

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported):

November 12, 2003

CONTINENTAL AIRLINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	1-10323	74-2099724
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

(713) 324-2950

(Registrant's telephone number, including area code)

Item 5. Other Events.

Effective November 12, 2003, the independent trustee for the defined benefit pension plan of Continental Airlines, Inc. (the "Company"), through its sales of shares of ExpressJet Holdings, Inc. ("XJT"), has reduced the combined amount of XJT common stock owned by the Company and the pension plan to below 41 percent of all outstanding XJT common stock. As a result, the Company will no longer consolidate XJT in its financial statements. Unaudited pro forma financial information reflecting the deconsolidation is attached at Exhibit 99.1.

Item 7. Financial Statements and Exhibits.

a. Exhibits

1. Pro Forma Financial Information

SIGNATURE

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

CONTINENTAL AIRLINES, INC.

November 17, 2003

By /s/ Jennifer L. Vogel

Jennifer L. Vogel

Senior Vice President, General Counsel  
and Secretary

EXHIBIT INDEX

99.1 Pro Forma Financial Information

**CONTINENTAL AIRLINES, INC.**  
**PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2003**  
(In millions, except per share data)

(Unaudited)

	<u>Historical Consolidated</u>	<u>Less: Holdings (A)</u>	<u>Add (Less): Pro Forma Adjustments</u>	<u>Pro Forma: Holdings Not Consolidated</u>
Operating Revenue:				
Passenger	\$ 6,083	\$ -	\$ -	\$ 6,083
Cargo, mail and other	539	970	970 (B)	536
	—	—	(3) (G)	—
	<u>6,622</u>	<u>970</u>	<u>967</u>	<u>6,619</u>
Operating Expenses:				
Wages, salaries and related costs	2,319	209	(2) (B)	2,058
			(50) (G)	
Aircraft fuel	965	104	(33) (F)	828
Regional capacity purchase, net	-	-	970 (C)	821
			(183) (D)	
			34 (F)	
Aircraft rentals	671	183	183 (B)	671
Landing fees and other rentals	469	75	-	394
Maintenance, materials and repairs	395	97	-	298
Depreciation and amortization	336	15	-	321
Booking fees, credit card discount and sales	286	-	-	286
Passenger servicing	224	8	(1) (G)	215
Commissions	110	-	-	110
Security fee reimbursement	(176)	(3)	-	(173)
Fleet impairment losses and other special charges special charges	79	-	-	79
Other	756	147	66 (B)	658
			(1) (F)	
	—	—	(16) (G)	—
	<u>6,434</u>	<u>835</u>	<u>967</u>	<u>6,566</u>

Operating Income	<u>188</u>	<u>135</u>	<u>-</u>	<u>53</u>
Nonoperating Income (Expense):				
Interest expense	(296)	(6)	(5) (B)	(295)
Interest capitalized	19	1	-	18
Interest income	13	1	5 (E)	17
Gain on dispositions of ExpressJet Holdings shares	173	-	-	173
Other, net	<u>9</u>	<u>-</u>	<u>41</u> (I)	<u>50</u>
	<u>(82)</u>	<u>(4)</u>	<u>41</u>	<u>(37)</u>
Income before Income Taxes and Minority Interest	106	131	41	16
Income Tax Provision	(75)	(50)	-	(25)
Minority Interest	<u>(40)</u>	<u>-</u>	<u>40</u> (H)	<u>-</u>
Net Income (Loss)	\$ <u>(9)</u>	\$ <u>81</u>	\$ <u>81</u>	\$ <u>(9)</u>
Basic and Diluted Loss per Share	\$ <u>(0.14)</u>			\$ <u>(0.14)</u>
Shares Used for Basic and Diluted Computation	<u>65.4</u>			<u>65.4</u>

The accompanying notes are an integral part of these pro forma financial statements.

**CONTINENTAL AIRLINES, INC.**  
**PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2002**  
(In millions, except per share data)

(Unaudited)

	<u>Historical Consolidated</u>	<u>Less: Holdings (A)</u>	<u>Add (Less): Pro Forma Adjustments</u>	<u>Pro Forma: Holdings Not Consolidated</u>
Operating Revenue:				
Passenger	\$ 7,862	\$ -	\$ -	\$ 7,862
Cargo, mail and other	540	1,090	1,090 (B)	547
	<u>8,402</u>	<u>1,090</u>	<u>7</u> (G)	<u>8,409</u>
Operating Expenses:				
Wages, salaries and related costs	2,959	239	(57) (G)	2,663
Aircraft fuel	1,023	100	(16) (F)	907

Regional capacity purchase, net	-	-	1,090	(C)	907
			(199)	(D)	
			16	(F)	
Aircraft rentals	902	199	199	(B)	902
Landing fees and other rentals	633	88	(1)	(G)	544
Maintenance, materials and repairs	476	97	-		379
Depreciation and amortization	444	30	-		414
Booking fees, credit card discount and sales	380	-	-		380
Passenger servicing	296	7	(1)	(G)	288
Commissions	212	-	-		212
Fleet impairment losses and other special charges special charges	242	-	-		242
Other	1,135	183	88	(B)	1,018
			(22)	(G)	
Stabilization Act grant	<u>12</u>	<u>-</u>	<u>-</u>		<u>12</u>
	<u>8,714</u>	<u>943</u>	<u>1,097</u>		<u>8,868</u>
Operating Income (Loss)	<u>(312)</u>	<u>147</u>	<u>-</u>		<u>(459)</u>
Nonoperating Income (Expense):					
Interest expense	(372)	(14)	(15)	(B)	(373)
Interest capitalized	36	1	-		35
Interest income	24	4	15	(E)	35
Other, net	<u>(7)</u>	<u>-</u>	<u>56</u>	(I)	<u>49</u>
	<u>(319)</u>	<u>(9)</u>	<u>56</u>		<u>(254)</u>
Income (Loss) before Income Taxes and Minority Interest	(631)	138	56		(713)
Income Tax (Provision) Benefit	208	(54)	-		262
Minority Interest	<u>(28)</u>	<u>-</u>	<u>28</u>	(H)	<u>-</u>
Net Income (Loss)	\$ <u>(451)</u>	\$ <u>84</u>	\$ <u>84</u>		\$ <u>(451)</u>
Basic and Diluted Loss per Share	\$ <u>(7.02)</u>				\$ <u>(7.02)</u>
Shares Used for Basic and Diluted Computation	<u>64.2</u>				<u>64.2</u>

The accompanying notes are an integral part of these pro forma financial statements.

**CONTINENTAL AIRLINES, INC.**  
**PRO FORMA CONSOLIDATED BALANCE SHEET**  
**SEPTEMBER 30, 2003**  
**(In millions)**

(Unaudited)

ASSETS	<u>Historical Consolidated</u>	<u>Less: Holdings (J)</u>	<u>Add (Less): Pro Forma Adjustments</u>	<u>Pro Forma: Holdings Not Consolidated</u>
Current Assets:				
Cash and cash equivalents, including restricted cash of \$139 (\$136 pro forma)	\$ 1,487	\$171	\$ -	\$ 1,316
Short-term investments	126	-	-	126
Accounts receivable, net	466	15	3 (L)	454
Spare parts and supplies, net	231	26	-	205
Deferred income taxes	185	-	-	185
Current portion of note receivable from Holdings	-	-	67 (K)	67
Prepayments and other	<u>197</u>	<u>4</u>	<u>-</u>	<u>193</u>
Total current assets	<u>2,692</u>	<u>216</u>	<u>70</u>	<u>2,546</u>
Property and Equipment:				
Owned property and equipment:				
Flight equipment	6,648	190	-	6,458
Other	<u>1,310</u>	<u>99</u>	<u>-</u>	<u>1,211</u>
	7,958	289	-	7,669
Less: Accumulated depreciation	<u>1,806</u>	<u>56</u>	<u>-</u>	<u>1,750</u>
	<u>6,152</u>	<u>233</u>	<u>-</u>	<u>5,919</u>
Purchase deposits for flight equipment	<u>257</u>	<u>-</u>	<u>-</u>	<u>257</u>
Capital leases:				
Flight equipment	117	11	-	106
Other	<u>272</u>	<u>4</u>	<u>-</u>	<u>268</u>
	389	15	-	374
Less: Accumulated amortization	<u>128</u>	<u>4</u>	<u>-</u>	<u>124</u>
	<u>261</u>	<u>11</u>	<u>-</u>	250

Total property and equipment	<u>6,670</u>	<u>244</u>	<u>-</u>		<u>6,426</u>
Other Assets:					
Routes	684	-	-		684
Airport operating rights, net	305	5	-		300
Intangible pension asset	144	-	-		144
Investment in unconsolidated subsidiaries	95	-	(7)	(O)	88
Note receivable from Holdings	-	-	153	(K)	153
Other assets, net	<u>288</u>	<u>33</u>	<u>24</u>	(N)	<u>279</u>
Total Assets	<u>\$10,878</u>	<u>\$498</u>	<u>\$240</u>		<u>\$10,620</u>

(continued on next page)

**CONTINENTAL AIRLINES, INC.**  
**PRO FORMA CONSOLIDATED BALANCE SHEET**  
**SEPTEMBER 30, 2003**  
(In millions)  
(Unaudited)

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>Historical Consolidated</u>	<u>Less: Holdings (J)</u>	<u>Add (Less): Pro Forma Adjustments</u>		<u>Pro Forma: Holdings Not Consolidated</u>
Current Liabilities:					
Current maturities of long-term debt and capital leases	\$ 543	\$ 70	\$ 67 (L)		\$ 540
Accounts payable	854	67	3 (M)		790
Air traffic liability	997	-	-		997
Accrued payroll	278	15	-		263
Accrued other liabilities	<u>357</u>	<u>60</u>	<u>45</u> (N)		<u>342</u>
Total current liabilities	<u>3,029</u>	<u>212</u>	<u>115</u>		<u>2,932</u>
Long-Term Debt and Capital Leases	<u>5,602</u>	<u>315</u>	<u>153</u> (L)		<u>5,440</u>
Deferred Income Taxes	<u>613</u>	<u>-</u>	<u>(16)</u> (N)		<u>597</u>
Accrued Pension Liability	<u>588</u>	<u>-</u>	<u>-</u>		<u>588</u>

Other	<u>308</u>	<u>9</u>	<u>-</u>		<u>299</u>
Commitments and Contingencies					
Minority Interest	<u>(26)</u>	<u>-</u>	<u>26</u>	(O)	<u>-</u>
Stockholders' Equity:					
Preferred Stock	-	-	-		-
Class B common stock	1	1	1	(O)	1
Additional paid-in capital	1,396	160	160	(O)	1,396
Retained earnings	901	(199)	(199)	(O)	901
Accumulated other comprehensive loss	(393)	-	-		(393)
Treasury stock	<u>(1,141)</u>	<u>-</u>	<u>-</u>		<u>(1,141)</u>
Total stockholders' equity	<u>764</u>	<u>(38)</u>	<u>(38)</u>		<u>764</u>
Total Liabilities and Stockholders' Equity	<u>\$10,878</u>	<u>\$ 498</u>	<u>\$ 240</u>		<u>\$10,620</u>

The accompanying notes are an integral part of these pro forma financial statements.

**CONTINENTAL AIRLINES, INC.  
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying pro forma consolidated financial statements present (1) the results of operations of Continental Airlines, Inc. for the nine months ended September 30, 2003 and the year ended December 31, 2002, as if the accounts of ExpressJet Holdings, Inc. ("Holdings") had been accounted for using the equity method of accounting set forth in APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", rather than being consolidated, effective as of the beginning of each period, and (2) the balance sheet as of September 30, 2003, adjusted to report Holdings using the equity method of accounting as of that date. The pro forma adjustments do not change our ownership interest in Holdings from the historical amounts. We owned 100% of Holdings until Holdings' initial public offering in April 2002. From April 2002 until August 2003, our interest in Holdings was 53.1%. A series of transactions in the third quarter of 2003 (described below) reduced our ownership to 30.9%.

As used in these notes to the pro forma consolidated financial statements, the terms "Continental", "we", "us", and "our" refer to Continental Airlines, Inc. exclusive of Holdings, unless the context indicates otherwise.

**Background - FASB Interpretation 46.** Effective July 1, 2003, we adopted FASB Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires the consolidation of certain types of entities in which a company absorbs a majority of another entity's expected losses, receives a majority of the other entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the other entity. These entities are called "variable interest entities". The principal characteristics of variable interest entities are (1) an insufficient amount of equity to absorb the entity's expected losses, (2) equity owners as a group are not able to make decisions about the entity's activities, or (3) equity that does not absorb the entity's losses or receive the entity's residual returns. "Variable interests" are contractual, ownership or other monetary interests in an entity that change with fluctuations in the entity's net asset value. As a result, variable interest entities can arise from items such as lease agreements, loan arrangements, guarantees or service contracts.

If an entity is determined to be a "variable interest entity", the entity must be consolidated by the "primary beneficiary". The primary beneficiary is the holder of the variable interests that absorb a majority of the variable interest entity's expected losses or receive a majority of the entity's residual returns in the event no holder has a majority of the expected losses. There is no primary beneficiary in cases where no single holder absorbs the majority of the expected losses or receives a majority of the residual returns. The determination of the primary beneficiary is based on projected cash flows at the inception of the variable interests.

Holdings and its wholly-owned subsidiary ExpressJet Airlines, Inc. ("ExpressJet") each meet the criteria for a variable interest entity because the voting rights and economic interests we hold in these entities are disproportionate to our obligations to absorb expected losses or receive expected residual returns. The variable interests in Holdings and ExpressJet include our capacity purchase agreement, a tax sharing agreement with us, a note payable to us, convertible debentures held by third parties, and common stock (of which we and our defined benefit pension plan held approximately 44% at September 30, 2003). Our assessment of



expected losses and expected residual returns indicated that we were the primary beneficiary of Holdings and ExpressJet, and thus we were required to consolidate Holdings and ExpressJet, as of September 30, 2003.

Recent Transactions. During the third quarter of 2003, we sold approximately 9.8 million shares of our Holdings common stock to Holdings, reducing our ownership of Holdings from 53.1% to 44.6%. We also contributed approximately 7.4 million shares of Holdings common stock to our defined benefit pension plan, further reducing our ownership of Holdings to 30.9%.

The independent trustee for our defined benefit pension plan subsequently sold a portion of the shares of Holdings that we contributed to the plan. As a result of sales by the defined benefit pension plan, the combined amount of Holdings common stock owned by us and our defined benefit plan fell below 41% on November 12, 2003, the point at which we were no longer the primary beneficiary of Holdings and ExpressJet. Accordingly, we will deconsolidate Holdings and ExpressJet.

Pro Forma Adjustments. Under our capacity purchase agreement with Holdings and ExpressJet, we will continue to purchase all of ExpressJet's capacity at a negotiated price and be responsible for selling the entire seat inventory. As a result, after deconsolidation, we will continue to record the related passenger revenue and related expenses, with payments under the capacity purchase agreement reflected as a separate operating expense. The specific pro forma adjustments are discussed below.

*Statements of Operations Adjustments:*

- A. To remove Holdings' income statement amounts from the historical consolidated statements of operations. We have made reclassifications in Holdings' separate company financial statements as filed by Holdings with the Securities and Exchange Commission to conform to our presentation.
- B. To reverse intercompany amounts included in Holdings' amounts but eliminated in the historical consolidated amounts. For example, Holdings' revenues consist of payments received from us under the capacity purchase agreement. Because these amounts were eliminated in the historical consolidated statements of operations but were included in the Holdings' amounts deducted from the consolidated totals, they must be reversed.
- C. To record our expenses under the capacity purchase agreement with Holdings. These expenses were eliminated in the historical consolidated statements of operations.
- D. To record the reduction of regional capacity purchase expense associated with income on aircraft leased to Holdings from us. This income was eliminated in the historical consolidated statements of operations.
- E. To record interest income related to our note receivable from Holdings. This income was eliminated in the historical consolidated statements of operations.
- F. To reclassify fuel costs to regional capacity purchase. Under the capacity purchase agreement and a related fuel purchase agreement, Holdings' fuel costs were capped at 61.1 cents per gallon in 2002 and 66.0 cents per gallon in 2003. We absorb fuel costs in excess of these caps.
- G. To record our income and expenses associated with services provided to Holdings and to conform to our presentation of income and expenses associated with third-party contracts.
- H. To reverse the minority interest in Holdings' net income included in the historical consolidated statements of operations.
- I. To record our proportionate share of Holdings' net income on a deconsolidated basis, at historical ownership levels.

*Balance Sheet Adjustments:*

- J. To remove Holdings' reported balance sheet amounts from the historical consolidated balance sheet. We have made reclassifications in Holdings' separate company balance sheet as filed by Holdings with the Securities and Exchange Commission to conform to our presentation.
- K. To record our note receivable from Holdings. This note receivable was eliminated in the historical consolidated balance sheet.
- L. To reverse intercompany amounts between Holdings and us that were included in Holdings amounts, but were eliminated in the historical consolidated balance sheet.
- M. To record accounts payable to Holdings. These amounts were eliminated in the historical consolidated balance sheet.
- N. To eliminate amounts only recognized in Holdings' separate company balance sheet and to reclassify certain income tax amounts.
- O. To record our investment in Holdings at September 30, 2003, based on 30.9% ownership, and to reverse Holdings' equity balances and the minority interest in Holdings included in the historical consolidated balance sheet. Our investment balance is negative as a result of Holdings' negative equity balance.