 | | |
|---|---|---|---|---|
| | (in millions) | Passenger Revenue | RASM | ASMs |
| Domestic | $1,217 | 7.6% | 5.3 % | 2.1% |
| Trans-Atlantic | 545 | 25.7% | 9.1 % | 15.2% |
| Latin America | 285 | 12.7% | 6.7 % | 5.6% |
| Pacific | 222 | 30.1% | (0.6)% | 30.9% |
| Total Mainline | 2,269 | 14.1% | 5.6 % | 7.9% |

| | | | | |
|---|---|---|---|---|
| Regional | 491 | 21.4% | 5.2% | 15.5% |
| Total System | $2,760 | 15.3% | 6.0% | 8.8% |

Cargo, mail and other revenue increased 15.3% primarily due to increases in revenue associated with sales of mileage credits in our OnePass frequent flyer program and increases in freight fuel surcharges, partially offset by lower mail yields.

Operating Expenses. Aircraft fuel and related taxes increased 65.2% due to a significant rise in fuel prices, combined with an increase in flight activity. The average jet fuel price per gallon including related taxes increased 56.9% from $1.20 in the third quarter of 2004 to $1.88 in the third quarter of 2005. Fuel expense is our single largest operating expense item for the first time in our history. Wages, salaries and related costs decreased 8.1% primarily due to wage concessions, partially offset by a slight increase in the average number of employees.

Payments made under our capacity purchase agreement are reported in ExpressJet capacity purchase, net. ExpressJet capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. The net expense was higher in the third quarter of 2005 than in the corresponding quarter of 2004 due to increased flight activity at ExpressJet and increased fuel prices, offset in part by lower renegotiated rates effective January 1, 2005 under the capacity purchase agreement.

Aircraft rentals increased due to new mainline and regional aircraft delivered in 2005. Landing fees and other rentals were higher due to fixed rent increases, mainly from the completion of Terminal E at Bush Intercontinental Airport in Houston. Distribution costs increased primarily due to higher credit card fees and reservation costs related to the increase in revenue. Other operating expenses increased primarily due to the higher number of international flights, which resulted in increased air navigation, ground handling and related expenses.

During the third quarter of 2005, we recorded an $18 million non-cash settlement charge related to lump sum distributions from the pilot defined benefit pension plan to pilots who retired. SFAS No. 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. Also in the third quarter of 2005, we reduced our allowance for future lease payments and return conditions related to permanently grounded aircraft by $15 million following negotiated settlements with the aircraft lessors in an improving aircraft market. In the third quarter of 2004, we recorded a special charge of $22 million associated with future obligations for rent and return conditions related to three leased MD-80 aircraft which were permanently grounded.

Nonoperating Income (Expense). Income from affiliates includes income related to our tax sharing agreement with Holdings and our equity in the earnings of Holdings and Copa Holdings, S.A. ("Copa"). Income related to our tax sharing agreement with Holdings was $7 million in the third quarter of 2005 as compared to $14 million in the third quarter of 2004. Our equity in the earnings of Copa for the third quarter of 2005 includes income of $10 million related primarily to a change in Copa's accounting for maintenance expense. Nonoperating income for the third quarter 2004 also included a gain of $15 million related to the adjustment to fair value of our investment in Orbitz, after associated compensation expense.

Income Tax Benefit (Expense). During the first quarter of 2004, due to our continued losses, we concluded that we were required to provide a valuation allowance for deferred tax assets because we had determined that it was more likely than not that such deferred tax assets would ultimately not be realized. As a result, our net income for the third quarter of 2005 and net loss for the third quarter of 2004 were not reduced by any tax expense (benefit).

**Segment Results of Operations**

We have two reportable segments: mainline and regional. The mainline segment consists of flights with jets that have a capacity of greater than 100 seats while the regional segment consists of flights with jets that have a capacity of 50 or fewer seats. The regional segment is operated by ExpressJet through a capacity purchase agreement. Under that agreement, we handle all of the scheduling and are responsible for setting prices and selling all of the seat inventory. In exchange for ExpressJet's operation of the flights, we pay ExpressJet for each scheduled block hour based on an agreed formula. Under the agreement, 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 the passengers flying on both segments, (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.

Mainline. Significant components of our mainline segment's operating results are as follows (in millions, except percentage changes):

| | Three Months Ended September 30, | | Increase | % Increase |
|---|---|---|---|---|
| | 2005 | 2004 | (Decrease) | (Decrease) |
| Operating Revenue | $2,521 | $2,198 | $323 | 14.7 % |
| Operating Expenses: | | | | |
| Aircraft fuel and related taxes | 684 | 414 | 270 | 65.2 % |

| | | | | |
|---|---|---|---|---|
| Wages, salaries and related costs | 634 | 692 | (58) | (8.4)% |
| Aircraft rentals | 160 | 158 | 2 | 1.3 % |
| Landing fees and other rentals | 173 | 163 | 10 | 6.1 % |
| Distribution costs | 129 | 119 | 10 | 8.4 % |
| Maintenance, materials and repairs | 116 | 107 | 9 | 8.4 % |
| Depreciation and amortization | 94 | 101 | (7) | (6.9)% |
| Passenger services | 88 | 81 | 7 | 8.6 % |
| Special charges | 3 | 22 | (19) | NM |
| Other | 275 | 261 | 14 | 5.4 % |
| | 2,356 | 2,118 | 238 | 11.2 % |
| Operating Income | $ 165 | $ 80 | $ 85 | 106.3 % |

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

Regional. Significant components of our regional segment's operating results are as follows (in millions, except percentage changes):

| | Three Months Ended September 30, | | Increase | % Increase |
|---|---|---|---|---|
| | 2005 | 2004 | (Decrease) | (Decrease) |
| Operating Revenue | $480 | $404 | $76 | 18.8 % |
| Operating Expenses: | | | | |
| Wages, salaries and related costs | 12 | 11 | 1 | 9.1 % |
| ExpressJet capacity purchase, net | 406 | 347 | 59 | 17.0 % |
| Aircraft rentals | 74 | 66 | 8 | 12.1 % |
| Landing fees and other rentals | 9 | 8 | 1 | 12.5 % |
| Distribution costs | 25 | 20 | 5 | 25.0 % |
| Depreciation and amortization | 3 | 3 | - | - |
| Passenger services | 3 | 3 | - | - |
| Other | 4 | 4 | - | - |
| | 536 | 462 | 74 | 16.0 % |
| Operating Loss | $(56) | $(58) | $(2) | (3.4)% |

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 additional revenues for the mainline segment as it feeds traffic between smaller cities and our mainline hubs.

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

capacity purchase, net increased due to increased flight activity at ExpressJet, higher fuel costs and the higher number of regional jets leased from us by ExpressJet. The net amounts consist of the following (in millions, except percentage changes):

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Increase | % Increase |
| Capacity purchase expenses | $393 | $386 | $ 7 | 1.8% |
| Fuel and fuel taxes in excess of 71.2 cents per gallon cap | 91 | 33 | 58 | 175.8% |
| Aircraft sublease income | (78) | (72) | 6 | 8.3% |
| ExpressJet capacity purchase, net | $406 | $347 | $59 | 17.0% |

***Comparison of Nine Months Ended September 30, 2005 to Nine Months Ended September 30, 2004***

**Consolidated Results of Operations**

We recorded a consolidated net loss of $25 million for the nine months ended September 30, 2005 as compared to a consolidated net loss of $201 million for the nine months ended September 30, 2004. We consider the key measure of our performance to be operating income (loss). Operating income was $55 million for the nine months ended September 30, 2005, as compared to a loss of $75 million for the nine months ended September 30, 2004. Significant components of our consolidated operating results are as follows (in millions, except percentage changes):

| | Nine Months Ended September 30, | | Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | 2005 | 2004 | | |
| Operating Revenue: | | | | |
| Passenger | $7,647 | $6,837 | $ 810 | 11.8 % |
| Cargo, mail and other | 716 | 625 | 91 | 14.6 % |
| | 8,363 | 7,462 | 901 | 12.1 % |
| Operating Expenses: | | | | |
| Aircraft fuel and related taxes | 1,729 | 1,134 | 595 | 52.5 % |
| Wages, salaries and related costs | 2,009 | 2,102 | (93) | (4.4)% |
| ExpressJet capacity purchase, net | 1,140 | 992 | 148 | 14.9 % |
| Aircraft rentals | 689 | 666 | 23 | 3.5 % |
| Landing fees and other rentals | 535 | 494 | 41 | 8.3 % |
| Distribution costs | 445 | 416 | 29 | 7.0 % |
| Maintenance, materials and repairs | 334 | 321 | 13 | 4.0 % |
| Depreciation and amortization | 293 | 313 | (20) | (6.4)% |
| Passenger services | 252 | 229 | 23 | 10.0 % |
| Special charges | 46 | 107 | (61) | NM |

| | | | | |
|---|---|---|---|---|
| Other | 836 | 763 | 73 | 9.6 % |
| | 8,308 | 7,537 | 771 | 10.2 % |
| Operating Income (Loss) | 55 | (75) | 130 | NM |
| Nonoperating Income (Expense) | (80) | (166) | (86) | (51.8)% |
| Loss before Income Taxes | (25) | (241) | (216) | (89.6)% |
| Income Tax Benefit | - | 40 | 40 | (100.0)% |
| Net Loss | $ (25) | $ (201) | $(176) | (87.6)% |

Operating Revenue. Passenger revenue increased 11.8%, primarily due to increased traffic and fares on international flights and more regional flying. Consolidated revenue passenger miles for 2005 increased 9.6% year-over-year on a capacity increase of 6.2%, which produced a consolidated load factor for the first nine months of 2005 of 79.3%, up 2.5 points over the same period in 2004. Consolidated yield increased 2.1% year-over-year. Consolidated RASM for the nine months ended September 30, 2005 increased 5.4% year-over-year due to higher load factor and yield. The improved RASM reflects recent fare increases and our efforts to manage the revenue associated with the emerging trend of customers booking closer to flight dates, an improved mix of local versus flow traffic and our efforts to reduce discounting.

The table below shows passenger revenue for the nine months ended September 30, 2005 and period to period comparisons for passenger revenue, RASM and ASMs by geographic region for our mainline and regional operations:

| | Passenger Revenue (in millions) | Percentage Increase (Decrease) in September 30, 2005 YTD vs. September 30 2004 YTD | | |
|---|---|---|---|---|
| | | Passenger Revenue | RASM | ASMs |
| Domestic | $3,556 | 4.3% | 4.8% | (0.5)% |
| Trans-Atlantic | 1,308 | 26.4% | 9.2% | 15.8 % |
| Latin America | 838 | 11.2% | 7.2% | 3.7 % |
| Pacific | 576 | 23.0% | 2.9% | 19.6 % |
| Total Mainline | 6,278 | 10.8% | 5.5% | 5.1 % |
| Regional | 1,369 | 16.9% | 1.3% | 15.3 % |
| Total System | $7,647 | 11.8% | 5.4% | 6.2 % |

Cargo, mail and other revenue increased 14.6%, primarily due to increases in revenue associated with sales of mileage credits in our OnePass frequent flyer program and increases in freight fuel surcharges, partially offset by lower mail yields.

Operating Expenses. Aircraft fuel and related taxes increased 52.5% due to a significant rise in fuel prices, combined with an increase in flight activity. The average jet fuel price per gallon including related taxes increased 48.8% from $1.13 in the first nine months of 2004 to $1.68 in the first nine months of 2005. Wages, salaries and related costs decreased 4.4% primarily due to wage concessions, partially offset by a slight increase in the average number of employees.

Payments made under our capacity purchase agreement are reported in ExpressJet capacity purchase, net. ExpressJet capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase

agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. The net expense was higher in the first nine months of 2005 than in the corresponding period of 2004 due to increased flight activity at ExpressJet and increased fuel prices, offset in part by lower renegotiated rates effective January 1, 2005 under the capacity purchase agreement.

Aircraft rentals increased due to new mainline and regional aircraft delivered in 2005. Landing fees and other rentals were higher due to fixed rent increases, mainly from the completion of Terminal E at Bush Intercontinental Airport in Houston. Distribution costs increased primarily due to higher credit card fees and reservation costs related to the increase in revenue. The lower depreciation and amortization in 2004 resulted from the permanent grounding of MD-80 aircraft in 2003 and 2004. Other operating expenses increased primarily due to the higher number of international flights which resulted in increased air navigation, ground handling and related expenses.

In March 2005, we recorded a $43 million non-cash curtailment charge relating to our agreement to freeze, effective May 31, 2005, the benefit accruals with respect to our pilots under our defined benefit pension plan. During the third quarter of 2005, we recorded an $18 million non-cash settlement charge related to lump sum distributions from the pilot defined benefit pension plan to pilots who retired. Also in the third quarter of 2005, we reduced our allowance for future lease payments and return conditions related to permanently grounded aircraft by $15 million following negotiated settlements with the aircraft lessors in an improving aircraft market. In the first nine months of 2004, we recorded special charges of $107 million. Included in these charges were $70 million associated with future obligations for rent and return conditions related to 12 leased MD-80 aircraft which were permanently grounded, a non-cash charge of $34 million related to the termination of a 1993 service agreement with United Micronesia Development Association and charges related to the write-off of leasehold improvements and other items.

Nonoperating Income (Expense). Income from affiliates includes income related to our tax sharing agreement with Holdings and our equity in the earnings of Holdings and Copa. Income related to our tax sharing agreement with Holdings was $21 million in the nine months ended September 30, 2005 as compared to $37 million in the nine months ended September 30, 2004. Our equity in the earnings of Copa for the first nine months of 2005 includes income of $10 million related primarily to a change in Copa's accounting for maintenance expense. We also recognized gains of $98 million in the nine months ended September 30, 2005 related to the contribution of 12.1 million shares of Holdings common stock to our primary defined benefit pension plan. The nine months ended September 30, 2004 included a gain of $11 million related to the adjustment to fair value of our investment in Orbitz, after associated compensation expense.

Income Tax Benefit (Expense). During the first quarter of 2004, due to our continued losses, we concluded that we were required to provide a valuation allowance for deferred tax assets because we had determined that it was more likely than not that such deferred tax assets would ultimately not be realized. As a result, our net losses for the nine months ended September 30, 2005 and the majority of the nine months ended September 30, 2004 were not reduced by any tax benefit. Our effective tax rate for the first nine months of 2004 also differs from the federal statutory rate of 35% primarily due to increases in the valuation allowance, certain expenses that are not deductible for federal income tax purposes and state income taxes.

**Segment Results of Operations**

Mainline. Significant components of our mainline segment's operating results are as follows (in millions, except percentage changes):

| | Nine Months Ended September 30, | | Increase | % Increase |
|---|---|---|---|---|
| | 2005 | 2004 | (Decrease) | (Decrease) |
| Operating Revenue | $7,026 | $6,290 | $736 | 11.7 % |
| Operating Expenses: | | | | |
| Aircraft fuel and related taxes | 1,729 | 1,134 | 595 | 52.5 % |
| Wages, salaries and related costs | 1,975 | 2,067 | (92) | (4.5)% |
| Aircraft rentals | 475 | 474 | 1 | 0.2 % |
| Landing fees and other rentals | 503 | 470 | 33 | 7.0 % |
| Distribution costs | 375 | 356 | 19 | 5.3 % |
| Maintenance, materials and repairs | 334 | 321 | 13 | 4.0 % |
| Depreciation and amortization | 285 | 305 | (20) | (6.6)% |
| Passenger services | 242 | 221 | 21 | 9.5 % |
| Special charges | 46 | 107 | (61) | NM |
| Other | 822 | 753 | 69 | 9.2 % |
| | 6,786 | 6,208 | 578 | 9.3 % |

| | | | | |
|---|---|---|---|---|
| Operating Income | $ 240 | $ 82 | $158 | 192.7 % |

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

Regional. Significant components of our regional segment's operating results are as follows (in millions, except percentage changes):

| | Nine Months Ended September 30, | | Increase | % Increase |
|---|---|---|---|---|
| | 2005 | 2004 | (Decrease) | (Decrease) |
| Operating Revenue | $1,337 | $1,172 | $165 | 14.1 % |
| Operating Expenses: | | | | |
| Wages, salaries and related costs | 34 | 35 | (1) | (2.9)% |
| ExpressJet capacity purchase, net | 1,140 | 992 | 148 | 14.9 % |
| Aircraft rentals | 214 | 192 | 22 | 11.5 % |
| Landing fees and other rentals | 32 | 24 | 8 | 33.3 % |
| Distribution costs | 70 | 60 | 10 | 16.7 % |
| Depreciation and amortization | 8 | 8 | - | - |
| Passenger services | 10 | 8 | 2 | 25.0 % |
| Other | 14 | 10 | 4 | 40.0 % |
| | 1,522 | 1,329 | 193 | 14.5 % |
| Operating Loss | $(185) | $(157) | $ 28 | 17.8 % |

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 additional revenues for the mainline segment as it feeds traffic between smaller cities and our mainline hubs.

The variances in specific line items for the regional segment are due to the same factors discussed under consolidated results of operations. ExpressJet capacity purchase, net increased due to increased flight activity at ExpressJet, higher fuel costs and the higher number of regional jets leased from us by ExpressJet. The net amounts consist of the following (in millions, except percentage changes):

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Increase | % Increase |
| Capacity purchase expenses | $1,157 | $1,121 | $ 36 | 3.2% |
| Fuel and fuel taxes in excess of 71.2 cents per gallon cap | 213 | 80 | 133 | 166.3% |
| Aircraft sublease income | (230) | (209) | 21 | 10.0% |
| ExpressJet capacity purchase, net | $1,140 | $ 992 | $148 | 14.9% |

-

Certain Statistical Information. An analysis of statistical information for our operations for the periods indicated is as follows:

| | Three Months Ended September 30, | | Net Increase/ (Decrease) |
|---|---|---|---|
| | 2005 | 2004 | |
| **Mainline Statistics:** | | | |
| Passengers (thousands) (1) | 11,642 | 11,182 | 4.1 % |
| Revenue passenger miles (millions) (2) | 19,378 | 17,923 | 8.1 % |
| Available seat miles (millions) (3) | 23,721 | 21,979 | 7.9 % |
| Cargo ton miles (millions) | 246 | 250 | (1.6)% |
| Passenger load factor (4) | 81.7% | 81.5% | 0.2 pts. |
| Passenger revenue per available seat mile (cents) | 9.56 | 9.05 | 5.6 % |
| Total revenue per available seat mile (cents) | 10.63 | 10.00 | 6.3 % |
| Average yield per revenue passenger mile (cents) (5) | 11.70 | 11.09 | 5.5 % |
| Cost per available seat mile, including special charges (cents) (6) | 9.93 | 9.64 | 3.0 % |
| Average price per gallon of fuel, including fuel taxes (cents) | 187.99 | 119.85 | 56.9 % |
| Fuel gallons consumed (millions) | 364 | 345 | 5.5 % |
| Average fare per revenue passenger | $197.99 | $181.01 | 9.4 % |
| Actual aircraft in fleet at end of period (7) | 350 | 352 | (0.6)% |
| Average length of aircraft flight (miles) | 1,434 | 1,358 | 5.6 % |
| Average daily utilization of each aircraft (hours) (8) | 10:58 | 10:05 | 8.8 % |
| **Regional Statistics:** | | | |
| Passengers (thousands) (1) | 4,263 | 3,680 | 15.8 % |
| Revenue passenger miles (millions) (2) | 2,384 | 1,999 | 19.3 % |
| Available seat miles (millions) (3) | 3,112 | 2,695 | 15.5 % |
| Passenger load factor (4) | 76.6% | 74.2% | 2.4 pts. |
| Passenger revenue per available seat mile (cents) | 15.79 | 15.01 | 5.2 % |
| Average yield per revenue passenger mile (cents) (5) | 20.61 | 20.24 | 1.8 % |
| Actual aircraft in fleet at end of period (7) | 261 | 240 | 8.8 % |
| **Consolidated Statistics (Mainline and Regional):** | | | |
| Passengers (thousands) (1) | 15,905 | 14,862 | 7.0 % |
| Revenue passenger miles (millions) (2) | 21,762 | 19,922 | 9.2 % |
| Available seat miles (millions) (3) | 26,833 | 24,674 | 8.8 % |
| Passenger load factor (4) | 81.1% | 80.7% | 0.4 pts. |
| Passenger revenue per available seat mile (cents) | 10.28 | 9.70 | 6.0 % |
| Average yield per revenue passenger mile (cents) (5) | 12.68 | 12.01 | 5.6 % |

| | Nine Months Ended September 30, | | Net Increase/ (Decrease) |
|---|---|---|---|
| | 2005 | 2004 | |
| **Mainline Statistics:** | | | |
| Passengers (thousands) (1) | 33,706 | 32,119 | 4.9 % |
| Revenue passenger miles (millions) (2) | 53,583 | 49,466 | 8.3 % |
| Available seat miles (millions) (3) | 67,022 | 63,796 | 5.1 % |
| Cargo ton miles (millions) | 743 | 748 | (0.7)% |
| Passenger load factor (4) | 79.9% | 77.5% | 2.4 pts. |
| Passenger revenue per available seat mile (cents) | 9.37 | 8.88 | 5.5 % |
| Total revenue per available seat mile (cents) | 10.48 | 9.86 | 6.3 % |
| Average yield per revenue passenger mile (cents) (5) | 11.72 | 11.45 | 2.4 % |
| Cost per available seat mile, including special charges (cents) (6) | 10.13 | 9.73 | 4.1 % |
| Average price per gallon of fuel, including fuel taxes (cents) | 167.58 | 112.64 | 48.8 % |
| Fuel gallons consumed (millions) | 1,032 | 1,007 | 2.5 % |
| Average fare per revenue passenger | $189.18 | $179.70 | 5.3 % |
| Actual aircraft in fleet at end of period (7) | 350 | 352 | (0.6)% |
| Average length of aircraft flight (miles) | 1,387 | 1,326 | 4.6 % |
| Average daily utilization of each aircraft (hours) (8) | 10:35 | 9:58 | 6.2 % |

| | | | |
|---|---|---|---|
| **Regional Statistics:** | | | |
| Passengers (thousands) (1) | 11,862 | 10,110 | 17.3 % |
| Revenue passenger miles (millions) (2) | 6,582 | 5,447 | 20.8 % |
| Available seat miles (millions) (3) | 8,878 | 7,697 | 15.3 % |
| Passenger load factor (4) | 74.1% | 70.8% | 3.3 pts. |
| Passenger revenue per available seat mile (cents) | 15.42 | 15.22 | 1.3 % |
| Average yield per revenue passenger mile (cents) (5) | 20.80 | 21.50 | (3.3)% |
| Actual aircraft in fleet at end of period (7) | 261 | 240 | 8.8 % |
| **Consolidated Statistics (Mainline and Regional):** | | | |
| Passengers (thousands) (1) | 45,568 | 42,229 | 7.9 % |
| Revenue passenger miles (millions) (2) | 60,165 | 54,913 | 9.6 % |
| Available seat miles (millions) (3) | 75,900 | 71,493 | 6.2 % |
| Passenger load factor (4) | 79.3% | 76.8% | 2.5 pts. |
| Passenger revenue per available seat mile (cents) | 10.08 | 9.56 | 5.4 % |
| Average yield per revenue passenger mile (cents) (5) | 12.71 | 12.45 | 2.1 % |

______________________

1. 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 that those seats are flown.
4. Revenue passenger miles divided by available seat miles.
5. The average revenue received for each revenue passenger mile flown.
6. Includes special charges per available seat mile, as follows: 0.01 cents for the three months ended September 30, 2005, 0.10 cents for the three months ended September 30, 2004, 0.07 cents for the nine months ended September 30, 2005 and 0.17 cents for the nine months ended September 30, 2004.
7. Excludes aircraft that have been removed from service.
8. The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).

## LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2005, we had $2.2 billion in consolidated cash, cash equivalents and short-term investments, which is $501 million higher than at December 31, 2004. At September 30, 2005, we had $247 million of restricted cash, which is primarily collateral for estimated future workers' compensation claims, credit card processing contracts, letters of credit and interest rate swap agreements. Restricted cash at December 31, 2004 totaled $211 million.

For a discussion of a number of factors that may impact our liquidity and the sufficiency of our capital resources, see "Overview" above.

Although revenue trends have been improving, we still expect to incur a significant loss in the fourth quarter and full year 2005 due in large part to current high fuel prices. As a result of escalating prices, fuel expense is our single largest operating expense item for the first time in our history. We have been able to implement some fare increases on certain domestic and international routes in recent months, but these increases have not fully offset the substantial increase in fuel prices.

Taking into consideration our expected fourth quarter loss, $356 million of debt and capital lease principal payments due in the fourth quarter of 2005 and the $65 million cash pension contribution we made in October 2005, we currently expect that our unrestricted cash and short-term investments balance as of December 31, 2005 will be approximately $1.4 billion, not including any fourth quarter capital market transactions or other financings, except for previously announced aircraft financing transactions.

We also believe that under current conditions, absent adverse factors outside of our control, such as additional terrorist attacks, hostilities involving the United States, a further delay in the restart of the Gulf Coast refineries or further significant increases in crude oil prices, our existing liquidity and projected 2006 cash flows will be sufficient to fund current operations and other financial obligations through 2006. However, we have significant financial obligations due in 2007 and thereafter, and it is possible that we will have inadequate liquidity to meet those obligations if the current adverse domestic fare environment for network carriers does not improve materially, fuel prices remain high and we are unable to increase our revenue or decrease our costs considerably or raise additional liquidity through financing activities and/or by selling non-strategic assets. Our recent pay and benefit cost reductions are helping us reduce our overall costs, but we do not expect that these reductions in and of themselves will provide sufficient liquidity or restore our profitability in the current environment.

Operating Activities. Cash flows provided by operations for the nine months ended September 30, 2005 were $453 million compared to cash flows provided by operations of $488 million in the comparable period of 2004. Cash flows from operations decreased primarily due to the contribution of $109 million cash to our defined benefit pension plans in the nine months ended September 30, 2005, partially offset by advance ticket sales associated with increased international flight activity.

Investing Activities. Cash flows used in investing activities were $83 million for the nine months ended September 30, 2005 compared to cash flows provided by investing activities of $28 million for the nine months ended September 30, 2004. The increase in purchase deposits paid in the first nine months of 2005 is due to the timing of aircraft deliveries. The delivery of mainline aircraft in the first nine months of 2004 resulted in higher purchase deposit refunds as compared to the first nine months of 2005. We took delivery of four new mainline aircraft and 16 leased regional jets during the first nine months of 2005, compared to 14 mainline aircraft (of which five were owned and nine were leased) and 16 leased regional jets in the first nine months of 2004.

We have substantial commitments for capital expenditures. Net capital expenditures for 2005 are expected to be $203 million, or $207 million after considering purchase deposits to be paid, net of purchase deposits refunded. Projected net capital expenditures for 2005 consist of $71 million of fleet expenditures, $100 million of non-fleet expenditures and $32 million for rotable parts and capitalized interest. Through September 30, 2005, our net capital expenditures totaled $123 million and net purchase deposits paid totaled $26 million.

During the nine months ended September 30, 2005, we received proceeds of $42 million from dispositions of property and equipment. The most significant component of this total was related to a sale of undeveloped land acquired in 1999 near our hub at Newark Liberty International Airport.

Financing Activities. Cash flows provided by financing activities, primarily the issuance of new long-term debt offset by the payment of long-term debt and capital lease obligations, were $154 million for the nine months ended September 30, 2005, compared to cash flows used in financing activities of $342 million in the nine months ended September 30, 2004.

In June 2005, we and our two wholly owned subsidiaries, AMI and CMI, closed on a $350 million secured loan facility. AMI and CMI have unconditionally guaranteed the loan made to us, and we and AMI have unconditionally guaranteed the loan made to CMI.

The facility consists of two loans, both of which have a term of six years and are non-amortizing, except for certain mandatory prepayments described below. The loans accrue interest at a floating rate determined by reference to the three-month London Interbank Offered Rate, known as LIBOR, plus 5.375% per annum. The loans and guarantees are secured by certain of our U.S.-Asia routes and related assets, all of the outstanding common stock of AMI and CMI and substantially all of the other assets of AMI and CMI, including route authorities and related assets.

The loan documents require us to maintain a minimum balance of unrestricted cash and short-term investments of $1.0 billion dollars at the end of each month. The loans may become due and payable immediately if we fail to maintain the monthly minimum cash balance and upon the occurrence of other customary events of default under the loan documents. If we fail to maintain a minimum balance of unrestricted cash and short-term investments of $1.125 billion, we and CMI will be required to make a mandatory aggregate $50 million prepayment of the loans. In addition, if the ratio of the outstanding loan balance to the value of the collateral securing the loans, as determined by periodic appraisals, is greater than 48%, we and CMI will be required to post additional collateral or prepay the loans to reestablish a loan-to-collateral value ratio of not greater than 48%. We are currently in compliance with these covenants.

In March 2005, we extended our current agreement with Chase to jointly market credit cards. In addition to reaching an agreement on advertising and other marketing commitments, Chase agreed to increase the rate it pays for mileage credits under our frequent flyer program. In April 2005, Chase purchased $75 million of mileage credits under the program which will be redeemed for mileage purchases in 2007 and 2008 and recognized as revenue consistent with other mileage sales in 2007 and 2008. In consideration for the advance purchase of mileage credits, we have provided a security interest to Chase in certain transatlantic routes. The $75 million purchase of mileage credits has been treated as a loan from Chase and is reported as long-term debt in our balance sheet and will be reduced ratably in 2007 and 2008 as the mileage credits are redeemed. The new agreement extends through the end of 2009.

At September 30, 2005, we had approximately $6.0 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 interests in Holdings and Copa Airlines remain unencumbered. We are currently in compliance with all debt covenants.

At September 30, 2005, our senior unsecured debt ratings were Caa2 by Moody's and CCC+ by Standard & Poor's. Reductions in our credit ratings may increase the cost 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 $60 million under our bank-issued credit card processing agreement if our debt rating falls below Caa3 as rated by Moody's or CCC- as rated by Standard & Poor's. We would also be required to post additional collateral of up to $27 million under our workers' compensation program if our debt rating falls below Caa2 as rated by Moody's or CCC+ as rated by Standard & Poor's.

Our bank-issued credit card processing agreement also contains certain financial covenants which require, among other things, that we maintain a minimum EBITDAR (generally, earnings before interest, taxes, depreciation, amortization and rentals, adjusted for certain special charges) to fixed charges (generally, interest and aircraft rentals) ratio of 0.9 to 1.0 through June 30, 2006 and 1.1 to 1.0 thereafter. The liquidity covenant requires us to maintain a minimum level of $1.0 billion of unrestricted cash and short-term investments. We are currently in compliance with all of the covenants. Failure to maintain compliance would result in our being required to post up to an additional $360 million of cash collateral, which would adversely affect our liquidity. Depending on our unrestricted cash 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 $1.0 billion minimum balance requirement under our $350 million secured loan facility, resulting in a default under such facility.

On September 23, 2005, the SEC declared effective our recently filed universal shelf registration statement covering the sale from time to time of up to $1 billion of our securities in one or more public offerings. The securities offered might include debt securities, shares of Class B common stock, shares of preferred stock, and securities exercisable for, or convertible into, shares of Class B common stock, such as stock purchase contracts, warrants or subscription rights, among others. Proceeds from any sale would likely be used for general corporate purposes, including the repayment of debt, the funding of pension obligations and working capital requirements.

Deferred Tax Assets. We have not paid federal income taxes in the last four years. As of December 31, 2004, we had a net deferred tax liability of $212 million including gross deferred tax assets aggregating $1.9 billion, $1.2 billion related to net operating losses ("NOLs"), and a valuation allowance of $404 million.

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 4.24% for September 2005). 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 $27 million per year, before consideration of any built-in gains.

During the quarter ended September 30, 2005, we entered into a final settlement agreement with the Internal Revenue Service ("IRS") resolving all matters raised by the IRS during its examination of our federal income tax returns through the year ended December 31, 1999. As a result of the settlement with the IRS and the associated deferred tax account reconciliation, deferred tax liabilities and long-term assets (primarily routes and airport operating rights) were reduced by $211 million to reflect the ultimate resolution of tax uncertainties existing at the point we emerged from bankruptcy in April 1993. The composition of the individual elements of deferred taxes recorded on the balance sheet was also adjusted; however, the net effect of these changes was entirely offset by an increase in the deferred tax valuation allowance due to our prior determination that it is more likely than not that our net deferred tax assets will ultimately not be realized. The settlement did not have a material impact on our results of operations, financial position or liquidity.

Qualified Retirement Plans. Under the new collective bargaining agreement with our pilots ratified on March 30, 2005, which we refer to as the "pilot agreement," future defined benefit accruals for pilots ceased and retirement benefits accruing in the future are provided through two new pilot-only defined contribution plans. As required by the pilot agreement, defined benefit pension assets and obligations related to pilots in our primary defined benefit pension plan (covering substantially all U.S. employees other than Chelsea and CMI employees) were spun out into a separate pilot-only defined benefit pension plan, which we refer to as the "pilot defined benefit pension plan." Subsequently, on May 31, 2005, future benefit accruals for pilots ceased and the pilot defined benefit pension plan was "frozen." As of that freeze date, all existing accrued benefits for pilots (including the right to receive a lump sum payment upon retirement) were preserved in the pilot defined benefit pension plan. Accruals for non-pilot employees under our primary defined benefit pension plan continue. Funding obligations for both defined benefit plans (the ongoing primary defined benefit pension plan and the pilot defined benefit pension plan) will continue to be determined under applicable law. However, the pilot agreement provides that we will not declare a cash dividend or repurchase our outstanding stock for cash until we have contributed at least $500 million (measured from March 30, 2005) to the pilot defined benefit pension plan. Through September 30, 2005, we have made $40 million of such contributions to this plan.

We contributed $59 million cash to our defined benefit pension plans during the three months ended September 30, 2005. We also contributed $65 million cash to our defined benefit pension plans on October 6, 2005, bringing year-to-date contributions to $304 million and meeting our pension contribution requirement for 2005.

As required by the new pilot agreement, two new pilot-only defined contribution plans were established effective September 1, 2005. One of these plans is a money purchase pension plan -- a type of defined contribution plan subject to the minimum funding rules of the Internal Revenue Code. Contributions under that plan are generally expressed as a percentage of applicable pilot compensation, subject to limits under the Internal Revenue Code. The initial contribution to that plan was based on applicable compensation since July 1, 2005. The other new pilot-only defined contribution plan is a 401(k) plan that was established by spinning off the pilot accounts in our pre-existing primary 401(k) plan (covering substantially all of our U.S. employees other than CMI employees) to a separate pilot-only 401(k) plan. Pilots may make elective pre-tax and/or post tax contributions to the pilot-only 401(k) plan. In addition, the pilot agreement calls for employer contributions to the pilot-only 401(k) plan based on pre-tax profits during a portion of the term of the pilot agreement. To the extent the Internal Revenue Code limits preclude employer contributions called for by the pilot agreement, the disallowed amount will be paid directly to the pilots as current wages under a corresponding nonqualified arrangement.

Liquidity and Credit Support Providers. We have utilized proceeds from the issuance of pass-through certificates to finance the acquisition of 251 leased and owned mainline jet aircraft currently in our fleet, including four MD-80 aircraft currently out-of-service. Typically, these pass-through certificates, as well as a separate financing secured by aircraft spare parts and spare engines, contain liquidity facilities whereby a third party agrees to make payments sufficient to pay at least 18 months of interest on the applicable certificates if a payment default occurs. The liquidity providers for these certificates include the following: CALYON New York Branch, Landesbank Hessen-Thuringen Girozentrale, Morgan Stanley Capital Services, Westdeutsche Landesbank Girozentrale, AIG Matched Funding Corp., ABN AMRO Bank N.V., Credit Suisse First Boston, Caisse des Depots et Consignations, Bayerische Landesbank Girozentrale, ING Bank N.V. and De Nationale Investeringsbank N.V.

We are also the issuer of pass-through certificates secured by 122 leased regional jet aircraft currently operated by ExpressJet and eight regional jet aircraft that are scheduled to be delivered through February 2006. The liquidity providers for these certificates include the following: ABN AMRO Bank N.V., Chicago Branch, Citibank N.A., Citicorp North America, Inc., Landesbank Baden-Wurttemberg, RZB Finance LLC and WestLB AG, New York Branch.

We currently utilize policy providers to provide credit support on three separate financings with an outstanding principal balance of $525 million at September 30, 2005. The policy providers have unconditionally guaranteed the payment of interest on the notes when due and the payment of principal on the notes no later than 24 months after the final scheduled payment date. Policy providers on these notes are MBIA Insurance Corporation (a subsidiary of MBIA, Inc.), Ambac Assurance Corporation (a subsidiary of Ambac Financial Group, Inc.) and Financial Guaranty Insurance Company (a subsidiary of FGIC). Financial information for FGIC is available over the internet at *http://www.fgic.com* and financial information for the parent companies of our other policy providers is available over the internet at the SEC's website at *http://www.sec.gov* or at the SEC's public reference room in Washington, D.C.

## 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 2004 Form 10-K/A except as follows:

Foreign Currency. We had the following foreign currency hedges outstanding at September 30, 2005 covering net cash flows for the remainder of 2005:

- Forward contract to hedge approximately 65% of our projected Japanese yen-denominated net cash flows.
- Forward and option contracts to hedge approximately 40% of our British pound sterling-denominated net cash flows.
- Forward and option contracts to hedge approximately 71% of our projected euro-denominated net cash flows.
- Forward contracts to hedge approximately 87% of our projected Canadian dollar-denominated net cash flows.

Additionally, we have entered into swap contracts to hedge approximately 47% of our projected Canadian dollar-denominated net cash flows for 2006.

We estimate that at September 30, 2005, a 10% strengthening in the value of the U.S. dollar relative to the Japanese yen, British pound sterling, euro and Canadian dollar would have increased the fair value of the existing option and/or forward contracts by $7 million, $2 million, $1 million and $2 million, respectively, offset by a corresponding loss on the underlying exposure of $5 million, $4 million, $1 million and $5 million, respectively, resulting in a net increase (decrease) in revenue of $2 million, $(2) million, $0 million and $(3) million, respectively.

Aircraft Fuel. As of September 30, 2005, we did not have any jet fuel hedges in place.

## 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 permit us to effectively identify and timely disclose important information. They concluded that, solely as a result of the material weakness in our internal control over financial reporting described below, our disclosure controls and procedures were not effective as of September 30, 2005 to ensure that material information was accumulated and communicated to the Company's management, including our Chief

Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Remediation of Material Weakness in Internal Control

As discussed further in Item 9A. Controls and Procedures-Management's Report on Internal Control over Financial Reporting (as restated) of our 2004 Form 10-K/A, in mid-July 2005, management concluded that our failure to correctly apply Statement of Financial Accounting Standards No. 13, "Accounting for Leases," ("SFAS 13"), and its related interpretations, with respect to the recognition of rent expense on operating leases with fixed rent escalation clauses and depreciation expense for leasehold improvements constituted a material weakness in our internal control over financial reporting. Solely as a result of this material weakness, our management concluded that our internal control over financial reporting was not effective as of December 31, 2004, March 31, 2005 and June 30, 2005.

During the third quarter of 2005 and prior to the filing of our 2004 Form 10-K/A, we performed an extensive review of our leases and our leasehold improvements in an effort to ensure that the restated financial statements reflected all necessary adjustments. We also designed new internal control procedures to help remediate the issues and to ensure that new leases and changes to existing leases, as well as future leasehold improvements, will be accounted for in accordance with generally accepted accounting principles, including the following:

- We have designed a new checklist to facilitate the identification of terms in all new lease agreements and amendments to existing lease agreements that require additional analysis or accounting; and
- We have developed plans to improve training, education and accounting reviews designed to ensure that all relevant personnel involved in leasing transactions understand and apply applicable accounting guidance in compliance with generally accepted accounting principles.

We believe we have taken the steps necessary to remediate this material weakness relating to our lease accounting processes, procedures and controls; however, we cannot confirm the effectiveness of our enhanced internal controls with respect to our lease accounting until we have conducted sufficient testing. We anticipate that such testing will be completed in connection with management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005. This assessment will be disclosed in management's report on internal control over financial reporting to be included in our Annual Report on Form 10-K for the year ended December 31, 2005. Accordingly, we will continue to monitor the effectiveness of our lease accounting processes, procedures and controls and will make any further changes management determines appropriate.

Changes in Internal Controls. Other than as noted above in this Item 4, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal controls performed during the third quarter of 2005 that have materially affected, or are 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 travel agents, and in 2002 we eliminated the base commissions.  This was similar to actions also taken by other air carriers.  We are now a defendant, along with several other air carriers, in two remaining 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), 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 commission 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. Another such similar lawsuit, styled Paula Fausky, et al. v. American Airlines, et al. (U.S.D.C., Northern District of Ohio) and filed on May 8, 2003, was dismissed without prejudice in July 2005. By order dated November 10, 2003, the remaining actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has commenced.

In each of the foregoing cases, we believe the plaintiffs' claims are without merit and are vigorously defending the lawsuits.  Nevertheless, a final adverse court decision awarding substantial money damages could have a material adverse effect on our financial position, liquidity and results of operations.

## 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.

None.

## Item 6. Exhibits.

| | |
|---|---|
| 4.1 | Trust Supplement No. 2005-ERJ1 dated September 22, 2005 between Wilmington Trust Company, as Trustee, and Continental to Pass Through Trust Agreement, dated September 25, 1997 - incorporated by reference to Exhibit 4.1 to Continental's Current Report on Form 8-K dated September 22, 2005. |
| 10.1 | Supplement Agreement No. 36 dated July 28, 2005 to Purchase Agreement No. 1951 between Continental and Boeing, dated July 23, 1996, relating to the purchase of Boeing 737 aircraft. (1) |
| 10.2 | Supplemental Agreement No. 11 dated July 28, 2005 to Purchase Agreement No. 2061 between Continental and Boeing, dated October 10, 1997, relating to the purchase of Boeing 777 aircraft. (1) |
| 10.3 | Amended and Restated Letter Agreement No. 11 dated August 8, 2005 between Continental and General Electric Company relating to certain long-term engine purchase commitments of Continental. (1) |
| 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 | Section 1350 Certifications. |

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 18, 2005

By: /s/ Jeffrey J. Misner
Jeffrey J. Misner
Executive Vice President and
Chief Financial Officer
(On behalf of Registrant)

Date: October 18, 2005

By: /s/ Chris Kenny
Chris Kenny
Vice President and Controller
(Principal Accounting Officer)

## INDEX TO EXHIBITS
## OF
## CONTINENTAL AIRLINES, INC.

4.1 Trust Supplement No. 2005-ERJ1 dated September 22, 2005 between Wilmington Trust Company, as Trustee, and Continental to Pass Through Trust Agreement, dated September 25, 1997 - incorporated by reference to Exhibit 4.1 to Continental's Current Report on Form 8-K dated September 22, 2005.

| | |
|---|---|
| 10.1 | Supplement Agreement No. 36 dated July 28, 2005 to Purchase Agreement No. 1951 between Continental and Boeing, dated July 23, 1996, relating to the purchase of Boeing 737 aircraft. (1) |
| 10.2 | Supplemental Agreement No. 11 dated July 28, 2005 to Purchase Agreement No. 2061 between Continental and Boeing, dated October 10, 1997, relating to the purchase of Boeing 777 aircraft. (1) |
| 10.3 | Amended and Restated Letter Agreement No. 11 dated August 8, 2005 between Continental and General Electric Company relating to certain long-term engine purchase commitments of Continental. (1) |
| 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 | Section 1350 Certifications. |

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

EXHIBIT 10.1

# Supplemental Agreement No. 36

to

Purchase Agreement No. 1951

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 737 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of July 28, 2005, by and between THE BOEING COMPANY (Boeing) and Continental Airlines, Inc. (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement), as amended and supplemented, relating to Boeing Model 737-500, 737-600, 737-700, 737-800, and 737-900 aircraft (the Aircraft);

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

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

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. Table of Contents, Articles, Tables and Exhibits:

1.1 Remove and replace, in its entirety, the "Table of Contents", with the Table of Contents attached hereto, to reflect the changes made by this Supplemental Agreement No. 36.

2. Letter Agreements:

2.1 Remove and replace, in its entirety, Letter Agreement 1951-9R16, "Option Aircraft - Model 737-724 Aircraft", with the revised Letter Agreement 1951-9R17 attached hereto, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

3. Distribution of Funds:

3.1 Upon execution of this Supplemental Agreement 36 and Purchase Agreement 2061 Supplemental Agreement 11, Boeing will **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

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

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

THE BOEING COMPANY Continental Airlines, Inc.

By: /s/ Michael S. Anderson By: /s/Gerald Laderman

Its: Attorney-In-Fact Its: Senior Vice President -

Finance and Treasurer

TABLE OF CONTENTS

Page SA

Number Number

ARTICLES

1. Subject Matter of Sale 1-1 SA 5

2. Delivery, Title and Risk
of Loss 2-1

3. Price of Aircraft 3-1 SA 31

4. Taxes 4-1

5. Payment 5-1

6. Excusable Delay 6-1

7. Changes to the Detail
Specification 7-1 SA 5

8. Federal Aviation Requirements and
Certificates and Export License 8-1 SA 5

9. Representatives, Inspection,
Flights and Test Data 9-1

10. Assignment, Resale or Lease 10-1

11. Termination for Certain Events 11-1

12. Produce Assurance; Disclaimer and

Release; Exclusion of Liabilities:

Customer Support; Indemnification

And Insurance 12-1

13. Buyer Furnished Equipment and
Spare Parts 13-1

14. Contractual Notices and Requests 14-1 SA 17

15. Miscellaneous 15-1

TABLE OF CONTENTS

Page SA

Number Number

TABLES

1. Aircraft Deliveries and
Descriptions - 737-500 T-1 SA 3

Aircraft Deliveries and
Descriptions - 737-700 T-2 SA 31

Aircraft Deliveries and
Descriptions - 737-800 T-3 SA 33

Aircraft Deliveries and

Descriptions - 737-600 T-4 SA 4

Aircraft Deliveries and
Descriptions - 737-900 T-5 SA 31

EXHIBITS

A-1 Aircraft Configuration - Model 737-724

(Aircraft delivering through July 2004) SA 26

A-2 Aircraft Configuration - Model 737-824

(Aircraft delivering through July 2004) SA 26

A-3 Aircraft Configuration - Model 737-624 SA 1

A-4 Aircraft Configuration - Model 737-524 SA 3

A-5 Aircraft Configuration - Model 737-924

(Aircraft delivering through July 2004) SA 26

A-6 Aircraft Configuration - Model 737-724

(Aircraft delivering in or after

August 2004) SA 31

A-7 Aircraft Configuration - Model 737-824

(Aircraft delivering in or after

August 2004) SA 31

TABLE OF CONTENTS

SA

Number

EXHIBITS (continued)

A-8 Aircraft Configuration - Model 737-924

(Aircraft delivering in or after

August 2004) SA 31

B Product Assurance Document SA 1

C Customer Support Document - Code Two -
Major Model Differences SA 1

C1 Customer Support Document - Code Three -

Minor Model Differences SA 1

D Aircraft Price Adjustments - New
Generation Aircraft (1995 Base Price -

Aircraft delivering through July 2004) SA 1

D1 Airframe and Engine Price Adjustments -

Current Generation Aircraft SA 1

D2 Aircraft Price Adjustments - New
Generation Aircraft (1997 Base Price- Aircraft

delivering through July 2004) SA 5

D3 Aircraft Price Adjustments - New
Generation Aircraft (July 2003 Base Price -

Aircraft delivering in or after August 2004) SA 31

E Buyer Furnished Equipment
Provisions Document SA 20

F Defined Terms Document SA 5

TABLE OF CONTENTS

SA

Number

LETTER AGREEMENTS

1951-1 Not Used

1951-2R3 Seller Purchased Equipment SA 5

1951-3R21 Option Aircraft-Model 737-824 Aircraft SA 35

1951-4R1 Waiver of Aircraft Demonstration SA 1

1951-5R2 Promotional Support - New Generation

Aircraft SA 5

1951-6 Configuration Matters

1951-7R1 Spares Initial Provisioning SA 1

1951-8R2 Escalation Sharing - New Generation
Aircraft SA 4

1951-9R17 Option Aircraft-Model 737-724 Aircraft SA 36

1951-11R1 Escalation Sharing-Current Generation
Aircraft SA 4

1951-12R7 Option Aircraft - Model 737-924 Aircraft SA 32

1951-13 Configuration Matters - Model 737-924 SA 5

1951-14 Installation of Cabin Systems Equipment SA 22

TABLE OF CONTENTS

SA

Number

RESTRICTED LETTER AGREEMENTS

6-1162-MMF-295 Performance Guarantees - Model

737-724 Aircraft

6-1162-MMF-296 Performance Guarantees - Model

737-824 Aircraft

6-1162-MMF-308R3 Disclosure of Confidential

Information SA 5

6-1162-MMF-309R1 **[CONFIDENTIAL MATERIAL OMITTED AND** SA 1

**FILED SEPARATELY WITH THE SECURITIES**

**AND EXCHANGE COMMISSION PURSUANT TO**

**A REQUEST FOR CONFIDENTIAL TREATMENT]**

6-1162-MMF-311R4 **[CONFIDENTIAL MATERIAL OMITTED AND** SA 22

**FILED SEPARATELY WITH THE SECURITIES**

**AND EXCHANGE COMMISSION PURSUANT TO**

**A REQUEST FOR CONFIDENTIAL TREATMENT]**

6-1162-MMF-312R1 Special Purchase Agreement

Provisions SA 1

6-1162-MMF-319 Special Provisions Relating to the

Rescheduled Aircraft

6-1162-MMF-378R1 Performance Guarantees - Model

737-524 Aircraft SA 3

6-1162-GOC-015R1 **[CONFIDENTIAL MATERIAL OMITTED AND** SA 31

**FILED SEPARATELY WITH THE SECURITIES**

**AND EXCHANGE COMMISSION PURSUANT TO**

**A REQUEST FOR CONFIDENTIAL TREATMENT]**

6-1162-GOC-131R4 Special Matters SA 34

6-1162-DMH-365 Performance Guarantees - Model

737-924 Aircraft SA 5

6-1162-DMH-624 **[CONFIDENTIAL MATERIAL OMITTED AND** SA 8

**FILED SEPARATELY WITH THE SECURITIES**

**AND EXCHANGE COMMISSION PURSUANT TO**

**A REQUEST FOR CONFIDENTIAL TREATMENT]**

6-1162-DMH-680 Delivery Delay Resolution Program SA 9

6-1162-DMH-1020 **[CONFIDENTIAL MATERIAL OMITTED AND** SA 14

**FILED SEPARATELY WITH THE SECURITIES**

**AND EXCHANGE COMMISSION PURSUANT TO**

**A REQUEST FOR CONFIDENTIAL TREATMENT]**

6-1162-DMH-1035 **[CONFIDENTIAL MATERIAL OMITTED AND** SA 15

**FILED SEPARATELY WITH THE SECURITIES**

**AND EXCHANGE COMMISSION PURSUANT TO**

**A REQUEST FOR CONFIDENTIAL TREATMENT]**

6-1162-DMH-1054 **[CONFIDENTIAL MATERIAL OMITTED AND** SA 16

**FILED SEPARATELY WITH THE SECURITIES**

**AND EXCHANGE COMMISSION PURSUANT TO**

**A REQUEST FOR CONFIDENTIAL TREATMENT]**

6-1162-CHL-048 Rescheduled Aircraft Agreement SA 26

6-1162-CHL-195 Restructure Agreement for Model

737NG and 757-300 Aircraft SA 30

TABLE OF CONTENTS

SUPPLEMENTAL AGREEMENTS DATED AS OF:

Supplemental Agreement No. 1 October 10, 1996

Supplemental Agreement No. 2 March 5, 1997

Supplemental Agreement No. 3 July 17, 1997

Supplemental Agreement No. 4 October 10, 1997

Supplemental Agreement No. 5 May 21, 1998

Supplemental Agreement No. 6 July 30, 1998

Supplemental Agreement No. 7 November 12, 1998

Supplemental Agreement No. 8 December 7, 1998

Supplemental Agreement No. 9 February 18, 1999

Supplemental Agreement No. 10 March 19,1999

Supplemental Agreement No. 11 May 14, 1999

Supplemental Agreement No. 12 July 2, 1999

Supplemental Agreement No. 13 October 13, 1999

Supplemental Agreement No. 14 December 13, 1999

Supplemental Agreement No. 15 January 13, 2000

Supplemental Agreement No. 16 March 17, 2000

Supplemental Agreement No. 17 May 16, 2000

Supplemental Agreement No. 18 September 11, 2000

Supplemental Agreement No. 19 October 31, 2000

Supplemental Agreement No. 20 December 21, 2000

Supplemental Agreement No. 21 March 30, 2001

**TABLE OF CONTENTS**

SUPPLEMENTAL AGREEMENTS DATED AS OF:

Supplemental Agreement No. 22 May 23, 2001

Supplemental Agreement No. 23 June 29, 2001

Supplemental Agreement No. 24 August 31, 2001

Supplemental Agreement No. 25 December 31, 2001

Supplemental Agreement No. 26 March 29, 2002

Supplemental Agreement No. 27 November 6, 2002

Supplemental Agreement No. 28 April 1, 2003

Supplemental Agreement No. 29 August 19, 2003

Supplemental Agreement No. 30 November 4, 2003

Supplemental Agreement No. 31 August 20, 2004

Supplemental Agreement No. 32 December 29, 2004

Supplemental Agreement No. 33 December 29, 2004

Supplemental Agreement No. 34 June 22, 2005

Supplemental Agreement No. 35 June 30, 2005

Supplemental Agreement No. 36 July 21, 2005

1951-9R17

July 28, 2005

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Letter Agreement No. 1951-9R17 to Purchase Agreement No. 1951 - Option Aircraft - Model 737-724 Aircraft

Ladies and Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-724 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-9R16 dated June 30, 2005.

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

In consideration of Buyer's purchase of the Aircraft, Boeing hereby agrees to manufacture and sell up to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** additional Model 737-724 Aircraft (the Option Aircraft) to Buyer, on the same terms and conditions set forth in the Agreement, except as otherwise described in Attachment A hereto, and subject to the terms and conditions set forth below.

1. Delivery.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

Month and Year Number of

of Delivery Option Aircraft

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

2. Price.

The basic price of the Option Aircraft shall be **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

3. Option Aircraft Deposit.

In consideration of Boeing's grant to Buyer of options to purchase the Option Aircraft as set forth herein, Buyer has paid a deposit to Boeing of **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** for each Option Aircraft (the Option Deposit) prior to the date of this Letter Agreement. If Buyer exercises an option herein for an Option Aircraft, the amount of the Option Deposit for such Option Aircraft will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in Article 5 of the Agreement.

If Buyer does not exercise its option to purchase a particular Option Aircraft pursuant to the terms and conditions set forth herein, Boeing shall be entitled to retain the Option Deposit for such Option Aircraft.

4. Option Exercise.

To exercise its option to purchase the Option Aircraft, Buyer shall give written notice thereof to Boeing on or before the first business day of the month in each Option Exercise Date shown below:

Option Aircraft Option Exercise Date

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

5. Contract Terms.

Within thirty (30) days after Buyer exercises an option to purchase Option Aircraft pursuant to paragraph 4 above, Boeing and Buyer will use their best reasonable efforts to enter into a supplemental agreement amending the Agreement to add the applicable Option Aircraft to the Agreement as a firm Aircraft (the Option Aircraft Supplemental Agreement).

If the parties have not entered into such an Option Aircraft Supplemental Agreement within the time period contemplated herein, either party shall have the right, exercisable by written or telegraphic notice given to the other within ten (10) days after such period, to cancel the purchase of such Option Aircraft.

6. Cancellation of Option to Purchase.

Either Boeing or Buyer may cancel the option to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this Letter Agreement, or in the Agreement, as the case may be:

(i) purchase of the Aircraft under the Agreement for any reason not attributable to the cancelling party;

(ii) payment by Buyer of the Option Deposit with respect to such Option Aircraft pursuant to paragraph 3 herein; or

(iii) exercise of the option to purchase such Option Aircraft pursuant to the terms hereof.

Any cancellation of an option to purchase by Boeing which is based on the termination of the purchase of an Aircraft under the Agreement shall be on a one-for-one basis, for each Aircraft so terminated.

Cancellation of an option to purchase provided by this letter agreement shall be caused by either party giving written notice to the other within ten (10) days after the respective date in question. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the option to purchase has been cancelled shall thereupon terminate.

If an option is cancelled as provided above, Boeing shall promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft. Boeing shall be entitled to retain the Option Deposit unless cancellation is attributable to Boeing's fault, in which case the Option Deposit shall also be returned to Buyer without interest.

7. Applicability.

Except as otherwise specifically provided, limited or excluded herein, all Option Aircraft that are added to the Agreement by an Option Aircraft Supplemental Agreement as firm Aircraft shall benefit from all the applicable terms, conditions and provisions of the Agreement.

If the foregoing accurately reflects your understanding of the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: July 28 , 2005

CONTINENTAL AIRLINES, INC.,

By /s/ Gerald Laderman

Its Senior Vice President - Finance and Treasurer

Attachment

Model 737-724 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D6-38808-42 Revision A, dated as of November 1, 1998, as amended and revised pursuant to the Agreement.

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

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a Supplemental Agreement for the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

1.3 Effect of Changes. Changes to the Detail Specification pursuant to the provisions of the clauses above shall include the effects of such changes upon Option Aircraft weight, balance, design and performance.

2. Price Description.

2.1 Price Adjustments.

2.1.1 Base Price Adjustments. The Base Airplane Price (pursuant to Article 3 of the Agreement) of the Option Aircraft will be adjusted to Boeing's and the engine manufacturer's then-current prices as of the date of execution of the Supplemental Agreement for the Option Aircraft.

2.1.2 Special Features. The price for Special Features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the Supplemental Agreement for the Option Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

2.1.3 Escalation Adjustments. The Base Airframe and Special Features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D-3 of the Agreement.

2.1.4 Price Adjustments for Changes. Boeing may adjust the Aircraft Basic Price and the Advance Payment Base Prices for Option Aircraft for any changes mutually agreed upon by Buyer and Boeing subsequent to the date that Buyer and Boeing enter into the Supplemental Agreement for the Option Aircraft.

2.1.5 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Detail Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price.

3. Advance Payments.

3.1 If Buyer exercises its right under this letter agreement to acquire an Option Aircraft, Buyer shall pay to Boeing advance payments for such Option Aircraft pursuant to the schedule for payment of advance payments provided in the Agreement.

EXHIBIT 10.2

# Supplemental Agreement No. 11

# To

# Purchase Agreement No. 2061

# between

# The Boeing Company

# And

# Continental Airlines, Inc.

# Relating to Boeing Model 777 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of July 28, 2005, by and between THE BOEING COMPANY (Boeing) and Continental Airlines, Inc. (Customer);

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

WHEREAS, Boeing and Customer have agreed to add one (1) Aircraft for delivery in **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**;

WHEREAS, Customer has agreed to exercise the one (1) May 2007 Option Aircraft as an Aircraft for delivery **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** i n **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**;

WHEREAS, Boeing and Customer have mutually agreed to revise the Escalation Adjustment for Aircraft delivering hereafter;

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

WHEREAS, Boeing and Customer have mutually agreed to amend the Purchase Agreement to incorporate the effect of these and certain other changes;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Purchase Agreement as follows:

1. Table of Contents:

1.1 Remove and replace, in its entirety, the "Table of Contents", with the "Table of Contents" attached hereto, to reflect the changes made by this Supplemental Agreement No. 11.

2. Articles:

2.1 Remove and replace, in its entirety Articles with the Articles attached hereto, to reflect the changes to Articles 2, 3 and 4 made by this Supplemental Agreement No. 11.

3. Tables:

3.1 Add Table 3, "Aircraft Deliveries and Descriptions, Model 777-200ER Aircraft", to reflect the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** Aircraft.

4. Supplemental Exhibits:

4.1 Add Supplemental Exhibit AE1 Model 777-200 Escalation Adjustment Airframe and Optional Features for Aircraft Delivering (applicable to Table 3 Aircraft) to reflect the parties' agreement on a revised CPI based formula for the Escalation Adjustment for the Table 3 Aircraft.

5. Letter Agreements:

5.1 Remove and replace, in its entirety, Letter Agreement 2061-1R7 "Option Aircraft", with the revised Letter Agreement 2061-1R8 attached hereto.

5.2 Remove and replace, in its entirety, Letter Agreement 6-1162-GOC-089R1 "Special Matters", with the revised Letter Agreement 6-1162-GOC-089R2 attached hereto.

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

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

THE BOEING COMPANY Continental Airlines, Inc.

By: /s/Michael S. Anderson By: /s/ Gerald Laderman

Its: Attorney-In-Fact Its: Senior Vice President -

Finance and Treasurer

TABLE OF CONTENTS

ARTICLES Revised By:

1. Quantity, Model and Description SA No. 11

2. Delivery Schedule SA No. 11

3. Price SA No. 11

4. Payment SA No. 11

5. Miscellaneous SA No. 11

TABLE

1. Aircraft Information Table 1 SA No. 5

2. Aircraft Information Table 2 SA No. 9

3. Aircraft Information Table 3 SA No. 11

EXHIBIT

A. Aircraft Configuration

B. Aircraft Delivery Requirements and Responsibilities

SUPPLEMENTAL EXHIBITS

AE1. Escalation Adjustment/Airframe and Optional Features SA No. 11

(applicable to Table 3 Aircraft)

BFE1. BFE Variables

CS1. Customer Support Variables

EE1. Engine Escalation/Engine Warranty and Patent Indemnity

EE2. Engine Escalation/Engine Warranty and Patent Indemnity SA No. 9

SLP1. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

LETTER AGREEMENTS Revised By:

2061-1R8 Option Aircraft SA No. 11

2061-2 Demonstration Flights

2061-3 Installation of Cabin Systems Equipment

2061-4 Spares Initial Provisioning

2061-5 Flight Crew Training Spares

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

TABLE OF CONTENTS

CONFIDENTIAL LETTER AGREEMENTS Revised By:

6-1161-GOC-087 Aircraft Performance Guarantees

6-1162-GOC-088 Promotion Support

6-1162-GOC-089R2 Special Matters SA No. 11

6-1162-GOC-172 Additional Matters SA No. 1

6-1162-CHL-048 Rescheduled Aircraft Agreement SA No. 9

6-1162-CHL-195 Restructure Agreement for Model SA No. 10

737NG and 757-300 Aircraft

SUPPLEMENTAL AGREEMENTS Dated as of:

Supplemental Agreement No. 1 December 18, 1997

Supplemental Agreement No. 2 July 30, 1998

Supplemental Agreement No. 3 September 25, 1998

Supplemental Agreement No. 4 February 3, 1999

Supplemental Agreement No. 5 March 26, 1999

Supplemental Agreement No. 6 May 14, 1999

Supplemental Agreement No. 7 October 31, 2000

Supplemental Agreement No. 8 June 29, 2001

Supplemental Agreement No. 9 June 25, 2002

Supplemental Agreement No. 10 November 4, 2003

Supplemental Agreement No. 11 July 28, 2005

PURCHASE AGREEMENT NO. 2061*

between

THE BOEING COMPANY

and

Continental Airlines, Inc.

Relating to Boeing Model 777-200ER Aircraft

* Purchase Agreement No. 2061 was formerly known as Purchase Agreement No. 1785.

Purchase Agreement No. 2061

between

The Boeing Company

and

Continental Airlines, Inc.

______________________________

This amended and restated Purchase Agreement No. 2061 (formerly known as Purchase Agreement No. 1785) is dated as of October 10, 1997, between The Boeing Company (**Boeing**) and Continental Airlines, Inc. (**Customer**) relating to the purchase and sale of Model 777-200ER aircraft. The terms and conditions of the Aircraft General Terms Agreement dated as of October 10, 1997, between the parties, identified as AGTA-CAL (**AGTA**), are hereby incorporated by reference into this Purchase Agreement.

RECITALS

A. Boeing and Customer previously entered into Purchase Agreement No. 1785 dated March 18, 1993, as amended and supplemented.

B. Boeing and Customer now desire to further amend and restate the terms and conditions of their agreement and to reflect their entire agreement in this amended and restated Purchase Agreement No. 2061 (Purchase Agreement).

C. For the avoidance of doubt, this Purchase Agreement contains the entire agreement between the parties and replaces and supersedes Purchase Agreement No. 1785.

Now therefore, the parties agree as follows:

Article 1. Quantity, Model and Description.

The aircraft to be delivered to Customer will be designated as Model 777-200ER aircraft (the **Aircraft**). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A, which is part of this Purchase Agreement, in the quantities listed in Tables 1, 2 and 3 to the Purchase Agreement.

Article 2. Delivery Schedule.

The Aircraft will be delivered to Customer in accordance with the scheduled months of delivery listed in the attached Tables 1, 2 and 3, which are part of this Purchase Agreement. Exhibit B, which is part of this Purchase Agreement, describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

Article 3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Tables 1, 2 and 3 and is subject to mutually agreed upon price adjustments and the Escalation Adjustment. For Table 3 Aircraft the Escalation Adjustment shall be determined using Supplemental Exhibit AE1 Escalation Adjustment/Airframe and Optional Features of this Purchase Agreement rather than Exhibit D of the AGTA.

3.2 Advance Payment Base Prices. The Advance Payment Base Prices for the Aircraft are listed in Tables 1, 2 and 3 and were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery.

Article 4. Payment.

4.1 Boeing acknowledges receipt of a deposit in the amount shown in Tables 1, 2 and 3 for each Aircraft (**Deposit**).

4.2 The amounts and payment dates for advance payments to be made by Customer are set forth in the attached Tables 1, 2 and 3. Advance payments for each aircraft are due on the first business day of the months listed in the attached Tables 1, 2 and 3.

4.3 For any Aircraft whose scheduled month of delivery is less than **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in Tables 1, 2 and 3.

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

Article 5. Miscellaneous.

5.1 Escalation Adjustment/Airframe and Optional Features. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula specific to the Table 3 Aircraft.

5.2 Buyer Furnished Equipment Variables. Supplemental Exhibit BFE1, which is part of this Purchase Agreement, contains vendor selection dates, on dock dates and other variables applicable to the Aircraft.

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

5.4 Engine Escalation Variables. Supplemental Exhibit EE1 contains the applicable engine escalation formula, the engine warranty and the engine patent indemnity for the Aircraft in Table 1. Supplemental Exhibit EE2 contains the applicable engine escalation formula, the engine warranty and the engine patent indemnity for the Aircraft in Table 2.

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

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

Continental Airlines, Inc. THE BOEING COMPANY

By /s/ Brian F. Davis

Its Vice - President By /s/ Gunar Clem

Its Attorney-In-Fact

**Table 3**

**to Purchase Agreement 2061**

**Aircraft Delivery, Description, Price and Advance Payments**

**Airframe Model/MTOW:** 777-200ER 580,000 **Detail Specification:** D019W005-C (12/12/2003)

**Engine Model:** GE90-90B **Airframe Price Base Year/Escalation Formula:** Jul-04 ECI-MFG/CPI

**Airframe Price:** **[CONFIDENTIAL Engine Price Base Year/Escalation Formula:** Jul-04 GE CF6-80 & GE90

**MATERIAL OMITTED** (99 rev.)

**Optional Features: AND FILED**

**SEPARATELY WITH Airframe Escalation Data: [CONFIDENTIAL MATERIAL**

**Sub-Total of THE SECURITIES AND Base Year Index (ECI): OMITTED AND FILED SEPARATELY**

**Airframe and EXCHANGE WITH THE SECURITIES AND**

**Features: COMMISSION Base Year Index (CPI): EXCHANGE COMMISSION PURSUANT**

**PURSUANT TO A TO A REQUEST FOR CONFIDENTIAL**

**Engine Price REQUEST FOR Engine Escalation Data: TREATMENT]**

**(Per Aircraft): CONFIDENTIAL**

**TREATMENT Basic Year Index (CPI):**

**Aircraft Basic Price**

**(Excluding BFE/SPE):**

**Buyer Furnished Equipment**

**(BFE) Estimate:**

**Seller Purchased Equipment**

**(SPE) Estimate:**

**Refundable Deposit/Aircraft**

**At Proposal Accept:**

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

**MODEL 777-200ER AIRCRAFT**

_

**ESCALATION ADJUSTMENT**

_

**AIRFRAME AND OPTIONAL FEATURES**

_

**(applicable to Table 3 Aircraft)**

_

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Supplemental Exhibit AE1 to Purchase Agreement Number 2061

_

1. Formula

Airframe and Optional Features price adjustments (Airframe Price Adjustment) are used to allow prices to be stated in current year dollars at the signing of this Purchase Agreement and to adjust the amount to be paid by Customer at delivery for the effects of economic fluctuation. The Airframe Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$P_a$ = (P) (L + M) - P

Where:

$P_a$ = Airframe Price Adjustment.

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

x ( ECI

$ECI_b$ ) where $ECI_b$ is the base year index
(as set forth in Table 3 of this
Purchase Agreement)

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

x ( CPI

$CPI_b$ ) where $CPI_b$ is the base year index
(as set forth in Table 3 of this
Purchase Agreement)

P = Airframe Price plus Optional Features Price (as set forth in Tables 1, 2 and 3 of this Purchase Agreement).

ECI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** , calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** months prior to the month of scheduled delivery of the applicable Aircraft. As the Employment Cost Index values are only released on a quarterly basis, the value released for the month of March will be used for the months of January and February; the value for June used for April and May; the value for September used for July and August; and the value for December used for October and November.

CPI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics **[CONFIDENTIAL**

**MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of July, the months **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** of the preceding year will be utilized in determining the value of ECI and CPI.

Note: i. In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.

ii. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** is the numeric ratio attributed to labor in the Airframe Price Adjustment formula.

iii. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** is the numeric ratio attributed to materials in the Airframe Price Adjustment formula.

iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th and 13th months prior to the airframe base year. The applicable base year and corresponding denominator is provided by Boeing in Table 1 of this Purchase Agreement.

v. The final value of $P_a$ will be rounded to the nearest dollar.

vi. The Airframe Price Adjustment will not be made if it will result in a decrease in the Aircraft Basic Price.

2. Values to be Used if Bureau of Labor Statistics Are Not Available.

2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the ECI and CPI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Airframe Price Adjustment, the parties will, prior to the delivery of any such Aircraft, select a substitute from other Bureau of Labor Statistics data or similar data reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within 24 months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Airframe Price Adjustment; such values will be used to determine any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of the Aircraft.

2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECI and CPI values as defined above, such re-based values will be incorporated in the Airframe Price Adjustment calculation.

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

2.4 If within **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor Statistics, the Airframe Price Adjustment will be re-calculated using the revised index values. A credit memorandum or supplemental invoice will be issued for the Airframe Price Adjustment difference. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

Note: i. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI and CPI values for the applicable months to calculate the Airframe Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Airframe Price Adjustments will be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.

ii. The maximum number of digits to the right of the decimal after rounding utilized in any part of the Airframe Price Adjustment equation will be 4, where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to 5 or greater.

1600 Smith Street

Houston, TX 77002

Subject: Option Aircraft

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

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 2061-1R7 dated November 4, 2003.

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

1. Aircraft Description and Changes

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

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

(i) Changes applicable to the basic Model 777 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the definitive agreement to purchase the Option Aircraft;

(ii) Changes required to obtain required regulatory certificates; and

i. Changes mutually agreed upon.

2. Price

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

2.2 Price Adjustments.

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

2.2.2 Escalation Adjustments. The Airframe Price and the Optional Features Prices for Option Aircraft delivering before June, 2007, will be escalated on the same basis as the Aircraft.

The engine manufacturer's current escalation provisions, are not listed in this Purchase Agreement. The engine escalation provisions will be revised to reflect the engine manufacturer's current escalation provisions at signing of the definitive agreement for the Option Aircraft.

2.2.3 Base Price Adjustments. The Airframe Price and the Engine Price of the Option Aircraft delivering before June, 2007, will be adjusted to Boeing's and the engine manufacturer's then current prices as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.4 Prices for Long Lead Time Aircraft. Boeing and the engine manufacturer have not established prices and escalation provisions for Model 777-200ER aircraft and engines for delivery from June, 2007 and thereafter. When prices and the pricing bases are established for the Model 777-200ER aircraft delivering from June, 2007 and thereafter, the information listed in the Attachment will be appropriately amended.

3. Payment.

3.1 Customer has paid a deposit to Boeing in the amount shown in the Attachment opposite the caption "Non-Refundable Deposit per Aircraft" for each Option Aircraft (the Option Deposit), prior to the date of this Letter Agreement. If Customer exercises an option, the Option Deposit will be credited against the first advance payment due. If Customer does not exercise an option, Boeing will retain the Option Deposit for that Option Aircraft.

3.2 Following option exercise, advance payments in the amounts and at the times listed in the Attachment in the columns under the caption "Advance Payment Per Aircraft" will be payable for the Option Aircraft.

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

4. Option Exercise.

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

5. Contract Terms.

Boeing and Customer will use their best efforts to reach a definitive agreement for the purchase of an Option Aircraft if Customer execises its option to acquire such Option Aircraft, including the terms and conditions contained in this Letter Agreement, in the Purchase Agreement, and other terms and conditions as may be agreed upon to add the Option Aircraft to the Purchase Agreement as an Aircraft. If the parties have not entered into a definitive agreement within 30 days following option exercise, either party may terminate the purchase of such Option Aircraft by giving written notice to the other within 5 days. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: July 28, 2005

Continental Airlines, Inc.

By /s/ Gerald Laderman

Its Senior Vice President - Finance and Treasurer

Attachment

**Attachment to Letter Agreement 2061-1R8**

**Option Aircraft Delivery, Description, Price and Advance Payments**

**Airframe Model/MTOW:** 777-200ER 580,000 **Detail Specification:** D019W005-C (12/12/2003)

**Engine Model:** GE90-90B **Airframe Price Base Year/Escalation Formula:** Jul-04 ECI-MFG/CPI

**Airframe Price:** **[CONFIDENTIAL Engine Price Base Year/Escalation Formula:** Jul-04 GE CF6-80 & GE90

**MATERIAL OMITTED** (99 rev.)

**Optional Features: AND FILED**

**SEPARATELY WITH Airframe Escalation Data: [CONFIDENTIAL MATERIAL**

**Sub-Total of THE SECURITIES AND Base Year Index (ECI): OMITTED AND FILED SEPARATELY**

**Airframe and EXCHANGE WITH THE SECURITIES AND**

**Features: COMMISSION Base Year Index (CPI): EXCHANGE COMMISSION PURSUANT**

**PURSUANT TO A TO A REQUEST FOR CONFIDENTIAL**

**Engine Price REQUEST FOR Engine Escalation Data: TREATMENT]**

**(Per Aircraft): CONFIDENTIAL**

**TREATMENT Basic Year Index (CPI):**

**Aircraft Basic Price**

**(Excluding BFE/SPE):**

**Buyer Furnished Equipment**

**(BFE) Estimate:**

**Seller Purchased Equipment**

**(SPE) Estimate:**

**Refundable Deposit/Aircraft**

**At Proposal Accept:**

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

July 28, 2005

6-1162-GOC-089R2

Continental Airlines, Inc.

1600 Smith Street

Houston, TX 77002

Subject: Special Matters

Reference: Purchase Agreement No. 2061 (the Purchase Agreement)

between The Boeing Company (Boeing) and Continental Airlines, Inc. (Customer) relating to Model 777-200ER aircraft (the Aircraft)

Ladies and Gentlemen:

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

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

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

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

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

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

9. Confidential Treatment.

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

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: July 28, 2005

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its: Senior Vice President_- Finance and Treasurer

EXHIBIT 10.3

**[GE LOGO]** ***GE AIRCRAFT ENGINES***

*General Electric Company*

*One Neumann Way*

*Cincinnati, OH 45215-6301*

*Phone: 513/243-2000*

August 8, 2005

**AMENDED AND RESTATED LETTER AGREEMENT NO. 11**

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Gentlemen:

**WHEREAS**, General Electric Company ("GE") and Continental Airlines, Inc. ("Airline") have entered into Amended and Restated General Terms Agreement No. 6-8057 dated as of November 1, 1994, as amended (together with Letter Agreement Nos. 1-12 thereto, collectively, the "Agreement");

**WHEREAS**, GE and Airline entered into Letter Agreement No. 11 to the Agreement to set forth the applicable terms and conditions governing **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**;

**WHEREAS**, pursuant to Letter Agreement No. 11 **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**;

**WHEREAS**, Airline and GE desire to amend and restate Letter Agreement No. 11 to the Agreement in its entirety to reflect their agreement regarding **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** the purchase of New GE Engines (as defined below) and regarding Airline's commitment to equip certain new aircraft with New GE Engines.

**NOW THEREFORE**, in consideration of the mutual covenants and obligations contained herein, Airline and GE agree to amend and restate Letter Agreement No. 11 in its entirety as follows:

I. As previously established under the Agreement, additional 767 and 777 aircraft acquired by the Airline shall be referred to either individually or collectively as the "Follow-On Aircraft." GE agrees to provide Airline the Special Allowances for such Follow-On Aircraft defined in and subject to all of the conditions set forth in Attachment A hereto.

II. In exchange for Airline acquiring New Aircraft as New GE-Powered Aircraft, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**:

  A. Airline agrees that if it acquires New Aircraft, and such New Aircraft are (i) available as New GE-Powered Aircraft in the time period required by Airline, and (ii) scheduled to deliver to Airline during **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, then Airline agrees that it will equip, purchase, and take delivery of all New Aircraft as New GE-Powered Aircraft.

  B. If Airline purchases New GE-Powered Aircraft, Airline agrees to purchase, or cause to be purchased by a third party providing services in support of Airline's New GE-Powered Aircraft operations, a quantity of New GE Engines, to be used as spare engines, that is targeted, based on current engine technology, at approximately **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** of New GE Engines installed on each model of New GE-Powered Aircraft. The Airline and the GE Affiliated Company that is manufacturing the New GE Engine agree to mutually work together to optimize this quantity of spare engines and determine what the appropriate percentage of spare engines the Airline shall actually purchase or otherwise have at its disposal, in order to maintain a sufficient level of fleet operational reliability.

  C. In consideration of the agreement of the Airline in sub-paragraphs A and B above, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

  D. The provisions of this Amended and Restated Letter Agreement No. 11 shall not apply to any used aircraft that Airline acquires.

  E. Defined Terms.

**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND**

**EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

GE Affiliated Company: GE, CFM, a GE joint venture company, or any other manufacturer of engines in which GE is an affiliate.

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

New Aircraft: Any new commercial passenger aircraft manufactured by an aircraft manufacturer that is **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

New GE Engine: **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

New GE-Powered Aircraft: A New Aircraft that is offered for sale with installed New GE Engines by an airframe manufacturer.

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

The obligations set forth in this Amended and Restated Letter Agreement No. 11 are in addition to and form part of the obligations set forth in the Agreement and do not replace or modify any such obligations except as expressly provided herein.

**Counterparts:** This Amended and Restated Letter Agreement No. 11 may be executed by the parties hereto in two or more counterparts and by the different parties hereto on separate counterparts each of which shall be deemed to be an original but all of which when taken together shall constitute one and the same document. Delivery of an executed counterpart of a signature page to this Amended and Restated Letter Agreement No. 11 by fax shall be effective as delivery of a manually executed counterpart.

Please indicate your agreement with the foregoing by signing the original and one copy in the space provided below and returning the same to the undersigned whereby this Amended and Restated Letter Agreement No. 11 shall become effective as of the date hereof (subject to the foregoing paragraph).

Very truly yours,

| CONTINENTAL AIRLINES, INC. | GENERAL ELECTRIC COMPANY |
|---|---|
| By: /s/ Gerald Laderman | By: /s/ William R. Van Alsten |
| Typed Name: Gerald Laderman | Typed Name: William R. Van Alsten |
| Title: Senior Vice President, Finance and Treasurer | Title: GM Commercial Engine Transactions |
| Date: ____________________ | Date: 8 August 2005 |

**ATTACHMENT A**

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

## 1. Allowance for Initial Aircraft Sale Only

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

A. Follow-On Aircraft Allowance

In consideration of Airline purchasing and taking delivery of new CF6 powered Follow-On Aircraft for delivery through **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** , GE will provide Airline an allowance per aircraft as defined by the formula below:

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

**2. Allowance Not Paid**

If (a) Airline for any reason terminates, cancels, revokes or delays beyond the Follow-On Delivery Period (defined as a period of time not to exceed **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** unless such delay occurs as a result of an Excusable Delay) its order for Follow-On Aircraft or some portion thereof, or (b) Airline fails to perform, in any material respect, any of the allowance conditions or other material terms of the Agreement, in addition to the other remedies that may be available to GE in this Attachment A, and, with respect to a failure to perform, in any material respect, any of the other material terms of the Agreement, such other remedies that may be available to GE at law or in equity, any allowance which may have been earned by Airline upon delivery of GE Engines to the aircraft manufacturer for affected Aircraft shall become an unearned allowance, and will not be paid; provided, however, that such an unearned allowance relating to a delayed CF6/GE90 Follow-On Aircraft may be reinstated and paid to Airline upon delivery of such CF6/GE90 Follow-On Aircraft if (i) such delay was not attributable to a breach by Airline under the applicable aircraft manufacturer's purchase agreement, this Agreement or any other applicable agreement, and (ii) Airline accepts such CF6/GE90 Follow-On Aircraft promptly when tendered by Boeing; and (iii) such acceptance occurs not later than the Follow-On Delivery Period, subject to excusable delay as defined in paragraph 10 hereof.

**3. Adjustment of Allowances**

GE and Airline agree that in April 2002 Airline satisfied the requirement of **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**. The respective CF6 and GE90 Follow-On Aircraft Allowances described in Article 1.A of this Attachment A will be at least **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** for CF6-powered Follow-On Aircraft, and at least **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** for GE90 powered Follow-On Aircraft.

The Special Allowances described in Article 1.A of this Attachment A will not be applicable to Follow-On Aircraft delivered after **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].**

The cut-off dates set forth in this paragraph 3 are subject to extension for excusable delay **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].**

**4. Assignability of Allowances**

The allowances described herein are exclusively for the benefit of Airline, and are not assignable, except in connection with Airline's financing of the Aircraft.

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

**6. Cancellation of CF6/GE90 Follow-On Spare Engines**

GE and Airline agree that in October 2004 Airline satisfied previous requirements for **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

**7. Cancellation or Failure to Accept Delivery of Installed Engines**

If Airline cancels any purchase order for, or otherwise fails to take delivery of, installed CF6/GE90 Follow-On Aircraft engine(s) (individually or collectively, the "Engine"), the parties agree that harm or damage will be

sustained by GE as a result. The parties agree that any such cancellation or failure to accept delivery of the Engine (except in circumstances constituting Excusable Delay) will subject Airline to a cancellation charge of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] (determined as of the date of scheduled Engine delivery to the aircraft manufacturer). If Airline provides notice of cancellation at least [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to the scheduled delivery date of the aircraft, the parties acknowledge this charge [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] and to be a reasonable estimate of the harm or damage to GE. To the extent that GE gets paid cancellation fees by or receives credit or other quantifiable consideration from the aircraft manufacturer with respect to installed Engines for Airline's canceled aircraft or aircraft for which Airline has failed to accept delivery when duly tendered, GE will credit Airline the value of such fees, credits or other quantifiable consideration against such cancellation charge and any other amounts owed to GE by Airline for damages relating to any such cancellation or failure to accept delivery.

**8. Additional Damages; Confidentiality**

If GE does not receive written notice of cancellation (of spare or installed engines) more than [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to scheduled delivery date to Airline for a spare engine, or [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] prior to the delivery date of the aircraft for an installed engine, GE will also retain all remedies available to it for damages in law or equity in excess of such cancellation charge.

Airline agrees to cooperate with GE to maintain the confidentiality of any proprietary information disclosed by GE in connection with proving any such additional harm or damages, provided that any such disclosure shall be at GE's discretion.

**9. Excusable Delay**

"Excusable Delay" with respect to an installed engine as used in this Attachment A means a delay in delivery of an Aircraft not attributable to a failure of Airline to timely perform its obligations under the aircraft manufacturer's purchase agreement (without giving effect to any supplement, modification or waiver thereto which directly or indirectly results in a permitted delay of the scheduled delivery of an aircraft unless GE shall have consented thereto, which consent shall not be unreasonably withheld), including any event of force majeure or a default by the aircraft manufacturer, provided, that Airline accepts such aircraft promptly when tendered by the aircraft manufacturer.

An "Excusable Delay" with respect to a spare engine as used in this Attachment A means a delay in delivery of a spare engine not attributable to a failure of Airline to timely perform its obligations under the purchase agreement between Airline and GE, including any event of default by GE or event of force majeure provided, that Airline accepts such spare engine promptly when tendered by GE after an event of force majeure.

EXHBIT 31.1

**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 18, 2005

/s/ Lawrence W. Kellner

Lawrence W. Kellner

Chairman of the Board and

Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION**

I, Jeffrey J. Misner, 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 18, 2005

/s/ Jeffrey J. Misner

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer

EXHIBIT 32

**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, 2005 (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 Continental Airlines, Inc. and will be retained by Continental Airlines, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: October 18, 2005

/s/ Lawrence W. Kellner

Lawrence W. Kellner

Chairman of the Board and

Chief Executive Officer

/s/ Jeffrey J. Misner

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer