UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Class B Common Stock, par value $.01 per share	New York Stock Exchange
Series A Junior Participating Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was approximately $753 million as of June 30, 2004.

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As of March 10, 2005, 66,609,733 shares of Class B common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of Stockholders to be held on June 16, 2005: PART III

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PART I

ITEM 1. BUSINESS.

Continental Airlines, Inc., a Delaware corporation, is a major United States air carrier engaged in the business of transporting passengers, cargo and mail. The term "Continental", "we", "us", "our" and similar terms refer to Continental Airlines, Inc. and, unless the context indicates otherwise, its consolidated subsidiaries.

We are the world's sixth largest airline (as measured by the number of scheduled miles flown by revenue passengers, known as revenue passenger miles, in 2004). Together with ExpressJet Airlines, Inc. (operating as Continental Express and referred to in this Form 10-K as "ExpressJet"), a wholly-owned subsidiary of ExpressJet Holdings, Inc. ("Holdings") from which we purchase seat capacity, and our wholly owned subsidiary, Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, we operate more than 2,500 daily departures throughout the Americas, Europe and Asia. As of December 31, 2004, we flew to 130 domestic and 113 international destinations and offered additional connecting service through alliances with domestic and foreign carriers. We directly served 18 European cities, seven South American cities, Tel Aviv, Hong Kong and Tokyo as of December 31, 2004. In addition, we provide service to more destinations in Mexico and Central America than any other U.S. airline, serving 39 cities. Through our Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

General information about us, including our Corporate Governance Guidelines and the charters for the committees of our Board of Directors, can be found at *http://www.continental.com/company/investor*. Our Board of Directors has adopted a code of ethics entitled "Principles of Conduct", which applies to all of our employees, officers and directors. Our board has also adopted a separate "Directors' Code of Ethics" for our directors. Copies of these codes 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 and exhibits 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"). Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

This Form 10-K contains forward-looking statements that are not limited to historical facts, but reflect our current beliefs, expectations or intentions regarding future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. For examples of those risks and uncertainties, please see the cautionary statements contained in Item 1. "Business - Risk Factors Relating to Terrorist Attacks and International Hostilities", "Business - Risk Factors Relating to the Company" and "Business - Risk Factors Relating to the Airline Industry." See these sections of Item 1. and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" for a discussion of trends and factors affecting us and our industry. Also see Item 8. "Financial Statements and Supplementary Data, Note 17 - Segment Reporting" for financial information about each of our business segment s. 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.

Domestic Operations

We operate our domestic route system primarily through our hubs in the New York metropolitan area at Newark Liberty International Airport ("Liberty International"), in Houston, Texas at George Bush Intercontinental Airport ("Bush Intercontinental") and in Cleveland, Ohio at Hopkins International Airport ("Hopkins International"). Our hub system allows us to transport passengers between a large number of destinations with substantially more frequent service than if each route were served directly. The hub system also allows us to add service to a new destination from a large number of cities using only one or a limited number of aircraft. As of December 31, 2004, we operated 68% of the average daily departures from Liberty International, 85% of the average daily departures from Bush Intercontinental and 64% of the average daily departures from Hopkins International (in each case including regional jets flown for us by ExpressJet). Each of our domestic hubs is located in a large business and pop ulation center, contributing to a high volume of "origin and destination" traffic.

International Operations

We directly serve destinations throughout Europe, Canada, Mexico, Central and South America and the Caribbean, as well as Tel Aviv, Hong Kong and Tokyo. We also provide service to numerous other destinations through codesharing arrangements with other carriers and have extensive operations in the western Pacific conducted by CMI. As measured by 2004 available seat miles, approximately 42% of our mainline operations, including CMI, were dedicated to international traffic.

The following international destinations served through our domestic hubs include regional jet service flown for us by ExpressJet:

Liberty International is a significant international gateway. From Liberty International, we served 18 cities in Europe, six cities in Canada, six cities in Mexico, six cities in Central America, four cities in South America, 18 Caribbean destinations, Tel Aviv, Hong Kong and Tokyo at December 31, 2004. During 2005, we plan to add new service between Liberty International and Bristol, England, Belfast, Northern Ireland, Berlin, Germany, Hamburg, Germany and Stockholm, Sweden. We have also received tentative approval from the U.S. Department of Transportation ("DOT") to initiate service from Liberty International to Beijing in the People's Republic of China.

Bush Intercontinental is the focus of our flights to destinations in Mexico and Central America. As of December 31, 2004, we flew from Bush Intercontinental to 29 cities in Mexico, all seven countries in Central America, six cities in South America, six Caribbean destinations, four cities in Canada, three cities in Europe and Tokyo.

From Hopkins International, we flew to two cities in Canada, Cancun, Mexico, Nassau, Bahamas and San Juan, Puerto Rico as of December 31, 2004.

From its hub operations based on the island of Guam, as of December 31, 2004, CMI provided service to seven cities in Japan, more than any other United States carrier, as well as other Pacific rim destinations, including Taiwan, the Philippines, Hong Kong, Australia and Indonesia. CMI also provides service between Honolulu and Nagoya, Japan. In 2005, CMI plans to add new service between Guam and Hiroshima, Japan. CMI is the principal air carrier in the Micronesian Islands, where it pioneered scheduled air service in 1968. CMI's route system is linked to the United States market through Hong Kong, Tokyo and Honolulu, each of which CMI serves non-stop from Guam.

See Item 8. "Financial Statements and Supplementary Data, Note 17 - Segment Reporting", for operating revenue by geographical area.

Alliances

We have entered into alliance agreements, which are also referred to as codeshare agreements or cooperative marketing agreements, with other carriers. These relationships may include (a) codesharing (one carrier placing its name and flight number, or "code," on flights operated by the other carrier), (b) reciprocal frequent flyer program participation, reciprocal airport lounge access and other joint activities (such as seamless check-in at airports) and/or (c) block space arrangements (carriers agree to share capacity and bear economic risk for blocks of seats on certain routes). Except for our relationship with ExpressJet, all of our codeshare relationships are free-sell codeshares, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory, but takes no inventory risk. In contrast, in a block space relationship, the marketing carrier is committed to purchase a set number of seats on the operating carrier, sells seats to the public from this purchased inventory and is at economic risk for the purchased seats that it is unable to sell. Some relationships may include other cooperative undertakings such as joint purchasing, joint corporate sales contracts, airport handling, facilities sharing or joint technology development.

We have a long-term global alliance with Northwest Airlines through 2025, subject to earlier termination by either party in the event of certain changes in control of either Northwest or Continental. Our alliance with Northwest provides for each party to place its code on a large number of the flights of the other party, reciprocity of frequent flyer programs and airport lounge access and other joint marketing activities. As of December 31, 2004, we had placed our code on 202 destinations served by Northwest and Northwest placed its code on 186 destinations served by us. Together with Northwest, we also have joint contracts with major corporations and travel agents designed to create access to a broader product line encompassing the route systems of both carriers.

In April 2003, we implemented a marketing alliance with Delta Air Lines ("Delta"). As with our alliance with Northwest, this alliance involves codesharing, reciprocal frequent flyer benefits and reciprocal airport lounge privileges. As of December 31, 2004, we placed our code on 50 destinations served by Delta and Delta placed its code on 86 destinations served by us. We intend to expand our codesharing with Delta as permitted by the DOT.

We also have domestic codesharing agreements with Gulfstream International Airlines, SkyWest Airlines, Hawaiian Airlines, Alaska Airlines, Horizon Airlines, Champlain Enterprises, Inc. (CommutAir), Hyannis Air Service, Inc. (Cape Air), Colgan Airlines, Inc. and American Eagle Airlines. We also have the first train-to-plane alliance in the

United States with Amtrak.

In addition to our domestic alliances, we seek to develop international alliance relationships that complement our own route system and permit expanded service through our hubs to major international destinations. International alliances assist in the development of our route structure by enabling us to offer more frequencies in a market, provide passengers connecting service from our international flights to other destinations beyond an alliance partner's hub and expand the product line that we may offer in a foreign destination.

We have a marketing agreement with KLM Royal Dutch Airlines which extends until 2010 that includes codesharing and reciprocal frequent flyer program participation and airport lounge access. As of December 31, 2004, we placed our code on selected flights to 70 European, Middle Eastern and African destinations operated by KLM and KLM Cityhopper beyond its Amsterdam hub, and KLM placed its code on 92 U.S. and Mexican destinations operated by us beyond our hubs at Liberty International and Bush Intercontinental. In addition, members of each carrier's frequent flyer program are able to earn mileage anywhere on the other's global route network.

In September 2004 we joined SkyTeam, a global alliance of airlines that offers greater destination coverage and the potential for increased revenue and long-term cost savings. SkyTeam members include Aeromexico, Air France, Alitalia, CSA Czech Airlines, Delta, KLM, Korean Air and Northwest. SkyTeam members serve 341 million passengers with 14,320 daily departures to 658 global destinations in more than 130 countries. In conjunction with joining SkyTeam, we entered into bilateral codeshare, frequent flyer program participation and airport lounge access agreements with each of the SkyTeam members. We intend to begin codeshare operations with each of these carriers in 2005.

We also currently have international codesharing agreements with Air Europa of Spain, Emirates (the flag carrier of the United Arab Emirates), TAP Air Portugal, EVA Airways Corporation (an airline based in Taiwan), British European ("flybe"), Virgin Atlantic Airways, Maersk Air of Denmark, Copa Airlines of Panama and French rail operator SNCF. We own 49% of the common equity of Copa. Copa recently acquired a majority stake in AeroRepublica, Colombia's second largest air carrier. The acquisition was made without any cash investment from us.

Regional Operations

Our mainline service at each of our domestic hub cities is coordinated with ExpressJet, which operates new-generation regional jets. As of December 31, 2004, ExpressJet served 112 destinations in the U.S., 26 cities in Mexico, six cities in Canada and two Caribbean destinations. Since December 2002, ExpressJet's fleet has been comprised entirely of regional jets. We believe ExpressJet's regional jet service complements our operations by carrying traffic that connects onto our mainline jets and by allowing more frequent flights to smaller cities than could be provided economically with larger jet aircraft. The regional jets also allow ExpressJet to serve certain routes that cannot be served by turboprop aircraft. Additional commuter feed traffic is currently provided to us by other alliance partners, as discussed above.

Since January 1, 2001, we purchase all of ExpressJet's available seat miles for a negotiated price under a capacity purchase agreement with ExpressJet. The agreement covers all of ExpressJet's existing fleet, as well as 29 Embraer regional jets subject to firm orders. Under the agreement, as amended, ExpressJet has the right through December 31, 2006 to be our sole provider of regional jet service from our hubs. We are responsible for all scheduling, pricing and seat inventories of ExpressJet's flights. Therefore, we are entitled to all revenue associated with those flights and are responsible for all revenue-related expenses, including commissions, reservations, catering and passenger ticket processing expenses. In exchange for ExpressJet's operation of the flights and performance of other obligations under the agreement, we pay ExpressJet based on scheduled block hours (the hours from gate departure to gate arrival) in accordance with a formula designed to provide them with an operating margin of approximately 10% before taking into account variations in some costs and expenses that are generally controllable by ExpressJet. We assume the risk of revenue volatility associated with fares and passenger traffic, price volatility for specified expense items such as fuel and the cost of all distribution and revenue-related costs.

We and ExpressJet have amended the capacity purchase agreement with respect to certain matters. Pursuant to the terms of the agreement, we have made the first annual adjustment to the block hour rate portion of the compensation we pay to ExpressJet. In addition, ExpressJet's prevailing margin, which is the operating margin excluding certain revenues and costs as specified in the agreement, will be capped at 10% before certain incentive payments.

Under the capacity purchase agreement, we have the right, upon no less than twelve months' notice to ExpressJet, to reduce the number of its aircraft covered by the contract. As of March 14, 2005, we have not given any such notice. Under the agreement, we are entitled to remove capacity under an agreed upon methodology. If we remove aircraft from the terms of the agreement, ExpressJet will have the option to (i) fly the released aircraft for another airline (subject to its ability to obtain facilities, such as gates and slots, and subject to its exclusive arrangement with us that prohibits ExpressJet during the term of the agreement from flying under its or another carrier's code in or out of our hub airports), (ii) fly the aircraft under ExpressJet's own flight designator code subject to its ability to obtain facilities, such as gates and slots, and subject to ExpressJet's exclusive arrangement with us respecting our hubs, or (iii) decline to fly the aircraft and cancel the related subleases with us. If ExpressJet does not cancel the aircraft subleases, the implicit interest rate used to calculate the scheduled lease payments under our aircraft subleases with ExpressJet will automatically increase by 200 basis points to compensate us for our continued participation in ExpressJet's lease financing arrangements.

The capacity purchase agreement is scheduled to expire on December 31, 2010, but allows us to terminate the agreement at any time after December 31, 2006 upon 12 months' notice. We have the option to extend the term of the agreement with 24 months' notice for up to four additional five-year terms through December 31, 2030.

We have reduced our ownership of Holdings from 100% prior to the initial public offering of Holdings common stock in 2002 to 30.8% as of December 31, 2004 and 19.7% as of March 14, 2005 through a series of transactions. These transactions include the initial public offering of the common stock of Holdings by Holdings and us in 2002, a sale of Holdings common stock by us to Holdings in 2003 and contributions by us of Holdings common stock to our defined benefit pension plan in 2003 and 2005. Due to the capacity purchase agreement, the disposition of our interest in Holdings has had very little effect on our operations and on ExpressJet's flight operations on our behalf.

After our contribution of Holdings common stock to our defined benefit pension plan in 2003 and the subsequent sale of a portion of the contributed shares by the independent trustee of the plan, the combined amount of Holdings common stock owned by us and our defined benefit pension plan on November 12, 2003 fell below 41%, the point at which we no longer consolidated Holdings for financial reporting purposes pursuant to Financial Accounting Standards Board Interpretation 46, "Consolidation of Variable Interest Entities". Accordingly, we deconsolidated Holdings as of that date. See Item 8. "Financial Statements and Supplementary Data, Note 15 - Investment in ExpressJet and Regional Capacity Purchase Agreement".

Effective November 12, 2003, we account for our interest in Holdings 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 consolidating Holdings. After deconsolidation, we continue to record the related passenger revenue and related expenses, with payments under the capacity purchase agreement reflected as a separate operating expense. Additionally, after deconsolidation, we no longer record minority interest on either our balance sheet or statement of operations.

As of December 31, 2004, we directly owned 16.7 million shares of Holdings common stock with a market value of $215 million, which represented a 30.8% interest in Holdings, and our defined benefit pension plan owned no shares of Holdings common stock.

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 some or all of our shares of Holdings common stock in the future. On January 6, 2005, we contributed six million shares of Holdings common stock to our defined benefit pension plan, reducing our direct ownership to 10.7 million shares, which represents a 19.7% interest in Holdings. We will continue to account for our interest in Holdings using the equity method of accounting because of our ongoing ability to influence Holdings' operations significantly through our capacity purchase agreement and our continued, although reduced, representation on Holdings' Board of Directors.

Marketing

As with other major domestic hub-and-spoke carriers, a majority of the tickets for travel on us are sold by travel agents. Although we generally no longer pay base commissions, we often negotiate compensation to travel agents based on their performance in selling our tickets.

We use the internet to provide services for our customers and to reduce our distribution costs. We have marketing agreements with internet travel service companies such as Orbitz, Hotwire, Travelocity and Expedia. Although customers' use of the internet has helped to reduce our distribution costs, it has also lowered our yields because it is easier for customers to determine and obtain the lowest fare on any given route.

Our website, *http://www.continental.com*, recorded over $1.5 billion in ticket sales in 2004, a 50% increase over 2003. The site offers customers the ability to purchase and change tickets on-line, to check-in on-line and to have direct access to information such as schedules, reservations, flight status, frequent flyer account information (including the ability to redeem reward travel) and Continental travel specials. Combined with sales by internet travel service companies, 27% of our tickets were sold on the internet during 2004, compared with 23% in 2003 and 16% in 2002.

In 2004, we continued to expand our electronic ticketing, or E-Ticket, product. E-Tickets result in lower distribution costs to us while providing us with enhanced customer and revenue information. We recorded over $7.9 billion and $6.8 billion in E-Ticket sales in 2004 and 2003, representing 86% and 84%, respectively, of total sales. We have 846 Continental self-service kiosks at 139 airports throughout our system, including all domestic airports we serve. Continental and America West were the first U.S. airlines to implement interline E-Ticketing allowing customers to use electronic tickets when their itineraries include travel on multiple carriers. At December 31, 2004, we had interline E-Ticketing arrangements with 28 air carriers and we plan to implement E-Ticketing agreements with approximately 40 additional carriers in 2005.

E-Ticket passengers have the ability to check-in at *http://www.continental.com* for all domestic travel and can use self-service kiosks to check-in for international travel from certain airports. We plan to implement on-line check-in for international travel in 2005. On-line check-in allows customers to obtain a boarding pass from their home, office or hotel up to 24 hours prior to departure and to proceed directly to security at the airport, bypassing the ticket counter and saving time. Passengers with baggage who check-in on-line may use special kiosks at the airport to check their bags rapidly.

Frequent Flyer Program

We maintain our "OnePass" frequent flyer program to encourage repeat travel on our system. OnePass allows passengers to earn mileage credits by flying us and certain other carriers. We also sell mileage credits to credit/debit card companies, phone companies, hotels, car rental agencies, utilities and various shopping and gift partners participating in OnePass. Mileage credits can be redeemed for free, discounted or upgraded travel on Continental, ExpressJet, CMI or participating alliance carriers. Most travel awards are subject to capacity limitations.

At December 31, 2004, we estimated that approximately 2.1 million free travel awards outstanding were expected to be redeemed for free travel on Continental, ExpressJet, CMI or participating alliance carriers. Our total liability for future OnePass award redemptions for free travel and unrecognized revenue from sales of OnePass miles to other companies was approximately $195 million at December 31, 2004. This liability is recognized as a component of air traffic liability in our consolidated balance sheet.

During the year ended December 31, 2004, OnePass participants claimed approximately 1.2 million awards. These awards accounted for an estimated 5.6% of our total revenue passenger miles ("RPMs"). We believe displacement of revenue passengers is minimal given our load factors, our ability to manage frequent flyer inventory and the low ratio of OnePass award usage to revenue passenger miles.

In September 2003, we introduced new service features to reward our top customers. "EliteAccess" is offered to OnePass members who hold Elite status, first class and BusinessFirst ticket holders and travelers who qualify as "Elite for the Day." EliteAccess passengers receive preferential treatment in the boarding and baggage claim areas. "Elite for the Day" affords passengers who purchase economy class tickets in certain fare categories the benefits of EliteAccess on the day of travel. We also initiated a guarantee of no middle seat assignment for those passengers using a full-fare, unrestricted ticket.

Employees

As of December 31, 2004, we had approximately 38,255 full-time equivalent employees, consisting of approximately 16,755 customer service agents, reservations agents, ramp and other airport personnel, 7,900 flight attendants, 5,800 management and clerical employees, 4,125 pilots, 3,575 mechanics and 100 dispatchers. Approximately 43% of our employees are represented by unions. Of these, substantially all have contracts under negotiation. The following table reflects the principal collective bargaining agreements, and their respective amendable dates, of Continental and CMI:

Employee Group	Approximate Number of Full-time Equivalent Employees	Representing Union	Contract Amendable Date
Continental Flight Attendants	7,570	International Association of Machinists and Aerospace Workers ("IAM")	October 2004
Continental Pilots	4,125	Air Line Pilots Association International ("ALPA")	October 2002
Continental Mechanics	3,475	International Brotherhood of Teamsters ("Teamsters")	December 2003 (economic terms) December 2006 (all terms)
CMI Fleet and Passenger Service Employees	600	Teamsters	December 2006
CMI Flight Attendants	330	IAM	June 2005
CMI Mechanics	100	Teamsters	December 2006
Continental Dispatchers	100	Transport Workers Union ("TWU")	October 2003
Continental Flight Simulator Technicians	50	TWU	Negotiations for initial contract completed

Tentative Agreements with Work Groups. On November 18, 2004, we announced that we needed an annual $500 million reduction in wage and benefit costs. In late 2004 and early 2005, we finalized (but have not yet implemented) changes to wages, work rules and benefits for U.S.-based management and clerical, reservations, food services, airport and cargo agents and customer service employees that result in savings of $169 million annually. On February 28, 2005, we announced that we had reached tentative agreements on new contracts covering our pilots, flight attendants, mechanics and dispatchers following negotiations with ALPA, the IAM, the Teamsters, and the TWU. We also reached a tentative agreement with our simulator technicians, represented by the TWU. Each of the agreements is subject to ratification by the members of each covered work group, and the effectiveness of each agreement is conditioned on ratification of each other agreement. Results of the ratification proc ess for each of the agreements are expected by the end of March 2005. If the agreements are ratified, the wage and benefit reductions will become effective as of the date of ratification and we will begin to implement the agreements. Some of the savings from the agreements will take time to achieve, while others, such as the wage reductions and certain benefit changes, will result in immediate savings. Our officers and Board of Directors implemented their reductions (discussed below) on February 28, 2005.

The tentative agreements, along with previously announced pay and benefit reductions for other work groups, conclude the negotiation process with all our employees, except some CMI and international employees. The pay and benefits of international employees must be adjusted in accordance with laws and regulations of the various countries. We expect to complete the process with these remaining employees in the near future.

Each of the agreements is for a 45-month term, so that the agreements would become amendable again on December 31, 2008. 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. We expect to achieve approximately $500 million of annual cost savings on a run-rate basis if the agreements with our various work groups are fully implemented. This excludes the non-cash cost of approximately ten million stock options that we expect to issue to our employees in connection with the pay and benefit reductions and accruals for certain non-cash costs or charges relating to items contained in the tentative agreements. Further, our ability to achieve certain of the cost reductions will depend on timely and effective implementation of new work rules, actual productivity improvements, implementation of changes in technology pertaining to employee work rules and benefits and other items.

Proposed Pension Changes. The tentative agreements with our pilots and flight attendants each provide that benefits accruals with respect to those groups under our defined benefit pension plan will be frozen and we will begin to make contributions to alternate retirement programs. All of the pilots' and flight attendants' existing benefits under our plan at the date of the freeze will be preserved, including the right to receive a lump-sum payment upon their retirement.

The tentative agreement with our pilots provides for a new defined contribution plan to be established after the existing pension benefits are frozen on May 31, 2005. That plan will be a money purchase pension plan that is also subject to minimum contribution rules under the Internal Revenue Code. If the pilots' tentative agreement is ratified and takes effect, contributions under the new defined contribution plan will generally be specified percentages of applicable pilot compensation, subject to applicable legal limits. Further, the tentative agreement provides for additional contributions to the pilots' 401(k) plan, depending on our pre-tax profits during a portion of the term of the pilots' agreement. To the extent contributions to either plan are limited by applicable law, the difference between the contractual amounts and the amounts permitted by law to be contributed to the defined contribution plans will be paid directly to pilots under a corresponding nonqualified arrangement.

The tentative agreement with our flight attendants provides that the flight attendants will join the IAM National Pension Fund ("National Pension Plan") in connection with the freezing of their benefits under our existing defined benefit plan. The National Pension Plan is a multiemployer pension plan managed by representatives of participating employers and representatives of the IAM. Our obligation will be to make a fixed contribution to the National Pension Plan per hour of flight attendant service, as specified in the tentative agreement.

We have also agreed with each of ALPA, the IAM, the Teamsters and the TWU that for a limited time period we will not seek to reject or modify the collective bargaining agreements or retiree benefits in the event of our bankruptcy, subject to certain exceptions.

Funding requirements under our pre-existing defined benefit plan (including a separate plan to be established that will contain the assets and obligations related to pilots formerly contained in our defined benefit plan) will continue to be determined under applicable law. However, if the pilots' tentative agreement takes effect, we have agreed that we will not declare a cash dividend or repurchase our outstanding common stock for cash until we have contributed at least $500 million to the pilots' defined benefit plan, measured from the date of ratification of the pilots' tentative agreement. Further, we have agreed that we will not make an election under any optional funding legislation that would eliminate the lump-sum benefit option without the consent of ALPA.

Consequences of Failure to Ratify Tentative Agreements. Each of the tentative agreements require that, even if ratified, they will not go into effect (and thus will not be implemented) unless all of the other tentative agreements are ratified. As a result, there is the risk that if one or more of the tentative agreements is not ratified, then one or more of the other tentative agreements would not become effective and thus would not be implemented. If the tentative agreements were not implemented, we would not achieve the necessary $500 million reduction in wage and benefit costs and would ultimately have inadequate liquidity to meet our obligations under current market conditions. We would be forced to pursue alternate survival strategies and to take significant steps to reduce both our future financial commitments and current cash outflows, including being forced to obtain annual pay and benefit reductions totaling $800 million from our work groups later in 2005.

In addition to having to obtain significantly larger pay and benefit reductions from our work groups, actions we would be forced to take if the tentative agreements are not ratified and do not take effect include canceling plans to lease eight 757-300 aircraft from Boeing Capital Corporation and canceling the accelerated delivery of six 737-800 aircraft which were to be delivered in 2006. Those aircraft would instead be delivered in 2008, the original delivery year. However, we anticipate that we would enter into discussions with Boeing to defer all aircraft deliveries beyond 2005, representing a total of 40 aircraft. We would also be forced to cancel our recent order for ten Boeing 787 aircraft, which were planned for delivery beginning in 2009.

Additionally, we would pursue shrinking our fleet. As part of our contingency planning, we have engaged Focus Aviation, Inc., an aircraft broker, with regard to our Boeing 737-500 fleet. These aircraft have relatively few seats compared to our other mainline aircraft and have become less attractive to operate in a low-fare environment. If the tentative agreements are not ratified and do not take effect, we will market for sale or lease twenty-four 737-500 aircraft. This fleet reduction would result in frequency and aircraft size reductions in certain markets. Moreover, if the aircraft are withdrawn from the fleet, we would need to furlough a significant number of pilots, flight attendants, mechanics and other positions associated with those aircraft.

If the tentative agreements are not ratified and do not take effect, absent significant declines in fuel prices in the near future, we expect that we would fail to meet certain financial covenants in our bank-issued credit card processing agreement. In that event, we would be required to post up to an additional $335 million cash collateral, which would adversely affect our liquidity needed for our operations and debt service.

We could experience an increase in early retirements caused by concern among our employees about our financial stability. The potential of an increase in early retirements could be exacerbated by the fact that our employees are entitled to lump-sum distributions from our defined benefit pension plan upon their retirement, including early retirement within the provisions of the plan. Some of our competitors have terminated, or have sought to terminate, their defined benefit pension plans in bankruptcy, which can cause employees to receive less than the full amount of their pension benefits under applicable federal pension benefit insurance, and can also limit or eliminate the ability of employees to receive their pension benefits in a lump-sum. If liquidity concerns increase, we could experience a significant increase in early retirements which could negatively impact our operations and materially increase our near-term funding obligations to our defined benefit pension plan, which could itself result in a material adverse effect on our liquidity.

Compensation Reductions by Officers and Board Members. To take the appropriate lead in these cost reductions, our Chairman and Chief Executive Officer Larry Kellner agreed, effective February 28, 2005, to reduce both his base salary and his annual and long-term performance compensation by 25 percent. Also effective on that date, Jeff Smisek, our President, agreed to reduce both his base salary and his annual and long-term performance compensation by 20 percent. Both Messrs. Kellner and Smisek also declined to accept their annual bonus for 2004. Additionally, the company's three other most senior executives (Jim Compton, Executive Vice President-Marketing; Jeff Misner, Executive Vice President and Chief Financial Officer; and Mark Moran, Executive Vice President-Operations) agreed to reduce both their base salary and their annual and long-term performance compensation by 20 percent, effective February 28, 2005. Compensation reductions for all of our other officers also became effective Febr uary 28, 2005.

On February 15, 2005, we announced adjustments to management's annual incentive program and that officers would surrender their restricted stock units (RSUs) for the performance period ending June 30, 2005, in order to avoid the appearance that the officers could benefit from the wage and benefit reductions being made by our employees. We adjusted our Annual Executive Bonus Program (the "Program"), which pays management when we achieve certain targeted levels of Return on Base Invested Capital (ROBIC), as defined in the Program, by raising the level of return required before any incentives are paid to eliminate the effect in 2005 of projected employee pay and benefit reductions. When targets are set for 2006 and beyond, they will also be set so that no annual incentive is paid as a result of the pay and benefit reductions. Effective February 28, 2005, our officers surrendered their entire award of RSUs for the performance period ending in June 2005 in lieu of the smaller number of RSUs that they ha d agreed to surrender in their previously executed compensation reduction agreements.

On February 11, 2005, our Board of Directors determined that effective February 28, 2005, the non-management members of the Board of Directors would reduce by 30 percent their annual cash retainer and board and committee meeting attendance fees. Management members of our Board of Directors do not receive any additional compensation for their board service. In addition, non-management members of the Board of Directors agreed to forgo their annual grant of 5,000 stock options that would otherwise be awarded in connection with their re-election to the Board of Directors at the Company's 2005 Annual Meeting of Stockholders to be held on June 16, 2005. Due to the increased oversight responsibilities caused by compliance with the Sarbanes-Oxley Act of 2002, the Board determined not to decrease the Audit Committee's meeting fees or that portion of the Audit Committee's retainer that exceeds the base retainer for all non-management board members.

Industry Regulation and Airport Access

We operate under certificates of public convenience and necessity issued by DOT. These certificates may be altered, amended, modified or suspended by DOT if public convenience and necessity so require, or may be revoked for intentional failure by the holder of the certificate to comply with the terms and conditions of a certificate.

Airlines are also regulated by the Federal Aviation Administration ("FAA"), primarily in the areas of flight operations, maintenance, ground facilities and other technical matters. Pursuant to these regulations, we have established, and the FAA has approved, a maintenance program for each type of aircraft we operate that provides for the ongoing maintenance of our aircraft, ranging from frequent routine inspections to major overhauls.

In November 2001, the President signed into law the Aviation and Transportation Security Act (the "Aviation Security Act"). This law federalized substantially all aspects of civil aviation security, creating a new Transportation Security Administration ("TSA"). Under the Aviation Security Act, substantially all security screeners at airports are now federal employees and significant other elements of airline and airport security are now overseen and performed by federal employees, including federal security managers, federal law enforcement officers, federal air marshals and federal security screeners. Among other matters, the law mandates improved flight deck security, deployment of federal air marshals onboard flights, improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, additional provision of passenger data to U.S. c ustoms and enhanced background checks.

Airports from time to time seek to increase the rates charged to airlines, and the ability of airlines to contest such increases has been restricted by federal legislation, DOT regulations and judicial decisions. Under the Aviation Security Act, funding for airline and airport security is provided in part by a per enplanement ticket tax (passenger security fee) of $2.50, subject to a $5 per one-way trip cap. The Bush administration has proposed increasing the passenger security fee from $2.50 to $5.50 per enplanement, which, if implemented, would result in an additional annual tax of $1.5 billion on the airline industry, as estimated by the administration. We estimate that the annual impact on us would be approximately $160 million, based on our 2004 security fee collections. The Aviation Security Act also allows TSA to assess each airline fees up to the amount spent by that airline on screening services in 2000. Furthermore, because of significantly higher security and other costs incurred by ai rports since September 11, 2001, many airports are significantly increasing their rates and charges to air carriers, including to us, and may do so again in the future. Most airports we service impose passenger facility charges of up to $4.50 per segment, subject to an $18 per roundtrip cap.

The Emergency Wartime Supplemental Appropriations Act ("Supplemental Appropriations Act") enacted in April 2003 contained a number of provisions relating to airlines. In May 2003, we received and recognized in earnings $176 million in cash for reimbursement of our proportional share of passenger security and air carrier security fees paid or collected by U.S. air carriers as of the date of enactment of the legislation, together with other items. Additionally, the passenger security fees were not imposed from June 1, 2003 to September 30, 2003. We also received reimbursement for the direct costs associated with installing strengthened flight deck doors and locks. Additionally, aviation war risk insurance provided by the government was extended for one year to August 2004. Aviation war risk insurance was subsequently extended to August 31, 2005.

The Supplemental Appropriations Act also provided limits on the total compensation of some airlines' two mostly highly compensated executives (including ours) during the 12-month period beginning April 1, 2003. That compensation was limited to the annual salary paid to those officers with respect to fiscal year 2002.

In time of war or during a national emergency or defense-oriented situation, we and other air carriers could be required to provide airlift services to the Air Mobility Command under the Civil Reserve Air Fleet program (CRAF). The Air Mobility Command, which runs CRAF, activated Stage I of CRAF as part of the U.S. Government's build-up for military action in Iraq during 2003. If we were required to provide a substantial number of aircraft and crew to the Air Mobility Command, our operations could be adversely impacted.

The DOT allows local airport authorities to implement procedures designed to abate special noise problems, provided those procedures do not unreasonably interfere with interstate or foreign commerce or the national transportation system. Some airports, including the major airports at Boston, Chicago, Los Angeles, San Diego, Orange County (California), Washington National, Denver and San Francisco, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number and scheduling of hourly or daily operations. In some instances, these restrictions have caused curtailments in services or increased operating costs, and could limit our ability to expand our operations at the affected airports. Local authorities at other airports could consider adopting similar noise regulations. Some foreign airports have similar restrictions.

The FAA has designated John F. Kennedy International Airport ("Kennedy") and LaGuardia Airport ("LaGuardia") in New York and Ronald Reagan Washington National Airport in Washington, D.C. as "high density traffic airports" and has limited the number of departure and arrival slots at those airports. All slot restrictions at O'Hare International Airport in Chicago were eliminated in July 2002 and slot restrictions at LaGuardia and Kennedy are scheduled to be eliminated by 2007, although the FAA separately has imposed new slot controls at LaGuardia to reduce congestion. The elimination of slot restrictions has had no material impact on us.

The availability of international routes to U.S. carriers is regulated by treaties and related agreements between the United States and foreign governments. The United States typically follows the practice of encouraging foreign governments to accept multiple carrier designation on foreign routes, although certain countries have sought to limit the number of carriers allowed to fly these routes. Certain foreign governments impose limitations on the ability of air carriers to serve a particular city and/or airport within their country from the U.S. Bilateral agreements between the United States and foreign governments often include restrictions on the number of carriers (designations), operations (frequencies), or airports (points) that can be served. When designations are limited, only a certain number of airlines of each country may provide service between the countries. When frequencies are limited, operations are restricted to a certain number of weekly flights (as awarded by the Untied States to the domestic carrier, based on the bilateral limits). When points are limited, only certain airports within a country can be served.

One example of these limits is the bilateral agreement between the United States and the United Kingdom. Designations between the United States and Heathrow airport in London are limited to two for each country and since both designations are already taken, we cannot serve London Heathrow, even though we desire to do so. Additionally, the bilateral agreement limits frequencies which would prevent us from expanding our service above a predefined number of weekly frequencies. Finally, even if we received a Heathrow designation, we could not serve it from Houston or Cleveland because of point limits.

For a U.S. carrier to fly to any such international destination, it must first obtain approval from both the U.S. and the foreign country where the destination is located, which is referred to as a "foreign route authority". Route authorities to some international destinations can be sold between carriers, and their value can vary because of limits on accessibility. For those international routes where there is a limit to the number of carriers or frequency of flights (such as Heathrow Airport in London), studies have shown these routes have more value than those without restrictions. To the extent these foreign countries adopt "open skies" policies (meaning all carriers have access to the destination) or otherwise liberalize or eliminate restrictions on international routes, those actions would increase competition and potentially decrease the value of a route. We cannot predict what laws, treaties and regulations relating to international routes will be adopted or their resulting impact on us, b ut the overall trend in recent years has been an increase in the number of "open skies" agreements and the impact of any future changes in governmental regulation of international routes could be significant.

Many aspects of airlines' operations are subject to increasingly stringent federal, state and local laws protecting the environment. Future regulatory developments in the U.S. and abroad could adversely affect operations and increase operating costs in the airline industry. Potential future actions that may be taken by the U.S. government, foreign governments, or the International Civil Aviation Organization to limit the emission of greenhouse gases by the aviation sector are unknown at this time, but the impact to us and our industry is likely to be adverse and could be significant.

Risk Factors Relating to Terrorist Attacks and International Hostilities

The terrorist attacks of September 11, 2001 involving commercial aircraft severely and adversely affected our financial condition, results of operations and prospects and the airline industry generally. Among the effects we experienced from the September 11, 2001 terrorist attacks were substantial flight disruption costs caused by the FAA-imposed grounding of the U.S. airline industry's fleet, significantly increased security, increased insurance and other costs, substantially higher ticket refunds and significantly decreased traffic. The adverse effects of the terrorist attacks have been mitigated by subsequent increases in traffic, our cost-cutting measures, the Air Transportation Safety and System Stabilization Act (the "Stabilization Act") and the Supplemental Appropriations Act.

Additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights due to terror threats), could negatively affect us and the airline industry. The war in Iraq further decreased demand for air travel during the first half of 2003, especially in transatlantic markets, and additional international hostilities could potentially have a material adverse impact on our financial condition, liquidity and results of operations. Our financial resources might not be sufficient to absorb the adverse effects of any further terrorist attacks or an increase in post-war unrest in Iraq or other international hostilities involving the United States.

Risk Factors Relating to the Company

We continue to experience significant losses. Since September 11, 2001, we have incurred significant losses. We reported a net loss of $363 million in 2004. Absent the $500 million reduction in annual run-rate wage and benefit costs, we expect to lose hundreds of millions of dollars in 2005 under current market conditions. In addition, we expect to incur a substantial loss in 2005 even if the tentative agreements for reductions in wage and benefit costs are ratified and we begin the implementation process. Losses of the magnitude incurred by us since September 11, 2001 are not sustainable if they continue. These losses are primarily attributable to decreased passenger revenue since September 11, 2001 and record high fuel prices. Passenger revenue per available seat mile for our mainline operations was 11.1% lower for the year ended December 31, 2004 versus 2000 (the last full year before the September 11, 2001 terrorist attacks).

Our ability to raise our fares is limited due to the substantial price competition in the U.S. airline industry, especially in domestic markets. As many carriers have introduced lower and simplified fare structures (such as eliminating Saturday-night stay requirements, shortening advance purchase requirements and reducing the number of fare classes), we have had to match those fare levels on a majority of our domestic routes to remain competitive.

We cannot predict when or if yields will increase. Further, we cannot predict the long-term impact of any changes in fare structures, most importantly in relation to business fares, booking patterns, low-cost competitor growth, increased usage of regional jets, customers' direct booking on the internet, competitor bankruptcies and other changes in industry structure and conduct, but any of these factors could have a material adverse effect on our financial condition, liquidity and results of operations.

Failure to achieve timely ratification and implementation of the tentative agreements with our unions concerning wage and benefit cost reductions could result in our having inadequate liquidity to meet our obligations. Each of the tentative agreements require that, even if ratified, they will not go into effect (and thus will not be implemented) unless all of the other tentative agreements are ratified. As a result, there is the risk that if one or more of the tentative agreements is not ratified, then one or more of the other tentative agreements would not become effective and thus would not be implemented. If the tentative agreements were not implemented, we would not achieve the necessary $500 million reduction in wage and benefit costs and would ultimately have inadequate liquidity to meet our obligations under current market conditions. We would be forced to pursue alternate survival strategies and to take significant steps to reduce both our future financial commitments and current cash outflows, including being forced to obtain annual pay and benefit reductions totaling $800 million from our work groups later in 2005.

In addition to having to obtain significantly larger pay and benefit reductions from our work groups, actions we would be forced to take if the tentative agreements are not ratified and do not take effect include canceling plans to lease eight 757-300 aircraft from Boeing Capital Corporation and canceling the accelerated delivery of six 737-800 aircraft which were to be delivered in 2006. Those aircraft would instead be delivered in 2008, the original delivery year. However, we anticipate that we would enter into discussions with Boeing to defer all aircraft deliveries beyond 2005, representing a total of 40 aircraft. We would also be forced to cancel our recent order for ten Boeing 787 aircraft, which were planned for delivery beginning in 2009.

Additionally, we would pursue shrinking our fleet. As part of our contingency planning, we have engaged Focus Aviation, Inc., an aircraft broker, with regard to our Boeing 737-500 fleet. These aircraft have relatively few seats compared to our other mainline aircraft and have become less attractive to operate in a low-fare environment. If the tentative agreements are not ratified and do not take effect, we will market for sale or lease twenty-four 737-500 aircraft. This fleet reduction would result in frequency and aircraft size reductions in certain markets. Moreover, if the aircraft are withdrawn from the fleet, we would need to furlough a significant number of pilots, flight attendants, mechanics and other positions associated with those aircraft.

If the tentative agreements are not ratified and do not take effect, absent significant declines in fuel prices in the near future, we expect that we would fail to meet certain financial covenants in our bank-issued credit card processing agreement. In that event, we would be required to post up to an additional $335 million cash collateral, which would adversely affect our liquidity needed for our operations and debt service.

An increase in early retirements could negatively impact our operations and could result in a material adverse effect on our liquidity. We could experience an increase in early retirements caused by concern among our employees about our financial stability. The potential of an increase in early retirements could be exacerbated by the fact that our employees are entitled to lump-sum distributions from our defined benefit pension plan upon their retirement, including early retirement within the provisions of the plan. Some of our competitors have terminated, or have sought to terminate, their defined benefit pension plans in bankruptcy, which can cause employees to receive less than the full amount of their pension benefits under applicable federal pension benefit insurance, and can also limit or eliminate the ability of employees to receive their pension benefits in a lump-sum. If liquidity concerns increase, we could experience a significant increase in early retirements which could negatively impact our operations and materially increase our near-term funding obligations to our defined benefit pension plan, which could itself result in a material adverse effect on our liquidity.

Our high leverage may affect our ability to satisfy our significant financing needs or meet our obligations. As is the case with our principal competitors, we have a high proportion of debt compared to our equity capital. As of December 31, 2004, we had approximately $5.8 billion (including current maturities) of long-term debt and capital lease obligations, $266 million of stockholders' equity and $1.7 billion in consolidated cash, cash equivalents and short-term investments (of which $211 million is restricted cash). Our combined long-term debt and capital lease obligations coming due in 2005 total $670 million. We also have significant operating leases and facility rental costs. For the year ended December 31, 2004, annual aircraft and facility rental expense under operating leases approximated $1.3 billion.

In addition, we have substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of December 31, 2004, we had firm commitments for 47 aircraft from Boeing (excluding the recently announced order discussed below), with an estimated cost of approximately $1.9 billion, and options to purchase an additional 84 Boeing aircraft. On December 29, 2004, we announced that we had reached an agreement with Boeing for a new order of ten 787 aircraft, with the first 787 to be delivered in 2009. We also agreed to lease eight used 757-300 aircraft from Boeing Capital Corporation. The used 757-300 aircraft will be delivered beginning in the third quarter of 2005 through the first quarter of 2006. Additionally, we will accelerate into 2006 the delivery of six Boeing 737-800 aircraft that were previously scheduled to be delivered in 2008. The agreements with Boeing are subject to several conditions, including the approval of our Board of Directors by March 31, 2005. In addi tion, the 787 agreement is conditioned on the resolution of certain open matters including the negotiation of an acceptable engine supply arrangement. Taking these new agreements with Boeing into consideration, we expect to take delivery of 13 Boeing aircraft in 2005 (seven new 737-800s and six used 757-300s) and eight in 2006 (six new 737-800s and two used 757-300s), with delivery of the remaining 44 Boeing aircraft occurring in 2008 and later years.

The eight used 757-300 aircraft discussed above will be leased from Boeing Capital Corporation, which has also agreed to provide backstop lease financing for the six 737-800 aircraft to be delivered in 2006. We do not have backstop financing or any other financing currently in place for the remainder of the aircraft. 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.

We have a defined benefit pension plan covering substantially all of our employees. Due to record high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we elected in 2004 to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we were not required to make any contributions to our defined benefit pension plan in 2004 and did not do so. Based on current legislation and assumptions, we will be required to contribute in excess of $1.5 billion to our defined benefit pension plan over the next five years, including $307 million in 2005, to meet our minimum funding obligations. However, we anticipate making changes to our defined benefit pension plan related to pilots and flight attendants as part of the tentative agreements we have reached with our unions to reduce wage and benefit costs. If the tentative agreements are ratified and take effect, we will freeze a portion of our defined benefit pension plan and make contributio ns to alternate retirement programs. We expect these changes to reduce our net cash outflows relating to our pension funding obligations in 2005 by approximately $50 million. On January 6, 2005, we contributed six million shares of Holdings common stock valued at approximately $65 million to our pension plan.

Additional financing will be needed to satisfy our capital commitments. We cannot predict whether sufficient financing will be available. On several occasions subsequent to September 11, 2001, Moody's Investors Service and Standard and Poor's both downgraded the credit ratings of a number of major airlines, including us. Additional downgrades to our credit ratings were made in March and April 2003 and further downgrades are possible. As of December 31, 2004, our senior unsecured debt was rated Caa2 by Moody's and CCC+ by Standard and Poor's. Reductions in our credit ratings have increased the interest we pay on new issuances of debt and 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 and 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 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. Although 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 $335 million of cash collateral, which would adversely affect our liquidity needed for our operations and debt service, but would not result in a default under any of our debt or lease agreements.

Our labor costs are no longer competitive and threaten our future liquidity. Labor costs constitute a significant percentage of our total operating costs. In 2004, labor costs (including employee incentives) constituted 28.3% of our total operating expenses. All of the major hub-and-spoke carriers with whom we compete have achieved significant labor cost reductions. US Airways and United have significantly decreased their labor costs during their bankruptcy cases, and are seeking or have obtained significant additional reductions. American Airlines, Delta and Northwest have each obtained significant labor cost reductions from their major labor groups outside of bankruptcy.

Currently, our estimated wages, salaries and benefits cost per available seat mile, measured on a stage length adjusted basis ("labor CASM"), would be the second highest among major domestic airlines after taking into account labor cost savings announced or proposed by our competitors. Even after the $500 million reduction in annual wage and benefit costs, we estimate that our labor CASM will continue to be higher than that of many of our competitors. As discussed above, we believe that the timely ratification and implementation of the tentative agreements with our unions is essential in order to have adequate liquidity to meet our obligations.

Although we enjoy generally good relations with our employees, we can provide no assurance that we will not experience labor disruptions in the future, whether in the context of the wage and benefit reductions we are currently seeking, or otherwise. Any disruptions that result in a prolonged significant reduction in flights would have a material adverse impact on our results of operations and financial condition.

Record high fuel costs have materially and adversely affected our operating results. Fuel costs, which are currently at historically high levels, constitute a significant portion of our operating expense. Fuel costs represented approximately 15.9% of our operating expenses for the year ended December 31, 2004. Based on gallons expected to be consumed in 2005, for every one dollar increase in the price of crude oil, our annual fuel expense would increase by approximately $40 million.

Fuel prices and supplies are influenced significantly by international political and economic circumstances, such as the political crises in Venezuela and Nigeria in late 2002 and early 2003 and post-war unrest in Iraq, as well as OPEC production curtailments, a disruption of oil imports, other conflicts in the Middle East, environmental concerns, weather and other unpredictable events. These or other factors could result in higher fuel prices, a reduction of our scheduled airline service or both.

From time to time we enter into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide some short-term hedge protection (generally three to six months) against sudden and significant increases in jet fuel prices, while simultaneously ensuring that we are not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel. However, as of December 31, 2004, we did not have any fuel hedges in place.

We are also at risk for ExpressJet's fuel costs, including costs in excess of a negotiated cap. Under our capacity purchase agreement and a related fuel purchase agreement with ExpressJet, ExpressJet's fuel costs were capped at 71.2 cents per gallon, including fuel taxes, in 2004 and will remain capped at this level for the duration of the agreement. ExpressJet's fuel and fuel taxes exceeded this cap by $126 million in 2004.

Our net operating loss carryforwards may be limited. At December 31, 2004, we had estimated net operating loss carryforwards ("NOLs") of $3.2 billion for federal income tax purposes that will expire beginning in 2006 through 2024. If we were to have a change of ownership under current conditions, our annual NOL utilization could be limited to approximately $39 million per year, before consideration of any built-in gains. For a further discussion of the uses of our NOLs, see Note 11 to our consolidated financial statements included in Item 8. of this report.

For financial reporting purposes, income tax benefits recorded on net losses result in deferred tax assets. We are required to provide a valuation allowance for deferred tax assets to the extent management determines that it is more likely than not that such deferred tax assets will ultimately not be realized. Due to our continued losses, we were required to provide a valuation allowance on deferred tax assets recorded on losses beginning in the third quarter of 2004. As a result, our third and fourth quarter 2004 net losses were not reduced by any tax benefit. Furthermore, we expect to be required to provide additional valuation allowances in conjunction with deferred tax assets recorded on losses in the future.

The Internal Revenue Service ("IRS") is in the process of examining our income tax returns for years through 2001 and has indicated that it may disallow certain deductions we claimed. We believe the ultimate resolution of these audits will not have a material adverse effect on our financial condition, liquidity or results of operations.

Risk Factors Relating to the Airline Industry

The airline industry is highly competitive and susceptible to price discounting. The U.S. airline industry is increasingly characterized by substantial price competition, especially in domestic markets. Carriers use discount fares to stimulate traffic during periods of slack demand, to generate cash flow and to increase market share. Some of our competitors have substantially greater financial resources or lower cost structures than we do, or both. In recent years, the market share held by low cost carriers has increased significantly and is expected to continue to increase, which is dramatically changing the airline industry. For the last three years, large network carriers have generally lost a significant amount of pricing power in domestic markets.

Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels are influenced by, among other things, the state of the global economy, domestic and international events, airline capacity and pricing actions taken by carriers. The September 11, 2001 terrorist attacks, the weak economy prior to 2004, turbulent international events (including the war in Iraq), high fuel prices and extensive price discounting by carriers have resulted in dramatic losses for us and the airline industry generally. We cannot predict when or if conditions will improve.

In January 2005, Delta announced a new nationwide pricing structure on most of its flights that significantly reduced many ticket prices, including those for first class seats and last minute purchases. Delta also eliminated Saturday-night stay requirements. We have matched the Delta fare reductions and structure in competitive markets. Our experience to date as a result of Delta's fare reduction has demonstrated that the fare reductions are not being sufficiently offset by increases in passenger traffic so as to make them revenue positive, and any associated cost reductions are immaterial to date. As a result, we currently estimate that our revenue will decline approximately $200 million annually due to the negative impact from the fare restructuring initiated by Delta. In addition, our operating results may be affected by an even greater amount due to the expense of handling the additional passengers generated by the lowered fares. Further fare reductions or further simplification of fare stru ctures may occur in the future.

United, US Airways and several small competitors have filed for bankruptcy protection. Other carriers could file for bankruptcy or threaten to do so to reduce their costs. In September 2004, US Airways filed for bankruptcy for the second time. Carriers operating under bankruptcy protection can operate in a manner that would be adverse to us and could emerge from bankruptcy as more vigorous competitors with substantially lower costs than ours.

Since its deregulation in 1978, the U.S. airline industry has undergone substantial consolidation, and it may in the future experience additional consolidation. We routinely monitor changes in the competitive landscape and engage in analysis and discussions regarding our strategic position, including alliances, asset acquisitions and business combination transactions. We have had, and expect to continue to have, discussions with third parties regarding strategic alternatives. The impact of any consolidation within the U.S. airline industry cannot be predicted at this time.

Additional security requirements may increase our costs and decrease our traffic. Since September 11, 2001, the Department of Homeland Security ("DHS") and TSA have implemented numerous security measures that affect airline operations and costs, and are likely to implement additional measures in the future. Most recently, DHS has begun to implement the US-VISIT program (a program of fingerprinting and photographing foreign visa holders), announced that it will implement greater use of passenger data for evaluating security measures to be taken with respect to individual passengers, expanded the use of federal air marshals on our flights (thus displacing additional revenue passengers), begun investigating a requirement to install aircraft security systems (such as active devices on commercial aircraft as countermeasures against portable surface to air missiles) and expanded cargo and baggage screening. DHS has also required certain flights to be cancelled on short notice for security r easons, and has required certain airports to remain at higher security levels than other locations.

In addition, foreign governments have also begun to institute additional security measures at foreign airports we serve, out of their own security concerns or in response to security measures imposed by the U.S.

A large part of the costs of these security measures is borne by the airlines and their passengers, and we believe that these and other security measures have the effect of increasing the hassle of air transportation and thus decreasing traffic. Security measures imposed by the U.S. and foreign governments after September 11, 2001 have increased our costs and may adversely affect us and our financial results, and additional such measures taken in the future may result in similar adverse effects. The Bush administration has proposed increasing the passenger security fee from $2.50 to $5.50 per enplanement, which, if implemented, would result in an additional annual tax of $1.5 billion on the airline industry, as estimated by the administration. We estimate that the annual impact on us would be approximately $160 million, based on our 2004 security fee collections.

Extensive government regulation could increase our operating costs and restrict our ability to conduct our business. As evidenced by the enactment of the Aviation and Transportation Security Act, airlines are subject to extensive regulatory and legal compliance requirements that result in significant costs. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenue. The FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures. Some FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement and other environmental concerns, commuter aircraft safety and increased inspections and maintenance procedures to be conducted on older aircraft. We expect to c ontinue incurring expenses to comply with the FAA's regulations.

Many aspects of airlines' operations are also subject to increasingly stringent federal, state and local laws protecting the environment. Future regulatory developments in the U.S. and abroad could adversely affect operations and increase operating costs in the airline industry. For example, potential future actions that may be taken by the U.S. government, foreign governments, or the International Civil Aviation Organization to limit the emission of greenhouse gases by the aviation sector are unknown at this time, but the impact to us and our industry is likely to be adverse and could be significant.

Additionally, because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports have significantly increased their rates and charges to air carriers, including to us, and may do so again in the future. Restrictions on the ownership and transfer of airline routes and takeoff and landing slots have also been proposed. See "Industry Regulation and Airport Access" above. The ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because appropriate slots or facilities are not made available. We cannot provide assurance that current laws and regulations, or laws or regulations enacted in the future, will not adversely affect us.

Our results of operations fluctuate due to seasonality and other factors associated with the airline industry. Due to greater demand for air travel during the summer months, revenue in the airline industry in the second and third quarters of the year is generally stronger than revenue in the first and fourth quarters of the year for most U.S. air carriers. Our results of operations generally reflect this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal, including excise and similar taxes, weather, air traffic control delays and general economic conditions, as well as the other factors discussed above. As a result, our operating results for a quarterly period are not necessarily indicative of operating results for an entire year, and historical operating results are not necessarily indicative of future operating results.

ITEM 2. PROPERTIES.

Flight Equipment

As shown in the following table, our operating aircraft fleet consisted of 349 mainline jets and 245 regional jets at December 31, 2004, excluding aircraft out of service. The regional jets are leased by ExpressJet from us and are operated by ExpressJet. Our purchase commitments (firm orders) for aircraft, as well as options to purchase additional aircraft as of December 31, 2004 are also shown below (excluding the recently announced order discussed below).

Aircraft Type	Total Aircraft (1)	Owned	Leased	Firm Orders (1)	Options	Seats in Standard Configuration	Average Age (In Years)
777-200ER	18	6	12	-	1	283	5.4
767-400ER	16	14	2	-	-	235	3.3
767-200ER	10	9	1	-	-	174	3.8
757-300	9	9	-	-	-	222	1.8
757-200	41	13	28	-	-	183	7.9
737-900	12	8	4	3	24	167	3.3
737-800	91	26	65	29	35	155	4.2
737-700	36	12	24	15	24	124	6.0
737-500	63	15	48	-	-	104	8.7
737-300	51	15	36	-	-	124	18.3
MD-80	2	1	1	-	-	141	18.3
Mainline jets	349	128	221	47	84		7.7
ERJ-145XR	75	-	75	29	100	50	1.4
ERJ-145	140	18	122	-	-	50	4.6
ERJ-135	30	-	30	-	-	37	4.3
Regional jets	245	18	227	29	100		3.6
Total	594	146	448	76	184		6.0

1. One 737-800 was delivered in late December 2004 but was not placed into service until January 2005 and is therefore not included in the table as either part of our active fleet or a firm order aircraft at December 31, 2004.

In addition to the above aircraft, we had 12 owned and 17 leased MD-80 aircraft permanently removed from service as of December 31, 2004. In July 2003, we announced plans to remove all remaining MD-80 aircraft from service by January 2005. Our last two active MD-80 aircraft were permanently grounded in January 2005. The 12 owned out-of-service MD-80 aircraft are being carried at an aggregate fair market value of $24 million. As of December 31, 2004, we subleased one of the leased out-of-service

MD-80 aircraft to a third party and we are currently exploring sublease or sale opportunities for the remaining out-of-service aircraft that do not have near-term lease expirations. The timing of any disposition of these aircraft is dependent upon our ability to find purchasers, lessees or sublessees for the aircraft, which is limited in part because of a large surplus of similar aircraft available in the market and a weak economic environment in the airline industry. We cannot predict when or if the econ omic environment for airlines will improve or if purchasers, lessees or sublessees can be found, and it is possible that our assets (including aircraft currently in service) could suffer additional impairment.

Additionally, we have 12 Embraer 120 turboprop aircraft and 11 ATR 42 turboprop aircraft out of service. We lease 15 and own eight of these aircraft. The eight owned aircraft are being carried at fair value. We currently sublease seven of the leased out-of-service turboprop aircraft to third parties and are exploring sublease or sale opportunities for the remaining out-of-service aircraft that do not have near-term lease expirations, subject to the same uncertainties as the out-of-service mainline aircraft discussed above.

During 2004, we took delivery of and put into service ten new Boeing 737-800 aircraft, five new 757-300 aircraft and one used 737-300 aircraft. As footnoted in the table above, we took delivery of one additional 737-800 aircraft in late December 2004; however, it was not placed into service until January 2005. Also during 2004, we removed from service one 737-300 aircraft and 21 MD-80 aircraft.

On December 29, 2004, we announced that we had reached an agreement with Boeing for a new order of ten 787 aircraft, with the first 787 to be delivered in 2009. We also agreed to lease eight 757-300 used aircraft from Boeing Capital Corporation. The used 757-300 aircraft will be delivered beginning in the third quarter of 2005 through the first quarter of 2006. Additionally, we will accelerate into 2006 the delivery of six Boeing 737-800 aircraft that were previously scheduled to be delivered in 2008. The agreements with Boeing are subject to several conditions, including the approval of our Board of Directors by March 31, 2005. In addition, the 787 agreement is conditioned on the resolution of certain open matters including the negotiation of an acceptable engine supply arrangement. Taking these new agreements with Boeing into consideration, we expect to take delivery of 13 Boeing aircraft in 2005 (seven new 737-800s and six used 757-300s) and eight in 2006 (six new 737-800s and two used 757-3 00s), with delivery of the remaining 44 Boeing aircraft occurring in 2008 and later years.

During 2004, ExpressJet took delivery of 21 ERJ-145XR aircraft. ExpressJet currently anticipates taking delivery of 21 Embraer regional jet aircraft in 2005 and 8 in 2006.

Substantially all of the aircraft and engines we own are subject to mortgages. Substantially all of our spare parts inventory related to our core Boeing fleet is also encumbered.

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of our firm orders for new aircraft and related financing arrangements.

Facilities

Our principal facilities are Liberty International, Bush Intercontinental, Hopkins International and A.B. Won Pat International Airport in Guam. Substantially all of these facilities are leased on a net-rental basis, as we are responsible for maintenance, taxes, insurance and other facility-related expenses and services. Many of these hub facilities (other than those located at Guam) are leased on a long-term basis, having expiration dates ranging from 2013 to 2029. The current lease for our Guam terminal facilities has expired and an extension of that lease is currently being negotiated. We also are in negotiations to extend our lease for approximately eight gates and related space at Hopkins International, which would otherwise expire at the end of calendar year 2005, for an additional ten-year period. At each of our three domestic hub cities and most other locations, our passenger and baggage handling space is leased directly from the airport authority on varying terms dependent on prevail ing practice at each airport. We also maintain administrative offices, terminal, catering, cargo and other airport facilities, training facilities, maintenance facilities and other facilities related to the airline business in the cities we serve.

As of December 31, 2004, we were the guarantor of approximately $1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon (exclusive of $53 million of bonds issued by the City of Houston which we became the guarantor of in January 2005 and the US Airways contingent liability, both 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.

In August 2001, the City of Houston completed the offering of $324 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance the construction of Terminal E and a new international ticketing hall facility at Bush Intercontinental Airport. In connection therewith, we entered into a long-term lease with the City of Houston requiring that upon completion of construction, with limited exceptions, we will make rental payments sufficient to service the related tax-exempt bonds through their maturity in 2029. We have also entered into a binding corporate guaranty with the bond trustee for the repayment of all of the principal and interest on the bonds. The guarantee became effective for the repayment of principal and interest with respect to $271 million of the bonds upon completion of the terminal during the first quarter of 2004. The remainder of the guarantee, relating to $53 million of the bonds, became effective upon completion of the international ticketing facilit y in January 2005.

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 December 31, 2004 and having a final scheduled maturity in 2015. If US Airways defaults on these obligations, we would be obligated to cure the default, and the applicable documents provide that we would have the right to occupy the terminal after US Airways' interest in the lease had been terminated. In September 2004, US Airways filed for reorganization under Chapter 11 of the United States Bankruptcy Code. On December 1, 2004, US Airways made only a portion of the payment due under the lease agreement on that date, such portion being th at amount of the payment due that was deemed attributable to the period of time after their bankruptcy filing, and we paid the difference in an amount of approximately $9 million. If US Airways assumes the lease, we expect to be repaid this amount together with interest thereon. As of March 14, 2005, US Airways has made no election to assume or reject the lease agreement in its bankruptcy case.

ITEM 3. LEGAL PROCEEDINGS.

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 such 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 a number of lawsuits brought by travel agencies relating to these base commission reductions and eliminations.

Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C. Eastern District of North Carolina). This class action was filed in federal court on June 21, 2000 by a travel agent, on behalf of herself and other similarly situated U.S. travel agents, challenging the reduction and subsequent elimination of travel agent base commissions. The amended complaint alleged an unlawful agreement among the airline defendants to reduce, cap or eliminate commissions in violation of federal antitrust laws during the years 1997 to 2002. The plaintiffs sought compensatory and treble damages, injunctive relief and their attorneys' fees. The class was certified on September 18, 2002. On October 30, 2003, a summary judgment and order was granted in favor of all of the defendants. Plaintiffs filed their appeal to this judgment and order on November 5, 2003. On December 9, 2004, the Fourth Circuit Court of Appeals affirmed the award of summary judgment. On January 4, 2005, the plaintiffs' P etition for Rehearing with the Fourth Circuit Court of Appeals was denied. We have been advised that plaintiffs will not pursue further appeals.

Several travel agents who opted out of the Hall class action filed similar suits against Continental and other major carriers alleging violations of antitrust laws in eliminating the base commission: Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 2003; Paula Fausky, et al. v. American Airlines, et al. (U.S.D.C., Northern District of Ohio), filed on May 8, 2003; and Swope Travel Agency, et al. v. Orbitz LLC et al. (U.S.D.C., Eastern District of Texas), filed on June 5, 2003. By order dated November 12, 2003, these actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has recently been served on Continental.

Always Travel, et. al. v. Air Canada, et al. On December 6, 2002, the named plaintiffs in this case, pending in the Federal Court of Canada, Trial Division, Montreal, filed an amended statement of claim alleging that between 1995 and the present, Continental, the other defendant airlines, and the International Air Transport Association conspired to reduce commissions paid to Canada-based travel agents in violation of the Competition Act of Canada. By Order dated December 10, 2004, the Court approved the plaintiffs' motion to discontinue their action and abandon their motion for class certification with prejudice.

In addition to the lawsuits brought by travel agencies discussed above, Continental was a defendant in an alleged securities fraud class action filed in federal court in Phoenix, Arizona relating to the sale of certain America West stock in 1998 brought against America West Airlines, America West Holdings Corporation and various other defendants, entitled Employer-Teamsters Joint Council No. 84 Pension Trust Fund v. America West Holdings Corp., et al. This action was first filed in March 1999, but was dismissed. Plaintiffs then filed a Second Amended Consolidated Complaint in January 2001, which was dismissed with prejudice in June 2001. Plaintiffs appealed that dismissal and in 2003 the Ninth Circuit Court of Appeals reversed and remanded the lower court's dismissal. In January 2004 the class was certified and was set for trial in November 2004. By Order dated September 27, 2004, the Court granted full summary judgment in favor of Continental and it is not anticipated that there will be a ny further appeal.

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 impact on our financial condition, liquidity and results of operations.

Environmental Proceedings

Under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (commonly known as "Superfund") and similar state environment cleanup laws, generators of waste disposed of at designated sites may, under certain circumstances, be subject to joint and several liability for investigation and remediation costs. We (including our predecessors) have been identified as a potentially responsible party at one federal site and one state site that are undergoing or have undergone investigation or remediation. We believe that, although applicable case law is evolving and some cases may be interpreted to the contrary, some or all of any liability claims associated with these sites were discharged by confirmation of our 1993 Plan of Reorganization, principally because our exposure is based on alleged offsite disposal known as of the date of confirmation. Even if any such claims were not discharged, on the basis of currently available information, we believe that our potential liability for our allocable share of the cost to remedy each site (if and to the extent we are found to be liable) is not, in the aggregate, material; however, we have not been designated a "de minimis" contributor at either site.

We are also and may from time to time become involved in other environmental matters, including the investigation and/or remediation of environmental conditions at properties we use or previously used. We could potentially 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 mandated a field study of the site and it was completed in September 2001. 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 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 De cember 31, 2004.

We expect our total losses from environmental matters to be approximately $50 million, for which we were fully accrued at December 31, 2004. 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 impact our financial condition, results of operations or liquidity.

Although we are not currently subject to any environmental cleanup orders imposed by regulatory authorities, we are undertaking voluntary investigation or remediation at certain properties in consultation with such authorities. The full nature and extent of any contamination at these properties and the parties responsible for such contamination have not been determined, but based on currently available information and our current reserves, we do not believe that any environmental liability associated with such properties will have a material adverse effect on us.

General

Various other claims and lawsuits against us are pending that are of the type generally consistent with our business. We cannot at this time reasonably estimate the possible loss that could be experienced if any of the claims were successful. Many of these claims and lawsuits are covered in whole or in part by insurance. We do not believe that the foregoing matters will have a material adverse effect on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Common Stock Information

Our common stock (Class B common stock) trades on the New York Stock Exchange. The table below shows the high and low sales prices for our common stock as reported in the consolidated transaction reporting system during 2004 and 2003.

		Class B Common Stock	
		High	Low
2004	Fourth Quarter	$14.01	$ 7.63
	Third Quarter	$11.68	$ 7.80
	Second Quarter	$13.93	$ 9.05
	First Quarter	$18.70	$10.85
2003	Fourth Quarter	$21.70	$14.49
	Third Quarter	$18.87	$12.05
	Second Quarter	$15.90	$ 5.30
	First Quarter	$ 9.39	$ 4.16

As of March 10, 2005, there were approximately 21,547 holders of record of our common stock. We have paid no cash dividends on our common stock and have no current intention of doing so. Under our tentative agreement with the union representing our pilots, if that agreement takes effect, we have agreed that we will not declare a cash dividend or repurchase our outstanding common stock for cash until we have contributed at least $500 million to the pilots' defined benefit plan, measured from the date of ratification of the pilots' tentative agreement.

Our certificate of incorporation provides that no shares of capital stock may be voted by or at the direction of persons who are not United States citizens unless the shares are registered on a separate stock record. Our bylaws further provide that no shares will be registered on the separate stock record if the amount so registered would exceed United States foreign ownership restrictions. United States law currently limits the voting power in us (and other U.S. airlines) of persons who are not citizens of the United States to 25%.

Equity Compensation Plans

Information regarding our equity compensation plans as of December 31, 2004 is disclosed in Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Issuer Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Statement of Operations Data (in millions except per share data) (1)(2):					
Operating revenue	$9,744	$8,870	$8,402	$8,969	$9,899
Operating expenses	9,973	8,667	8,714	8,825	9,170
Operating income (loss)	(229)	203	(312)	144	729
Net income (loss)	(363)	38	(451)	(95)	342
Basic earnings (loss) per share	(5.49)	0.58	(7.02)	(1.72)	5.62
Diluted earnings (loss) per share	(5.55)	0.57	(7.02)	(1.72)	5.45

	As of December 31,				
	2004	2003	2002	2001	2000
Balance Sheet Data (in millions) (1):					
Total assets	$10,545	$10,649	$10,641	$9,798	$9,208
Long-term debt and capital lease obligations	5,167	5,558	5,471	4,448	3,624
Redeemable common stock	-	-	-	-	450
Redeemable preferred stock of subsidiary	-	-	5	-	-
Stockholders' equity	266	792	767	1,161	1,160

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Mainline Statistics:					
Onboard passengers (thousands) (3)	42,743	40,613	41,777	45,064	47,778
Revenue passenger miles (millions) (4)	65,734	59,165	59,349	61,140	64,161
Available seat miles (millions) (5)	84,672	78,385	80,122	84,485	86,100
Cargo ton miles (millions)	1,026	917	908	917	1,096
Passenger load factor (6)	77.6%	75.5%	74.1%	72.4%	74.5%
Passenger revenue per available seat mile (cents)	8.75	8.73	8.61	8.98	9.84
Total revenue per available seat mile (cents)	9.65	9.64	9.27	9.58	10.52
Average yield per revenue passenger mile (cents) (7)	11.28	11.57	11.63	12.42	13.20

Operating cost per available seat mile, including special charges (cents) (8)	9.65	9.36	9.53	9.22	9.68
Average price per gallon of fuel, including fuel taxes (cents)	119.01	91.40	74.01	82.48	88.54
Fuel gallons consumed (millions)	1,333	1,257	1,296	1,426	1,533
Average fare per revenue passenger	$176.51	$171.72	$168.25	$171.59	$180.66
Actual aircraft in fleet at end of period (9)	349	355	366	352	371
Average length of aircraft flight (miles)	1,325	1,270	1,225	1,185	1,159
Average daily utilization of each aircraft (hours) (10)	9:55	9:19	9:31	10:19	10:36
Regional Statistics:					
Onboard passengers (thousands) (3)	13,739	11,445	9,264	8,354	7,804
Revenue passenger miles (millions) (4)	7,417	5,769	3,952	3,388	2,947
Available seat miles (millions) (5)	10,410	8,425	6,219	5,437	4,735
Passenger load factor (6)	71.3%	68.5%	63.5%	62.3%	62.2%
Passenger revenue per available seat mile (cents)	15.09	15.31	15.45	15.93	17.63
Actual aircraft in fleet at end of period (9)	245	224	188	170	166
Consolidated Statistics (Mainline and Regional):					
Onboard passengers (thousands) (3)	56,482	52,058	51,041	53,418	55,582
Passenger load factor (6)	76.9%	74.8%	73.3%	71.8%	73.9%
Breakeven passenger load factor (11)	81.6%	73.7%	82.5%	73.5%	67.9%
Passenger revenue per available seat mile (cents)	9.45	9.37	9.11	9.40	10.25

1.
2. Consolidated amounts include ExpressJet through November 12, 2003.
3. Includes the following special expense (income) items (in millions) for year ended December 31:

	2004	2003	2002	2001	2000
Operating revenue (income):					
Change in expected redemption of frequent flyer mileage credits sold	$ -	$ (24)	$ -	$ -	$ -
Operating expense (income):					
Fleet retirement and impairment charges	87	100	242	61	-
Air Transportation Safety and System Stabilization Act grant	- -	- -	12	(417)	- -
Security fee reimbursement	-	(176)	-	-	-
Severance and other special charges	-	-	-	63	-
Termination of 1993 service agreement with United Micronesian Development Association	34	- -	- -	- -	- -
Frequent flyer reward redemption cost adjustment	18	- -	- -	- -	- -
Nonoperating expense (income):					
Gain on investments	-	(305)	-	-	(9)
Impairment of investments	-	-	-	22	-

4. Revenue passengers measured by each flight segment flown.
5. The number of scheduled miles flown by revenue passengers.
6. The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
7. Revenue passenger miles divided by available seat miles.
8. The average revenue received for each revenue passenger flown.
9. Includes operating expense special items noted in (2). These special items represented 0.16, (0.09), 0.31, (0.36) and 0.00 cents of operating cost per available seat mile in each of the five years, respectively.
10. Excludes aircraft that were removed from service.
11. The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).
12. The percentage of seats that must be occupied by revenue passengers for us to break even on a net income basis. The special items noted in (2) increased (decreased) the consolidated breakeven passenger load factor by 1.4, (4.5), 3.3, (3.0) and (0.1) percentage points in each of the five years, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We recorded a net loss of $363 million for the year ended December 31, 2004, as compared to net income of $38 million and a net loss of $451 million for the years ended December 31, 2003 and 2002, respectively. Our results for each of the last three years have been affected by a number of special items which are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. These special items are discussed in "Consolidated Results of Operations" below. Without the special items in 2003, we would have incurred a significant loss in that year.

The current U.S. domestic network carrier financial environment continues to be the worst in history and could deteriorate further. We have had substantial losses since September 11, 2001. Losses of the magnitude incurred by us since September 11, 2001 are not sustainable if they continue. With the current weak domestic yield environment caused in large part by the growth of low cost competitors and fuel prices at twenty-year highs, our cost structure is not competitive. Additionally, it has been increasingly difficult for us to obtain financing in the face of our significant and continuing losses and our current revenue and cost outlook. Many of our network competitors, such as American Airlines, Delta Air Lines, United Airlines and US Airways, have used bankruptcy or the threat of bankruptcy to reduce their costs significantly, and may continue to restructure their costs downward.

The $1.1 billion of cost-cutting and revenue-generating measures that we have implemented in recent years have proven insufficient to return us to profitability in the current environment. As a result, on November 18, 2004, we announced that we needed an annual $500 million reduction in wage and benefit costs. In late 2004 and early 2005, we finalized (but have not yet implemented) changes to wages, work rules and benefits for U.S.-based management and clerical, reservations, food services, airport and cargo agents and customer service employees that result in savings of $169 million annually. On February 28, 2005, we announced that we had reached tentative agreements on new contracts covering our pilots, flight attendants, mechanics and dispatchers following negotiations with ALPA, the IAM, the Teamsters, and the TWU. We also reached a tentative agreement with our simulator technicians, represented by TWU. Each of the agreements is subject to ratification by the members of each covered work grou p, and the effectiveness of each agreement is conditioned on ratification of each other agreement. Results of the ratification process for each of the agreements are expected by the end of March 2005. If the agreements are ratified, the wage and benefit reductions will become effective as of the date of ratification and we will begin to implement the agreements. Some of the savings from the agreements will take time to achieve, while others, such as the wage reductions and certain benefit changes, will result in immediate savings. Our officers and Board of Directors implemented their reductions on February 28, 2005.

The tentative agreements, along with previously announced pay and benefit reductions for other work groups, conclude the negotiation process with all our employees, except some CMI and international employees. The pay and benefits of international employees must be adjusted in accordance with laws and regulations of the various countries. We expect to complete the process with these remaining employees in the near future.

Each of the agreements is for a 45-month term, so that the agreements would become amendable again on December 31, 2008. 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. We expect to achieve approximately $500 million of annual cost savings on a run-rate basis if the agreements with our various work groups are fully implemented. This excludes the non-cash cost of approximately ten million stock options that we expect to issue to our employees in connection with the pay and benefit reductions and accruals for certain non-cash costs or charges relating to items contained in the tentative agreements. Further, our ability to achieve certain of the cost reductions will depend on timely and effective implementation of new work rules, actual productivity improvements, implementation of changes in technology pertaining to employee work rules and benefits and other items.

Each of the tentative agreements require that, even if ratified, they will not go into effect (and thus will not be implemented) unless all of the other tentative agreements are ratified. As a result, there is the risk that if one or more of the tentative agreements is not ratified, then one or more of the other tentative agreements would not become effective and thus would not be implemented. If the tentative agreements were not implemented, we would not achieve the necessary $500 million reduction in wage and benefit costs and would ultimately have inadequate liquidity to meet our obligations under current market conditions. We would be forced to pursue alternate survival strategies, including taking significant steps to reduce both our future financial commitments and current cash outflows. This would mean that we would be forced to obtain annual pay and benefit reductions totaling $800 million from our work groups later in 2005.

In addition to having to obtain significantly larger pay and benefit reductions from our work groups, actions we would be forced to take if the tentative agreements are not ratified and do not take effect include canceling plans to lease eight 757-300 aircraft from Boeing Capital Corporation and canceling the accelerated delivery of six 737-800 aircraft which were to be delivered in 2006. Those aircraft would instead be delivered in 2008, the original delivery year. However, we anticipate that we would enter into discussions with Boeing to defer all aircraft deliveries beyond 2005, representing a total of 40 aircraft. We would also be forced to cancel our recent order for ten Boeing 787 aircraft, which were planned for delivery beginning in 2009.

Additionally, we would pursue shrinking our fleet. As part of our contingency planning, we have engaged Focus Aviation, Inc., an aircraft broker, with regard to our Boeing 737-500 fleet. These aircraft have relatively few seats compared to our other mainline aircraft and have become less attractive to operate in a low-fare environment. If the tentative agreements are not ratified and do not take effect, we will market for sale or lease twenty-four 737-500 aircraft. This fleet reduction would result in frequency and aircraft size reductions in certain markets. Moreover, if the aircraft are withdrawn from the fleet, we would need to furlough a significant number of pilots, flight attendants, mechanics and other positions associated with those aircraft.

If the tentative agreements are not ratified and do not take effect, absent significant declines in fuel prices in the near future, we expect that we would fail to meet certain financial covenants in our bank-issued credit card processing agreement. In that event, we would be required to post up to an additional $335 million cash collateral, which would adversely affect our liquidity needed for our operations and debt service.

We could experience an increase in early retirements caused by concern among our employees about our financial stability. The potential of an increase in early retirements could be exacerbated by the fact that our employees are entitled to lump-sum distributions from our defined benefit pension plan upon their retirement, including early retirement within the provisions of the plan. Some of our competitors have terminated, or have sought to terminate, their defined benefit pension plans in bankruptcy, which can cause employees to receive less than the full amount of their pension benefits under applicable federal pension benefit insurance, and can also limit or eliminate the ability of employees to receive their pension benefits in a lump-sum. If liquidity concerns increase, we could experience a significant increase in early retirements which could negatively impact our operations and materially increase our near-term funding obligations to our defined benefit pension plan, which could itself resu lt in a material adverse effect on our liquidity.

If the current adverse environment does not improve, we expect to incur a significant loss in 2005. However, absent adverse factors outside our control such as additional terrorist attacks, hostilities involving the United States or further significant increases in fuel prices, we currently believe that our existing liquidity and projected 2005 cash flows will be sufficient to fund our current operations and other financial obligations through 2005 if we achieve the timely ratification and implementation of the tentative agreements with our unions concerning wage and benefit reductions or, if the tentative agreements are not ratified and do not take effect, by taking the steps described above to reduce our future financial commitments and current cash outflows. These steps include canceling our tentative agreements with Boeing, marketing for sale or lease twenty-four 737-500 aircraft and furloughing a significant number of employees.

In developing our plan for 2005, we considered our current projections for 2005 revenue, including the impact of fare reductions initiated in early January 2005 by Delta Air Lines, current and forward fuel price levels as of March 14, 2005, our expectations with regard to union ratification of the tentative agreements described above and our ability to execute additional financing transactions. While we believe our 2005 plan is achievable, a combination of some or all of several events, most of which are outside of our direct control, may result in us being unable to generate sufficient cash from operations or complete financing transactions that we would need to maintain adequate liquidity through December 31, 2005. These events include the failure of our unions to ratify the tentative agreements so that they do not go into effect, further significant declines in yields and fuel prices higher than current levels for an extended period of time. Additionally, we have significant financial obligation s due in 2006 and thereafter, and we will have inadequate liquidity to meet those obligations if the current financial environment for network carriers continues and we are unable to increase our revenues or decrease our costs considerably.

Among the many factors that threaten us and the airline industry generally are the following:

- Low-Cost Competitors. The continued growth of low-cost carriers is dramatically changing the airline industry. Other carriers have implemented or announced plans to implement separate low-cost products, such as a low-cost "airline within an airline". In addition, carriers in or emerging from bankruptcy have or will have significantly reduced cost structures and operational flexibility that will allow them to compete more effectively, and other carriers have used the threat of bankruptcy to achieve substantial cost savings. We have initiated three sets of revenue-generating and cost-savings initiatives since 2002 that were designed to improve our annual pre-tax results by over $1.1 billion. While we are on track to meet or exceed these goals, our cost structure remains higher than that of the low-cost carriers and several of our network competitors.

- Low Fare Environment. As many low-cost carriers have introduced lower and simplified fare structures (such as eliminating Saturday-night stay requirements, shortening advance purchase requirements and reducing the number of fare classes), we have had to match those fare levels on a majority of our domestic routes to remain competitive. In January 2005, Delta announced a new nationwide pricing structure on most of its flights that significantly reduced many ticket prices, including those for first class seats and last minute purchases. Delta also eliminated Saturday-night stay requirements. We have matched the Delta fare reductions and structure in competitive markets. Our experience to date as a result of Delta's fare reduction has demonstrated that the fare reductions are not being sufficiently offset by increases in passenger traffic so as to make them revenue positive, and any associated cost reductions are immaterial to date. As a result, we currently estimate that our revenue will decli ne approximately $200 million annually due to the negative impact from the fare restructuring initiated by Delta. In addition, our operating results may be affected by an even greater amount due to the expense of handling the additional passengers generated by the lowered fares. Further fare reductions or further simplification of fare structures may occur in the future.
- Fuel Costs. Fuel costs, which have recently been at unprecedented high levels, constitute a significant portion of our operating expense. Fuel costs and related taxes represented approximately 15.9% of our operating expenses for the year ended December 31, 2004. The price of crude has recently been trading between $50 and $55 per barrel. Based on gallons expected to be consumed in 2005, for every one dollar increase in the price of crude oil, our annual fuel expense would increase by approximately $40 million. We currently anticipate that high fuel prices in 2005 will offset the impact of a substantial portion of the cost-saving measures we have implemented. As of December 31, 2004, we did not have any fuel price hedges in place.
- Labor Costs. As discussed above, we have reached tentative agreements with unions representing our pilots, flight attendants, mechanics and other work groups to reduce wage and benefit costs. The tentative agreements are subject to ratification by the membership of the respective unions. We currently anticipate that the ratification process for the unions will conclude by the end of March 2005. Recent significant concession agreements with labor groups at US Airways, Delta, United and American have had the effect of lowering industry standard wages and benefits, with the result that our labor costs are currently higher than many of our competitors'. Even if we are able to achieve the full run-rate benefits of the $500 million reduction in annual wage and benefit costs, we estimate that our labor CASM will continue to be higher than that of many of our competitors.
- Excessive Taxation. The U.S. airline industry is one of the most heavily taxed of all industries. These fees and taxes have grown significantly in the past decade and currently include (a) a federal excise tax of 7.5% of the value of the ticket; (b) a federal segment tax of $3.20 per domestic flight segment of a passenger's itinerary; (c) up to $18 per round trip in local airport charges; and (d) up to $10 per round trip in airport security fees. The Bush administration has proposed increasing the passenger security fee from $2.50 to $5.50 per enplanement, which, if implemented, would result in an additional annual tax of $1.5 billion on the airline industry, as estimated by the administration. We estimate that the annual impact on us would be approximately $160 million, based on our 2004 security fee collections. Various U.S. fees and taxes are also assessed on international flights that can result in additional fees and taxes of up to $45 per international round trip, not counting fees and taxes imposed by foreign governments. Certain of these assessments, but not all, must be included in the fares we advertise or quote to our customers. Due to competition, many increases in these fees and taxes that are not required to be included in fares have been absorbed by the airline industry rather than being passed on to the passenger. These fees and taxes, which are not included in our reported passenger revenue, increased to $1.0 billion for the year ended December 31, 2004, compared to $904 million for the year ended December 31, 2003.
- Security Costs. The terrorist attacks of 2001 have caused security costs to increase significantly. Security costs are likely to continue rising for the foreseeable future as additional security measures are implemented. In the current environment of lower consumer demand and discounted pricing, these costs cannot effectively be passed on to customers. Insurance costs are also significantly higher than they were prior to the terrorist attacks, in part due to greater perceived risks and in part due to the reduced availability of insurance coverage. We must absorb these additional expenses in the current pricing environment.
- Pension Liability. We have significant commitments to our defined benefit pension plan. Due to record high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we elected in 2004 to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we were not required to make any contributions to our primary defined benefit pension plan in 2004 and did not do so. Based on current legislation and current assumptions, we will be required to contribute in excess of $1.5 billion to our defined benefit pension plan over the next five years, including $307 million in 2005, to meet our minimum funding obligations. However, we anticipate making changes to our defined benefit pension plan related to pilots and flight attendants as part of the tentative agreements we have reached with our unions to reduce wage and benefit costs. If the tentative agreements are ratified and take effect, we will freeze a portion of our defined benefit pension plan and make contributions to alternate retirement programs. We expect these changes to reduce our net cash outflows relating to our pension funding obligations in 2005 by approximately $50 million. In January 2005, we contributed six million shares of Holdings common stock valued at approximately $65 million to our primary pension plan.

Consolidated Results of Operations

Special Items. The comparability of our financial results between years is affected by a number of special items. Our results for each of the last three years included the following special items (in millions):

	Income (Expense)	
	Pre Tax	After Tax
Year Ended December 31, 2004		
MD-80 aircraft retirement charges and other (1)	$ (87)	$ (68)
Termination of United Micronesian Development Association Service Agreement (1)	(34)	(22)
Frequent flyer reward redemption cost adjustment (2)	(18)	(18)
	$ (139)	$ (108)
Year Ended December 31, 2003		
Security fee reimbursement (3)	$ 176	$ 111
Gain on dispositions of ExpressJet stock (4)	173	100
Gain on Hotwire and Orbitz investments (after related compensation expense and including an adjustment to fair value of remaining investment in Orbitz) (5)	132	83
MD-80 aircraft retirement and impairment charges (1)	(86)	(54)
Revenue adjustment for change in expected redemption of frequent flyer mileage credits sold (6)	24	15
Boeing 737 aircraft delivery deferral (1)	(14)	(8)
	$ 405	$ 247

Year Ended December 31, 2002

Year Ended December 31, 2002

DC 10-30, MD-80 and turboprop aircraft retirement and impairment charges (1)	$(242)	$ (153)
Write-down of Stabilization Act receivable (1)	(12)	(8)
	$ (254)	$(161)

1. See Note 12 to our consolidated financial statements included in Item 8 and "Critical Accounting Policies and Estimates" included in this Item of this report.
2. See Note 1(k) to our consolidated financial statements included in Item 8 and "Critical Accounting Policies and Estimates" included in this Item of this report.
3. See Note 13 to our consolidated financial statements included in Item 8 of this report.
4. See Note 15 to our consolidated financial statements included in Item 8 of this report.
5. See Note 6 to our consolidated financial statements included in Item 8 of this report.
6. See Note 1(k) to our consolidated financial statements included in Item 8 and "Critical Accounting Policies and Estimates" included in this Item of this report.

The following discussion provides an analysis of our results of operations and reasons for material changes therein for the three years ended December 31, 2004. In addition, the deconsolidation of Holdings from our financial statements effective November 12, 2003, more fully described in Note 15 to our consolidated financial statements included in Item 8 of this report, also impacts the comparability of our results to those of prior years with the exception of passenger revenue. Accordingly, the expense variance explanations discussed below exclude the effect of ExpressJet in 2003 unless indicated otherwise. Significant components of our operating results attributable to the deconsolidation of ExpressJet and attributable to our business generally are as follows (in millions, except percentage changes):

Comparison of Year Ended December 31, 2004 to December 31, 2003

	Year Ended December 31,		Components of Increase (Decrease)		
	2004	2003	Increase (Decrease) related to ExpressJet Deconsolidation (A)	All Other Increase (Decrease)	% Increase (Decrease) Excluding ExpressJet Deconsolidation
Operating Revenue:					
Passenger	$8,984	$8,135	$ -	$ 849	10.4 %
Cargo, mail and other	760	735	(4)	29	4.0 %
	9,744	8,870	(4)	878	9.9 %
Operating Expenses:					
Wages, salaries and related costs	2,819	3,056	(304)	67	2.4 %
Aircraft fuel and related taxes	1,587	1,319	(170)	438	38.1 %
ExpressJet capacity purchase, net	1,351	153	953	245	22.2 %
Aircraft rentals	891	896	-	(5)	(0.6)%
Landing fees and other rentals	646	620	(87)	113	21.2 %
Commissions, booking fees, credit card fees and other distribution costs	552	525	- -	27	5.1 %
Maintenance, materials and repairs	414	509	(111)	16	4.0 %
Depreciation and amortization	414	444	(17)	(13)	(3.0)%
Passenger servicing	306	297	(11)	20	7.0 %
Security fee reimbursement	-	(176)	3	173	NM
Special charges	121	100	-	21	NM
Other	872	924	(103)	51	6.2 %
	9,973	8,667	153	1,153	13.1 %
Operating Income (Loss)	(229)	203	(157)	(275)	NM
Nonoperating Income (Expense)	(211)	(2)	50	(259)	NM
Income (Loss) before Income Taxes and Minority Interest	(440)	201	(107)	(534)	NM
Income Tax Benefit (Expense)	77	(114)	58	133	NM
Minority Interest	-	(49)	49	-	NM
Net Income (Loss)	$ (363)	$ 38	$ -	$(401)	NM

A. Represents increase (decrease) in amounts had ExpressJet been deconsolidated for all of 2003 and reported using the equity method of accounting at 53.1% ownership interest.

Explanations for significant variances, after taking into account changes associated with the ExpressJet deconsolidation, are as follows:

Operating Revenue. Total passenger revenue increased during 2004 as compared to 2003, due to higher traffic and capacity in all geographic regions combined with the negative impact of the hostilities in Iraq and SARS on the prior year results. However, in spite of the increase in load factors, the continuing erosion of fares in the domestic and Caribbean markets resulted in a decrease in yields for 2004 compared to 2003.

The table below shows passenger revenue for the year ended December 31, 2004 and period to period comparisons for passenger revenue, revenue per available seat mile (RASM) and available seat miles (ASMs) by geographic region for our mainline and regional operations:

	2004 Passenger Revenue (in millions)	Percentage Increase (Decrease) 2004 vs. 2003		
		Passenger Revenue	RASM	ASMs
Domestic	$4,452	2.0%	(1.1)%	3.1%
Trans-Atlantic	1,366	26.1%	4.0 %	21.2%
Latin America	977	8.3%	(2.9)%	11.5%
Pacific	618	25.0%	13.2 %	10.5%
Total Mainline	7,413	8.3%	0.2 %	8.0%
Regional	1,571	21.8%	(1.4)%	23.6%
Total System	$8,984	10.4%	0.9 %	9.5%

Cargo, mail and other revenue increased in 2004 compared to 2003, primarily due to higher freight and mail volumes and revenue-generating initiatives, partially offset by decreased military charter flights. Our results for 2003 also included $24 million of additional revenue resulting from a change in the expected redemption of frequent flyer mileage credits sold.

Operating Expenses. Wages, salaries and related costs increased primarily due to increased flight activity which resulted in a slight increase in the average number of employees and higher wage rates. Aircraft fuel and related taxes increased 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 30.2% from 91.40 cents in 2003 to 119.01 cents in 2004. The impact of higher jet fuel prices in 2004 was partially offset by $74 million of gains from our fuel hedging activities. Such gains were immaterial in 2003.

In 2004, obligations under our capacity purchase agreement are reported as ExpressJet capacity purchase, net. In addition to the obligations for the purchased capacity, ExpressJet capacity purchase, net also includes ExpressJet's fuel expense in excess of the cap provided in the capacity purchase agreement and a related fuel purchase agreement (71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. In 2003, intercompany transactions between us and Holdings or ExpressJet under the capacity purchase agreement were eliminated in the consolidated financial statements. The actual obligations under the capacity purchase agreement were higher in 2004 than in 2003 due to ExpressJet's larger fleet and a 23.6% increase in regional ASMs.

Landing fees and other rentals were higher due to increased flights at certain airports and fixed rent increases combined with our no longer charging ExpressJet rent at certain airports. The most significant increases were at Liberty International Airport in Newark and Bush Intercontinental Airport in Houston, where Terminal E was completed. Commissions, booking fees, credit card fees and other distribution costs increased due to higher credit card and booking fees as a result of increased revenue.

In May 2003, we received and recognized in earnings a security fee reimbursement of $176 million in cash from the United States government pursuant to a supplemental appropriations bill enacted in April 2003. This amount was reimbursement for our proportional share of passenger security and air carrier security fees paid or collected by U.S. air carriers as of the date of enactment of the legislation, together with other items.

In 2004, we recorded special charges of $121 million. Included in these charges were $87 million associated with future obligations for rent and return conditions related to 16 leased MD-80 aircraft which were permanently grounded and a non-cash charge of $34 million related to the termination of a 1993 service agreement with United Micronesian Development Association. Special charges in 2003 consisted of $86 million of retirement and impairment charges for our MD-80 fleet and spare parts associated with the grounded aircraft and a $14 million charge in the second quarter for expenses associated with the deferral of Boeing 737 aircraft deliveries.

In the fourth quarter of 2004, we recorded a change in expected future costs for frequent flyer reward redemptions on alliance carriers, resulting in a one-time increase to other operating expenses of $18 million.

Nonoperating Income (Expense). Income from affiliates included income related to our tax sharing agreement with Holdings and our equity in the earnings of Holdings and Copa Airlines in 2004 and Orbitz, Copa Airlines, and effective November 12, 2003, Holdings in 2003. Income related to our tax sharing agreement with Holdings was $52 million in 2004 and $17 million in 2003. Other nonoperating income (expense) in 2004 included a gain of $12 million related to the adjustment to fair value and sale of our investment in Orbitz, after associated compensation expense. Our results for 2003 also included a $173 million gain on the dispositions of Holdings shares and $132 million of gains related to the sale of investments in Hotwire and Orbitz and an adjustment to the fair value of our investment in Orbitz, after associated compensation expense.

Income Tax Benefit (Expense). Our effective tax rates differ 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, state income taxes and the accrual in 2003 of income tax expense on our share of Holdings' net income. Due to our continued losses, we were required to provide a valuation allowance on the deferred tax assets recorded on losses beginning with the third quarter of 2004. As a result, our net losses for the third and fourth quarters of 2004 were not reduced by any tax benefit. The impact of the non-deductibility of certain expenses and state income taxes on our effective tax rate is generally greater in periods for which we report lower income (loss) before income taxes. During 2003, we contributed 7.4 million shares of Holdings common stock valued at approximately $100 million to our defined benefit pension plan. For tax purposes, our deduction was limited to the ma rket value of the shares contributed. Since our tax basis in the shares was higher than the market value at the time of the contribution, the nondeductible portion increased our tax expense by $9 million.

Minority Interest. Minority interest of $49 million in 2003 represents the portion of Holdings' net income attributable to the equity of Holdings that we did not own prior to November 12, 2003, the date we deconsolidated Holdings. Transactions between us and Holdings or ExpressJet prior to deconsolidation were otherwise eliminated in the consolidated financial statements.

Segment Results of Operations

We have two reportable segments: mainline and regional. The mainline segment consists of flights to cities with jets with a capacity of greater than 100 seats while the regional segment consists of flights with jets with 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):

	Year Ended December 31,		Increase	% Increase
	2004	2003	(Decrease)	(Decrease)
Operating Revenue:				
Passenger	$7,413	$6,845	$ 568	8.3 %
Cargo, mail and other	759	714	45	6.3 %
	8,172	7,559	613	8.1 %
Operating Expenses:				
Wages, salaries and related costs	2,773	2,713	60	2.2 %
Aircraft fuel and related taxes	1,587	1,149	438	38.1 %
Aircraft rentals	632	670	(38)	(5.7)%
Landing fees and other rentals	614	528	86	16.3 %
Commissions, booking fees, credit card fees and other distribution costs	472	456	16	3.5 %
Maintenance, materials and repairs	414	398	16	4.0 %
Depreciation and amortization	403	416	(13)	(3.1)%
Passenger servicing	295	278	17	6.1 %
Security fee reimbursement	-	(173)	173	NM
Special charges	121	91	30	NM
Other	859	799	60	7.5 %
	8,170	7,325	845	11.5 %
Operating Income	$ 2	$ 234	$(232)	(99.1)%

The variances in specific line items for the mainline segment are due to the same factors discussed under consolidated results of operations. Aircraft rental expense decreased primarily due to lease expirations and aircraft retirements and lower rates on renewal leases partially offset by new aircraft deliveries.

Regional. The deconsolidation of ExpressJet in 2003 affected the comparability of our regional segment's financial results. Significant components of our regional segment's operating results attributable to the deconsolidation of ExpressJet and attributable to the segment's business generally are as follows (in millions, except percentage changes):

	Year Ended December 31,		Components of Increase (Decrease)		
			Increase (Decrease) Related to ExpressJet Deconsolidation (A)	All Other Increase (Decrease)	% Increase (Decrease) Excluding ExpressJet Deconsolidation
	2004	2003			
Operating Revenue:					
Passenger	$1,571	$1,290	$ -	$281	21.8 %
Cargo, mail and other	1	21	(4)	(16)	(94.1)%
	1,572	1,311	(4)	265	20.3 %
Operating Expenses:					
Wages, salaries and related costs	46	343	(304)	7	17.9 %
Aircraft fuel and related taxes	-	170	(170)	-	NM
ExpressJet capacity purchase, net	1,351	153	953	245	22.2 %
Aircraft rentals	259	226	-	33	14.6 %

Landing fees and other rentals	32	92	(87)	27	NM
Commissions, booking fees, credit card fees and other distribution costs	80	69	- -	11	15.9 %
Maintenance, materials and repairs	-	111	(111)	-	NM
Depreciation and amortization	11	28	(17)	-	-
Passenger servicing	11	19	(11)	3	37.5 %
Security fee reimbursement	-	(3)	3	-	NM
Special charges	-	9	-	(9)	NM
Other	13	125	(103)	(9)	(40.9)%
	1,803	1,342	153	308	20.6 %
Operating Loss	$ (231)	$ (31)	$ (157)	$(43)	22.9 %

A. Represents increase (decrease) in amounts had ExpressJet been deconsolidated for all of 2003 and reported using the equity method of accounting at 53.1% ownership interest.

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 revenue 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, with the exception of aircraft rentals. Regional aircraft rental expense increased due to the higher number of regional jets in ExpressJet's fleet. ExpressJet took delivery of 21 new regional jets in 2004.

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

	Year Ended December 31,			
	2004	2003 (A)	Increase	% Increase
Capacity purchase expenses	$1,507	$1,311	$196	15.0%
Fuel and fuel taxes in excess of 71.2 cents per gallon cap	126	45	81	180.0%
Aircraft sublease income	(282)	(250)	32	12.8%
ExpressJet capacity purchase, net	$1,351	$1,106	$245	22.2%

A. Represents amounts had ExpressJet been deconsolidated for all of 2003 and reported using the equity method of accounting at 53.1% ownership interest.

Comparison of Year Ended December 31, 2003 to December 31, 2002

	Year Ended December 31,		Increase	% Increase
	2003	2002	(Decrease)	(Decrease)
(in millions, except percentage changes)				
Operating Revenue:				
Passenger	$8,135	$7,862	$273	3.5 %
Cargo, mail and other	735	540	195	36.1 %
	8,870	8,402	468	5.6 %
Operating Expenses:				
Wages, salaries and related costs	3,056	2,959	97	3.3 %
Aircraft fuel and related taxes	1,319	1,084	235	21.7 %
ExpressJet capacity purchase, net	153	-	153	NM
Aircraft rentals	896	902	(6)	(0.7)%
Landing fees and other rentals	620	633	(13)	(2.1)%
Commissions, booking fees, credit card fees and other distribution costs	525	592	(67)	(11.3)%
Maintenance, materials and repairs	509	476	33	6.9 %
Depreciation and amortization	444	444	-	-
Passenger servicing	297	296	1	0.3 %
Security fee reimbursement	(176)	-	(176)	NM
Special charges	100	254	(154)	NM
Other	924	1,074	(150)	(14.0)%

	8,667	8,714	(47)	(0.5)%
Operating Income (Loss)	203	(312)	515	NM
Nonoperating Income (Expense)	(2)	(319)	317	(99.4)%
Income (Loss) before Income Taxes and Minority Interest	201	(631)	832	NM
Income Tax Benefit (Expense)	(114)	208	(322)	NM
Minority Interest	(49)	(28)	(21)	75.0 %
Net Income (Loss)	$ 38	$ (451)	$489	NM

Operating Revenue. Passenger revenue increased principally due to increased regional traffic in conjunction with ExpressJet's capacity increases, offset in part by reduced mainline traffic. The mainline traffic and capacity declines were largely due to a reduction in certain international flights in response to decreased demand during the war in Iraq and related to SARS. Mainline yields were essentially unchanged year over year.

The table below shows passenger revenue for the year ended December 31, 2003 and period to period comparisons for passenger revenue, RASM and ASMs by geographic region for our mainline and regional operations:

	2003 Passenger Revenue (in millions)	Percentage Increase (Decrease) 2003 vs. 2002		
		Passenger Revenue	RASM	ASMs
Domestic	$4,365	(0.6)%	2.4 %	(3.0)%
Trans-Atlantic	1,084	2.2 %	0.6 %	1.5 %
Latin America	902	(0.1)%	1.3 %	(1.3)%
Pacific	494	(9.3)%	(4.5)%	(5.0)%
Total Mainline	6,845	(0.8)%	1.4 %	(2.2)%
Regional	1,290	34.4 %	(0.9)%	35.5 %
Total System	$8,135	3.5 %	2.9 %	0.5 %

Cargo, mail and other revenue increased primarily due to military charter flights associated with the war in Iraq, higher freight and mail volumes, and revenue-generating initiatives. Our results in 2003 also included $24 million of additional revenue resulting from a change in the expected redemption of frequent flyer mileage credits sold.

Operating Expenses. Wages, salaries and related costs increased as a result of increased pension costs and higher wage rates principally caused by increases in seniority, partially offset by a 3.8% reduction in the average number of employees. Wages, salaries and related costs would have been $50 million higher in 2003 had we not deconsolidated Holdings effective November 12, 2003.

Aircraft fuel and related taxes increased primarily due to the average mainline fuel price per gallon increase of 23.5% from 74.01 cents in 2002 to 91.40 cents in 2003. Mainline fuel consumption was down 3.0% as a result of reduced flights and more fuel-efficient aircraft. Regional jet fuel expense increased $46 million, even with the deconsolidation of Holdings, due to increased flights and higher jet fuel prices.

Payments made to ExpressJet under our capacity purchase agreement, previously eliminated in consolidation, are reported as ExpressJet capacity purchase, net, beginning November 12, 2003, the date we deconsolidated Holdings. In addition to the payments for the purchased capacity, ExpressJet capacity purchase, net, also includes ExpressJet's fuel expense in excess of the cap provided in the capacity purchase agreement and a related fuel purchase agreement (71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet.

Aircraft rentals decreased slightly year over year due to aircraft retirements, partially offset by increases from aircraft deliveries in 2003 and 2002. The decrease in landing fees and other rentals was due to lower variable rent at selected airports, partially offset by higher facilities rent, primarily attributable to the completion of substantial portions of the Global Gateway project at Liberty International Airport. Landing fees and other rentals would have been $9 million higher in 2003 had we not deconsolidated Holdings effective November 12, 2003.

Commissions, booking fees, credit card fees and other distribution costs decreased primarily due to the elimination of domestic base commissions during 2002 and certain international commission reductions. Maintenance, materials and repairs expense increased resulting from increases in our contractual engine maintenance cost per hour rates, higher wide-body maintenance activity and the higher number of regional jets in service. Maintenance, materials and repairs expense would have been $19 million higher in 2003 had we not deconsolidated Holdings effective November 12, 2003.

In May 2003, we received and recognized in earnings a security fee reimbursement of $176 million in cash from the United States government pursuant to a supplemental appropriations bill enacted in April 2003. This amount was reimbursement for our proportional share of passenger security and air carrier security fees paid or collected by U.S. air carriers as of the date of enactment of the legislation.

Special charges in 2003 consisted of $86 million retirement and impairment charges for our MD-80 fleet and spare parts associated with the grounded aircraft and a $14 million charge in the second quarter for expenses associated with the deferral of Boeing 737 aircraft deliveries. In 2002, we recorded $242 million of retirement and impairment charges for DC 10-30, MD-80 and turboprop aircraft and a charge of $12 million to write down our receivable from the U.S. government based on our final grant application related to the Air Transportation and System Stabilization Act.

Other operating expense decreased as a result of lower insurance costs and cost-saving measures. These expenses would have been $21 million higher in 2003 had we not deconsolidated Holdings effective November 12, 2003.

Nonoperating Income (Expense). Interest expense increased 5.6%, $21 million, in 2003 compared to 2002 due to an increase in long-term debt resulting from the purchase of new aircraft. Equity in the income (loss) of affiliates included our equity in the earnings (loss) of Copa Airlines, Orbitz (until its initial public offering in December 2003) and, effective November 12, 2003, Holdings and $17 million of income related to our tax sharing agreement with Holdings in 2003. 2003 included $132 million of gains related to the sale of investments in Hotwire and Orbitz and an adjustment to fair value of our remaining investment in Orbitz, after associated compensation expense and a $173 million gain on the sale and contribution of Holdings common stock to our pension plan.

Income Tax Benefit (Expense). Our effective tax rates differ from the federal statutory rate of 35% primarily due to expenses that are not deductible for federal income tax purposes, state income taxes and the accrual of income tax expense on our share of Holdings' net income. We are required to accrue income tax expense on our share of Holdings' net income after its initial public offering in all periods where we consolidate Holdings' operations. The accrual of this income tax expense increased our tax expense by approximately $16 million during 2003 and reduced our tax benefit by $12 million in 2002. During 2003, we contributed 7.4 million shares of Holdings common stock valued at approximately $100 million to our defined benefit pension plan. For tax purposes, our deduction was limited to the market value of the shares contributed. Since our tax basis in the shares was higher than the market value at the time of the contribution, the nondeductible portion increased our tax expense by $ 9 million.

Minority Interest. Minority interest of $49 million in 2003 represents the portion of Holdings' net income attributable to the equity of Holdings that we did not own prior to November 12, 2003, the date we deconsolidated Holdings. Transactions between us and Holdings or ExpressJet prior to deconsolidation were otherwise eliminated in the consolidated financial statements.

Segment Results of Operations

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

	Year Ended December 31,		Increase	% Increase
	2003	2002	(Decrease)	(Decrease)
Operating Revenue:				
Passenger	$6,845	$6,902	$ (57)	(0.8)%
Cargo, mail and other	714	530	184	34.7 %
	7,559	7,432	127	1.7 %
Operating Expenses:				
Wages, salaries and related costs	2,713	2,632	81	3.1 %
Aircraft fuel and related taxes	1,149	960	189	19.7 %
Aircraft rentals	670	722	(52)	(7.2)%
Landing fees and other rentals	528	542	(14)	(2.6)%
Commissions, booking fees, credit card fees and other distribution costs	456	528	(72)	(13.6)%
Maintenance, materials and repairs	398	379	19	5.0 %
Depreciation and amortization	416	403	13	3.2 %
Passenger servicing	278	279	(1)	(0.4)%
Security fee reimbursement	(173)	-	(173)	NM
Special charges	91	197	(106)	NM
Other	799	944	(145)	(15.4)%
	7,325	7,586	(261)	(3.4)%
Operating Income (Loss)	$ 234	$ (154)	$ 388	NM

The variances in specific line items for the mainline segment are due to the same factors discussed under consolidated results of operations, with the exception of aircraft rentals and depreciation and amortization. Mainline aircraft rental expense decreased primarily due to lease expirations and lower rates on renewal leases. Depreciation and amortization expense increased due to higher ground equipment and software balances resulting from increased non-fleet capital expenditures.

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

	Year Ended December 31,		Increase	% Increase
	2003	2002	(Decrease)	(Decrease)
Operating Revenue:				
Passenger	$1,290	$ 960	$330	34.4 %
Cargo, mail and other	21	10	11	110.0 %
	1,311	970	341	35.2 %
Operating Expenses:				
Wages, salaries and related costs	343	327	16	4.9 %

Wages, salaries and related costs	343	327	16	4.9 %
Aircraft fuel and related taxes	170	124	46	37.1 %
ExpressJet capacity purchase, net	153	-	153	NM
Aircraft rentals	226	180	46	25.6 %
Landing fees and other rentals	92	91	1	1.1 %
Commissions, booking fees, credit card fees and other distribution costs	69	64	5	7.8 %
Maintenance, materials and repairs	111	97	14	14.4 %
Depreciation and amortization	28	41	(13)	(31.7)%
Passenger servicing	19	17	2	11.8 %
Security fee reimbursement	(3)	-	(3)	NM
Special charges	9	57	(48)	NM
Other	125	130	(5)	(3.8)%
	1,342	1,128	214	19.0 %
Operating Income (Loss)	$ (31)	$ (158)	$127	(80.4)%

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 revenue 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, with the exception of aircraft rentals and depreciation and amortization. Regional aircraft rental expense increased due to new regional jet deliveries in 2003 and 2002, offset by aircraft retirements. Depreciation and amortization expense decreased due to the sale of ExpressJet inventory in 2002. Payments made to ExpressJet under our capacity purchase agreement were eliminated in consolidation prior to November 12, 2003.

Liquidity and Capital Resources

As of December 31, 2004, we had $1.7 billion in consolidated cash, cash equivalents and short-term investments, which is $69 million more than at December 31, 2003. At December 31, 2004, we had $211 million of restricted cash, which is primarily collateral for estimated future workers' compensation claims, credit card processing contracts, letters of credit, performance bonds and interest rate swap agreements. Restricted cash at December 31, 2003 totaled $170 million.

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

If the current adverse environment does not improve, we expect to incur a significant loss in 2005. However, absent adverse factors outside our control such as additional terrorist attacks, hostilities involving the United States or further significant increases in fuel prices, we currently believe that our existing liquidity and projected 2005 cash flows will be sufficient to fund our current operations and other financial obligations through 2005 if we achieve the timely ratification and implementation of the tentative agreements with our unions concerning wage and benefit reductions or, if the tentative agreements are not ratified and do not take effect, by taking the steps described in "Overview" above to reduce our future financial commitments and current cash outflows. These steps include canceling our tentative agreements with Boeing, marketing for sale or lease twenty-four 737-500 aircraft and furloughing a significant number of employees.

In developing our plan for 2005, we considered our current projections for 2005 revenue, including the impact of fare reductions initiated in early January 2005 by Delta Air Lines, current and forward fuel price levels as of March 14, 2005, our expectations with regard to union ratification of the tentative agreements described above and our ability to execute additional financing transactions. While we believe our 2005 plan is achievable, a combination of some or all of several events, most of which are outside of our direct control, may result in us being unable to generate sufficient cash from operations or complete financing transactions that we would need to maintain adequate liquidity through December 31, 2005. These events include the failure of our unions to ratify the tentative agreements so that they do not go into effect, further significant declines in yields and fuel prices higher than current levels for an extended period of time. Additionally, we have significant financial obligation s due in 2006 and thereafter, and we will have inadequate liquidity to meet those obligations if the current financial environment for network carriers continues and we are unable to increase our revenues or decrease our costs considerably.

Operating Activities. Cash flows provided by operations for 2004 were $373 million, compared to cash flows provided by operations of $342 million for 2003. Adjusting for the $272 million in pension funding in 2003 compared to no funding in 2004, our cash provided by operations was approximately 39% lower in 2004 than in 2003. This is primarily the result of higher fuel costs, partially offset by the impact of our cost-savings initiatives.

Investing Activities. Cash flows provided by investing activities were $88 million for 2004, compared to cash flows used in investing activities of $8 million for 2003. In 2004, we received $98 million related to the disposition of our remaining investment in Orbitz. We received $134 million from Holdings in 2003 related to the sale of approximately 9.8 million shares of our Holdings common stock. Also in 2003, we received $76 million related to dispositions of our investment in Hotwire, Inc. and a portion of our investment in Orbitz.

Our capital expenditures during 2004 totaled $162 million, or $51 million when reduced by net purchase deposits refunded. In 2003, our capital expenditures totaled $205 million, or $153 million when reduced by net purchase deposits refunded. Capital expenditures for 2005 are expected to be approximately $220 million, or $170 million when reduced by net purchase deposits to be refunded. Projected capital expenditures for 2005 consist of $50 million of fleet expenditures, $135 million of non-fleet expenditures and $35 million for rotable parts and capitalized interest.

As of December 31, 2004, we had firm commitments for 47 aircraft from Boeing (excluding the recently announced order discussed below), with an estimated cost of approximately $1.9 billion, and options to purchase an additional 84 Boeing aircraft. On December 29, 2004, we announced that we had reached an agreement with Boeing for a new order of ten 787 aircraft, with the first 787 to be delivered in 2009. We also agreed to lease eight used 757-300 aircraft from Boeing Capital Corporation. The used 757-300 aircraft will be delivered beginning in the third quarter of 2005 through the first quarter of 2006. Additionally, we will accelerate into 2006 the delivery of six Boeing 737-800 aircraft that were previously scheduled to be delivered in 2008. The agreements with Boeing are subject to several conditions, including the approval of our Board of Directors by March 31, 2005. In addition, the 787 agreement is conditioned on the resolution of certain open matters including the negotiation of an accept able engine supply arrangement. Taking these new agreements with Boeing into consideration, we expect to take delivery of 13 Boeing aircraft in 2005 (seven new 737-800s and six used 757-300s) and eight (six new 737-800s and two used 757-300s) in 2006, with delivery of the remaining 44 Boeing aircraft occurring in 2008 and later years.

The eight used 757-300 aircraft discussed above will be leased from Boeing Capital Corporation, which has also agreed to provide backstop lease financing for the six 737-800 aircraft to be delivered in 2006. We do not have backstop financing or any other financing currently in place for the remainder of the aircraft. 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.

As of December 31, 2004, ExpressJet had firm commitments for 29 regional jets from Empresa Brasileira de Aeronautica S.A. ("Embraer"), with an estimated cost of approximately $600 million. ExpressJet currently anticipates taking delivery of 21 regional jets in 2005, with the remainder being delivered through 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 deliver to ExpressJet.

We also have significant operating lease and facility rental obligations. Aircraft and facility rental expense under operating leases approximated $1.3 billion in 2004.

Financing Activities. Cash flows used in financing activities were $405 million for 2004, compared to cash flows used in financing activities of $93 million in 2003. Debt and capital lease payments were $102 million lower in 2004 than in 2003 as a result of prepayments made in 2003 and lower debt balances in 2004.

At December 31, 2004, we had approximately $5.8 billion (including current maturities) of long-term debt and capital lease obligations. We currently do not 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, CMI and Copa remain unencumbered. We were in compliance with all debt covenants at December 31, 2004.

In October 2004, we issued two floating rate classes of Series 2004-1 Pass Through Trust Certificates in the aggregate amount of $77 million that amortize through November 2011. The certificates are secured by a lien on 21 spare engines.

During the first half of 2004, we incurred $86 million of floating rate indebtedness and $128 million of fixed rate indebtedness. These loans are secured by five 757-300 aircraft that were delivered in the first half of 2004.

In May 2003, we issued $100 million of Floating Rate Secured Subordinated Notes due December 2007 (the "Junior Notes"). The Junior Notes are secured by a portion of our spare parts inventory and bear interest at the three-month LIBOR plus 7.5%. In connection with the Junior Notes and $200 million of Floating Rate Secured Notes due December 2007 secured by the same pool of spare parts (the "Senior Notes"), we have entered into a collateral maintenance agreement requiring us, among other things, to maintain a loan-to-collateral value ratio of not greater than 45% with respect to the Senior Notes and a loan-to-collateral value ratio of not greater than 67.5% with respect to both the Senior Notes and the Junior Notes combined. We must also maintain a certain level of rotable components within the spare parts collateral pool. The ratios are calculated on a semi-annual basis based on an independent appraisal of the spare parts collateral pool. If any of the collateral ratio covenants are not met, we mu st take action to meet all covenants by adding additional eligible spare parts to the collateral pool, purchasing or redeeming some of the outstanding notes, providing other collateral acceptable to the bond insurance policy provider for the Senior Notes, or any combination of the above.

During 2003, we incurred $130 million of floating rate indebtedness under a term loan agreement that matures in May 2011. This indebtedness is secured by a portion of our spare engines and initially bears interest at the three-month LIBOR plus 3.5%.

In June 2003, we issued $175 million of 5% Convertible Notes due 2023. The notes are convertible into our Class B common stock at an initial conversion price of $20 per share, subject to certain conditions on conversion. The notes are redeemable for cash at our option on or after June 18, 2010 at par plus accrued and unpaid interest, if any. Holders may require us to repurchase the notes on June 15 of 2010, 2013 or 2018, or in the event of certain changes in control, at par plus accrued and unpaid interest, if any. The indenture provides that we may at our option choose to pay this repurchase price in cash, in shares of common stock or any combination thereof, except in certain circumstances involving a change in control, in which case we will be required to pay cash.

During the fourth quarter of 2003, we incurred $120 million of floating rate indebtedness due at various intervals through 2015. This indebtedness is secured by the four 737-800 aircraft that were delivered in the fourth quarter of 2003.

On several occasions subsequent to September 11, 2001, Moody's Investors Service and Standard and Poor's both downgraded the credit ratings of a number of major airlines, including us. Additional downgrades to our credit ratings were made in March and April 2003 and further downgrades are possible. As of December 31, 2004, our senior unsecured debt was rated Caa2 by Moody's and CCC+ by Standard and Poor's. Reductions in our credit ratings have increased the interest we pay on new issuances of debt and 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 and 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 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. Although 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 $335 million of cash collateral, which would adversely affect our liquidity needed for our operations and debt service, but would not result in a default under any of our debt or lease agreements.

We have utilized proceeds from the issuance of pass-through certificates to finance the acquisition of 257 leased and owned mainline jet aircraft. Typically, these pass-through certificates, as well as separate financings 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, Westdentsche 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 101 leased regional jet aircraft. The liquidity providers for these certificates include the following: ABN AMRO Bank N.V., Chicago Branch, Citibank N.A., Citicorp North America, Inc., RZB Finance LLC and WestLB AG, New York Branch.

We currently utilize policy providers to provide credit support on four separate financings with an outstanding principal balance of $605 million at December 31, 2004. 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.), Financial Security Assurance, Inc. (a subsidiary of Financial Security Assurance Holdings Ltd.) 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.

Contractual Obligations. The following table summarizes the effect that minimum debt, lease and other material noncancelable commitments listed below are expected to have on our cash flow in the future periods set forth below (in millions):

Contractual Obligations	Payments Due						Later
	Total	2005	2006	2007	2008	2009	Years
Debt and leases:							
Long-term debt (1)	$ 7,642	$ 979	$ 836	$1,172	$ 817	$ 650	$ 3,188
Capital lease obligations (1)	645	46	39	40	45	16	459
Aircraft operating leases (2)	11,249	982	933	903	884	840	6,707
Nonaircraft operating leases (3)	7,741	406	397	390	369	370	5,809
Future operating leases (4)	671	15	37	39	39	39	502

Other:							
Capacity Purchase Agreement (5)	2,857	1,233	1,092	525	7	-	-
Aircraft and other purchase commitments (6)	2,074	333	62	55	941	683	- -
Projected pension contributions (7)	1,557	307	360	450	290	150	-
Total (8)	$34,436	$4,301	$3,756	$3,574	$3,392	$2,748	$16,665

1. Amounts represent contractual amounts due, including interest. Interest on floating rate debt was estimated using projected forward rates as of the fourth quarter of 2004.
2. Amounts represent contractual amounts due and exclude $3.9 billion of projected sublease income to be received from ExpressJet.
3. Amounts represent minimum contractual amounts. We have assumed no escalations in rent or changes in variable expenses.
4. Amounts represent payments for firm regional jets to be financed by third parties and leased by us. We will sublease the regional jets to ExpressJet. Neither we nor ExpressJet has an obligation to take any firm aircraft that are not financed by a third party. Amounts are net of previously paid purchase deposits and exclude sublease income we will receive from ExpressJet. See Note 18 to our consolidated financial statements included in Item 8 of this report for a discussion of these purchase commitments.
5. Amounts represent our estimates of future minimum noncancelable commitments under our agreement with ExpressJet and do not include the portion of the underlying obligations for aircraft and facility rent that are disclosed as part of aircraft and nonaircraft operating leases. See Note 15 to our consolidated financial statements included in Item 8 of this report for the assumptions used to estimate the payments.
6. Amounts represent contractual commitments for firm-order aircraft only, net of previously paid purchase deposits, and noncancelable commitments to purchase goods and services, primarily information technology support. Additional aircraft covered by our recent agreements with Boeing are not included because the agreements are subject to several conditions, including the approval of our Board of Directors. See Note 18 to our consolidated financial statements included in Item 8 of this report for a discussion of these purchase commitments.
7. Amounts represent our estimate of the minimum funding requirements as determined by government regulations. Amounts are subject to change based on numerous assumptions, including the performance of the assets in the plan and bond rates. See "Critical Accounting Policies and Estimates" in this Item for a discussion of our assumptions regarding our pension plan. We are unable to estimate the projected contributions beyond 2009. In addition, the amounts do not reflect the impact of the tentative agreements we have reached with our unions to reduce wage and benefit costs. If the tentative agreements are ratified and take effect, we will freeze the benefits accruals related to pilots and flight attendants and make contributions to alternate retirement programs. We expect these changes to reduce our net cash outflows relating to our pension funding obligations in 2005 by approximately $50 million.
8. Total contractual obligations do not include long-term contracts where the commitment is variable in nature, such as credit card processing agreements, or where short-term cancellation provisions exist, such as power-by-the-hour engine maintenance agreements.

We expect to fund our future capital and purchase commitments through internally generated funds, general company financings and aircraft financing transactions. However, there can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures or that, if necessary, we will be able to defer or otherwise renegotiate our capital commitments.

Operating Leases. At December 31, 2004, we had 474 aircraft under operating leases, including 219 in-service mainline aircraft, 227 in-service regional jets and 28 aircraft which were not in service. These leases have remaining lease terms ranging up to 20 years. In addition, we have non-aircraft operating leases, principally related to airport and terminal facilities and related equipment. The obligations for these operating leases are not included in our consolidated balance sheet. Our total rental expense for aircraft and non-aircraft operating leases was $891 million and $418 million, respectively, in 2004.

Cleveland Airport Memorandum of Understanding. We have entered into a Memorandum of Understanding with the City of Cleveland, Ohio pertaining to our existing lease for certain premises at Terminal C at Cleveland Hopkins International Airport, which is scheduled to expire at the end of 2005. Under the memorandum, we have agreed to use good faith efforts to negotiate the terms of a definitive agreement that would extend the lease for an additional ten years.

Capacity Purchase Agreement. Our capacity purchase agreement with ExpressJet provides that we purchase, in advance, all of its available seat miles for a negotiated price, and we are at risk for reselling the available seat miles at market prices. Under the agreement, ExpressJet has the right through December 31, 2006 to be our sole provider of regional jet service from our hubs. See Item 8. Financial Statements and Supplementary Data, Note 15 for details of our capacity purchase agreement with ExpressJet.

Guarantees and Indemnifications. We are the guarantor of approximately $1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon (exclusive of $53 million of bonds issued by the City of Houston which we became the guarantor of in January 2005 and the US Airways contingent liability, both 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.

In August 2001, the City of Houston completed the offering of $324 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance the construction of Terminal E and a new international ticketing hall facility at Bush Intercontinental Airport. In connection therewith, we entered into a long-term lease with the City of Houston requiring that upon completion of construction, with limited exceptions, we will make rental payments sufficient to service the related tax-exempt bonds through their maturity in 2029. We have also entered into a binding corporate guaranty with the bond trustee for the repayment of all of the principal and interest on the bonds. The guarantee became effective for the repayment of principal and interest with respect to $271 million of the bonds upon completion of the terminal during the first quarter of 2004. The remainder of the guarantee, relating to $53 million of the bonds, became effective upon completion of the international ticketing facility in January 2005.

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 with an outstanding par amount of $166 million at December 31, 2004 and a final scheduled maturity in 2015. If US Airways defaults on these obligations, we would be obligated to cure the default, and the applicable documents provide that we would have the right to occupy the terminal after US Airways' interest in the lease had been terminated. In September 2004, US Airways filed for reorganization under Chapter 11 of the United States Bankruptcy Code. On December 1, 2004, US Airways made only a portion of the payment due under the lease agreement on that date, such portion being that amount of the payment due that was deemed attributable to the period of time after their bankruptcy filing, and we paid the difference in an amount of approximately $9 million. If US Airways assumes the lease, we expect to be repaid this amount together with interest thereon. As of March 14, 2005, US Airways has made no election to assume or to reject the lease agreement in its bankruptcy case.

We are the lessee under many real estate leases. It is common in such commercial lease transactions for us as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to our use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, we typically indemnify such parties for any environmental liability that arises out of or relates to our use of the leased premises.

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

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

In our financing transactions that include loans 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. We had $1.4 billion of floating rate debt at December 31, 2004. 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. 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. Our lease obligations for these two aircraft totaled $59 million at Dece mber 31, 2004.

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

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 $363 million.

Income tax benefits recorded on net losses result in deferred tax assets for financial reporting purposes. We are required to provide a valuation allowance for deferred tax assets to the extent management determines that it is more likely than not that such deferred tax assets will ultimately not be realized. Due to our continued losses, we were required to provide a valuation allowance on deferred tax assets recorded on losses beginning in the third quarter of 2004. As a result, our third and fourth quarter 2004 net losses were not reduced by any tax benefit. Furthermore, we expect to be required to provide additional valuation allowance in conjunction with deferred tax assets recorded on losses in the future.

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 was 4.27% for December 2004). Any unused annual limitation may be carried over to later years. The amount of the limitation may, under certain circumstances, be increased by built-in gains held by us at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, our annual NOL utilization would be limited to approximately $39 million per year, before consideration of any built-in gains.

The Internal Revenue Service ("IRS") is in the process of examining our income tax returns for years through 2001 and has indicated that it may disallow certain deductions we claimed. We believe the ultimate resolution of these audits will not have a material adverse effect on our financial condition, liquidity or results of operations.

Environmental Matters. We could potentially 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 mandated a field study of the site and it was completed in September 2001. 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 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 December 31, 2004.

We expect our total losses from environmental matters to be approximately $50 million, for which we were fully accrued at December 31, 2004. 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 impact our financial condition, results of operations or liquidity.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development arrangements with the company.

We have no arrangements of the types described in the first three categories that we believe may have a material current or future effect on our financial condition, liquidity or results of operations. Certain guarantees that we do not expect to have a material current or future effect on our financial condition, liquidity or resulted operations are disclosed in Note 18 to our consolidated financial statements included in Item 8 of this report.

We do have obligations arising out of variable interests in unconsolidated entities. See Note 14 to our consolidated financial statements included in Item 8 of this report for a discussion of our off-balance sheet aircraft leases, airport leases (which includes the US Airways contingent liability), subsidiary trust and our capacity purchase agreement between us and ExpressJet.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see Note 1 to our consolidated financial statements included in Item 8 of this report.

Pension Plan. We account for our defined benefit pension plan using Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions" ("SFAS 87"). Under SFAS 87, pension expense is recognized on an accrual basis over employees' approximate service periods. Pension expense calculated under SFAS 87 is generally independent of funding decisions or requirements. We recognized expense for our defined benefit pension plan of $293 million, $328 million and $185 million in 2004, 2003 and 2002, respectively. We expect our pension expense to be approximately $315 million in 2005 before considering the potential changes discussed below.

Our plans' under-funded status increased from $1.1 billion at December 31, 2003 to $1.6 billion at December 31, 2004. The fair value of our plan assets remained relatively flat at $1.3 billion as of December 31, 2004 and 2003. Due to record high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we elected in 2004 to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we were not required to make any contributions to our primary defined benefit pension plan in 2004 and did not do so. We contributed $272 million in cash and 7.4 million shares of Holdings common stock valued at approximately $100 million to our primary defined benefit pension plan in 2003. Funding requirements for defined benefit pension plans are determined by government regulations, not SFAS 87.

Based on current legislation and current assumptions, we will be required to contribute in excess of $1.5 billion to our defined benefit pension plan over the next five years, including $307 million in 2005, to meet our minimum funding obligations before considering the potential changes discussed below. The primary assumptions relate to the rate of return on plan assets, the discount rate and our intention to use deficit contribution relief during calendar year 2005. If actual experience is different from our current assumptions, these estimates may change.

We could experience an increase in early retirements caused by concern among our employees about our financial stability. The potential of an increase in early retirements could be exacerbated by the fact that our employees are entitled to lump-sum distributions from our defined benefit pension plan upon their retirement, including early retirement within the provisions of the plan. Some of our competitors have terminated, or have sought to terminate, their defined benefit pension plans in bankruptcy, which can cause employees to receive less than the full amount of their pension benefits under applicable federal pension benefit insurance, and can also limit or eliminate the ability of employees to receive their pension benefits in a lump-sum. If liquidity concerns increase, we could experience a significant increase in early retirements which could negatively impact our operations and materially increase our near-term funding obligations to our defined benefit pension plan, which could itself resu lt in a material adverse effect on our liquidity.

When calculating pension expense for 2004, we assumed that our plan's assets would generate a long-term rate of return of 9.0%. This rate is consistent with the rate used to calculate the 2003 expense and lower than the assumed rate of 9.5% used to calculate the 2002 expense. We develop our expected long-term rate of return assumption based on historical experience and by evaluating input from the trustee managing the plan's assets. Our expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on our goal of earning the highest rate of return while maintaining risk at acceptable levels. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio. Our allocation of assets was as follows at December 31, 2004:

	Percent of Total	Expected Long-Term Rate of Return
U.S. equities	49%	10.0%
International equities	17	10.0
Fixed income	28	6.5
Other	6	13.0
Total	100%	

We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plan's investments to our targeted allocation when considered appropriate.

Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected long-term rate of return on our plan assets by 50 basis points (from 9.0% to 8.5%) would increase our estimated 2005 pension expense by approximately $7 million.

We discounted our future pension obligations using a rate of 5.75% at December 31, 2004, compared to 6.25% at December 31, 2003 and 6.75% at December 31, 2002. We determine the appropriate discount rate based on the current rates earned on long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The pension liability and future pension expense both increase as the discount rate is reduced. Lowering the discount rate by 50 basis points (from 5.75% to 5.25%) would increase our pension liability at December 31, 2004 by approximately $256 million and increase our estimated 2005 pension expense by approximately $35 million.

At December 31, 2004, we have unrecognized actuarial losses of $1.3 billion. These losses will be recognized as a component of pension expense in future years. Our estimated 2005 pension expense of $315 million includes the recognition of approximately $90 million of these losses.

Future changes in plan asset returns, plan provisions, assumed discount rates and various other factors related to the participants in our pension plans will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

The tentative agreements with our pilots and flight attendants each provide that benefits accruals with respect to those groups under our defined benefit pension plan will be frozen and we will begin to make contributions to alternate retirement programs. All of the pilots' and flight attendants' existing benefits under our plan at the date of the freeze will be preserved, including the right to receive a lump-sum payment upon their retirement.

The tentative agreement with our pilots provides for a new defined contribution plan to be established after the existing pension benefits are frozen on May 31, 2005. That plan will be a money purchase pension plan that is also subject to minimum contribution rules under the Internal Revenue Code. If the pilots' tentative agreement is ratified and takes effect, contributions under the new defined contribution plan will generally be specified percentages of applicable pilot compensation, subject to applicable legal limits. Further, the tentative agreement provides for additional contributions to the pilots' 401(k) plan, depending on our pre-tax profits during a portion of the term of the pilots' agreement. To the extent contributions to either plan are limited by applicable law, the difference between the contractual amounts and the amounts permitted by law to be contributed to the defined contribution plans will be paid directly to pilots under a corresponding nonqualified arrangement.

The tentative agreement with our flight attendants provides that the flight attendants will join the IAM's National Pension Fund in connection with the freezing of their benefits under our existing defined benefit plan. The National Pension Plan is a multiemployer pension plan managed by representatives of participating employers and representatives of the IAM. Our obligation will be to make a fixed contribution to the National Pension Plan per hour of flight attendant service, as specified in the tentative agreement.

Funding requirements under our pre-existing defined benefit plan (including a separate plan to be established that will contain the assets and obligations related to pilots formerly contained in our defined benefit plan) will continue to be determined under applicable law. However, if the pilots' tentative agreement takes effect, we have agreed that we will not declare a cash dividend or repurchase our outstanding common stock for cash until we have contributed at least $500 million to the pilots' defined benefit plan, measured from the date of ratification of the pilots' tentative agreement. Further, we have agreed that we will not make an election under any optional funding legislation that would eliminate the lump-sum benefit option without the consent of ALPA.

We would expect to record an approximately $56 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 No. 88") in connection with freezing a portion of our defined benefit pension plan. SFAS No. 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, the unrecognized prior service costs associated with years of service no longer expected to be rendered as the result of a curtailment is a loss. As a result of freezing a portion of the defined benefit pension plan, and net of required contributions to alternate retirement programs, we expect net cash outflows relating to our pension funding obligations to decrease by approximately $50 million in 2005 and our 2005 pension expense to decrease by approximately $90 million .

Also, in conjunction with the tentative agreements with the unions representing our work groups, we plan to make available on a long-term basis certain medical benefits to eligible retirees. Generally, these benefits allow eligible retired employees to receive medical benefits that "bridge" their medical coverage from their date of retirement until attainment of Medicare eligibility, subject to applicable limits and conditions. Retirees are required to pay a portion of the costs of their retiree medical benefits to the extent they do not have sufficient accumulated sick time accruals. Plan benefits are subject to co-payments, deductibles and other limits as described in the plans. The retiree medical benefits plan would be accounted for 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. We expect to record an incremental $25 million non-cash expense in 2005 ass ociated with this post retirement plan.

Revenue Recognition. We recognize passenger revenue when transportation is provided or when the ticket expires unused rather than when a ticket is sold. Nonrefundable tickets expire on the date of intended flight, unless the date is extended by notification from the customer or payment of a change fee.

The amount of passenger ticket sales and sales of frequent flyer mileage credits to partners not yet recognized as revenue is included in our consolidated balance sheets as air traffic liability. We perform periodic evaluations of the estimated liability for passenger ticket sales and any adjustments, which can be significant, are included in results of operations for the periods in which the evaluations are completed. These adjustments relate primarily to differences between our statistical estimation of certain revenue transactions and the related sales price, as well as refunds, exchanges, interline transactions and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.

Impairments of Long-Lived Assets. We record impairment losses on long-lived assets used in operations, primarily property and equipment and airport operating rights, when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions.

We recognized fleet impairment losses in 2003 and 2002, each of which was partially the result of the September 11, 2001 terrorist attacks and the related aftermath. These events resulted in a reevaluation of our operating and fleet plans, resulting in the grounding of certain older aircraft types or acceleration of the dates on which the related aircraft were to be removed from service. The grounding or acceleration of aircraft retirement dates resulted in reduced estimates of future cash flows. There were no impairment losses recorded during 2004.

In 2003, we recorded an impairment charge of $65 million to reflect decreases in the fair value of our owned MD-80s and spare parts inventory for permanently grounded fleets. In 2002, we recognized an impairment charge of $93 million related to owned MD-80 and ATR-42 aircraft. We estimated the fair value of these aircraft and related inventory based on industry trends and, where available, reference to market rates and transactions. All other long-lived assets, principally our other fleet types and airport operating rights, were determined to be recoverable based on our estimates of future cash flows.

We also perform annual impairment tests on our routes, which are indefinite life intangible assets. These tests are based on estimates of discounted future cash flows, using assumptions consistent with those used for aircraft and airport operating rights impairment tests. We determined that we did not have any impairment of our routes at December 31, 2004.

We provide an allowance for spare parts inventory obsolescence over the remaining useful life of the related aircraft, plus allowances for spare parts currently identified as excess. These allowances are based on our estimates and industry trends, which are subject to change and, where available, reference to market rates and transactions. The estimates are more sensitive when we near the end of a fleet life or when we remove entire fleets from service sooner than originally planned.

We regularly review the estimated useful lives and salvage values for our aircraft and spare parts.

Frequent Flyer Accounting. We utilize a number of estimates in accounting for our OnePass frequent flyer program which are consistent with industry practices.

For those OnePass accounts that have sufficient mileage credits to claim the lowest level of free travel, we record a liability for either the estimated incremental cost of providing travel awards that are expected to be redeemed or the contractual rate of expected redemption on alliance carriers. Incremental cost includes the cost of fuel, meals, insurance and miscellaneous supplies and does not include any costs for aircraft ownership, maintenance, labor or overhead allocation. A change to these cost estimates, the actual redemption activity, the amount of redemptions on alliance carriers or the minimum award level could have a significant impact on our liability in the period of change as well as future years. We also record a liability for payments we expect to make to partner airlines for OnePass members' redemptions for travel on the other airline. The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and changes in the OnePass progra m, and is included in the accompanying consolidated balance sheets as air traffic liability. In the fourth quarter of 2004, we recorded a change in expected future costs for frequent flyer reward redemptions on alliance carriers, resulting in a one-time increase in other operating expenses of $18 million.

We also sell mileage credits in our frequent flyer program to participating partners, such as credit/debit card companies, phone companies, alliance carriers, hotels, car rental agencies, utilities and various shopping and gift partners. Revenue from the sale of mileage credits is deferred and recognized as passenger revenue over the period when transportation is expected to be provided, based on estimates of the fair value of tickets to be redeemed. Amounts received in excess of the tickets' fair value are recognized in income currently and classified as a reimbursement of advertising expenses. A change to the time period over which the mileage credits are used (currently six to 32 months), the actual redemption activity or our estimate of the number or fair value of tickets could have a significant impact on our revenue in the year of change as well as future years. In the fourth quarter of 2003, we adjusted our estimates of the mileage credits we expect to be redeemed for travel, resulting in a one-time increase in other revenue of $24 million.

During the year ended December 31, 2004, OnePass participants claimed approximately 1.2 million awards. These awards accounted for an estimated 5.6% of our total RPMs. We believe displacement of revenue passengers is minimal given our load factors, our ability to manage frequent flyer inventory and the low ratio of OnePass award usage to revenue passenger miles.

At December 31, 2004, we estimated that approximately 2.1 million free travel awards outstanding were expected to be redeemed for free travel on Continental, ExpressJet, CMI or participating alliance carriers. Our total liability for future OnePass award redemptions for free travel and unrecognized revenue from sales of OnePass miles to other companies was approximately $195 million at December 31, 2004. This liability is recognized as a component of air traffic liability in our consolidated balance sheet.

Pending Accounting Pronouncement. In December 2004, the 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 option-pricing models. 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 the beginning of the third quarter of 2005. It will be effective for all awards granted after that date. For those awards granted prior to the adoption date but for which the vesting period is not complete, expense will be recognized based on the grant-date fair value and vesting schedule of those awards calculated for the pro forma disclosures under SFAS 123. See Note 1(o) for the impact of the fair value recognition provisions of SFAS 123 on our net income (loss) and earnings (loss) per share. The adoption of this standard will not impact on our financial position or liquidity.

As discussed in Note 8, we expect to issue to employees stock options to acquire approximately ten million shares of our Class B common stock, at a price per share equal to the fair market value of the common stock on the date of the grant, upon ratification and effectiveness of the tentative agreements for new contracts covering our pilots, flight attendants, mechanics and dispatchers. Results of the ratification process for each of the agreements are expected by the end of March 2005. The options will generally vest in three equal installments on the first, second, and third anniversaries of the date of grant, and will have a term ranging from six to eight years.

Upon adoption of SFAS 123R effective with the third quarter of 2005, and assuming ratification and effectiveness of each of the tentative agreements with the unions representing our work groups, we would expect that the non-cash expense associated with this new stock option program would be approximately $15 million to $25 million in 2005 and $40 million to $60 million in total over the three year vesting term of the options. The actual expense will be dependent on several factors including the actual number of options granted, exercise price, valuation model used, expected life of the option and expected share price volatility.

Related Party Transactions

See Note 16 to our consolidated financial statements included in Item 8 of this report for a discussion of related party transactions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Sensitive Instruments and Positions

We are subject to certain market risks, including commodity price risk (i.e., aircraft fuel prices), interest rate risk, foreign currency risk and price changes related to certain investments in debt and equity securities. The adverse effects of potential changes in these market risks are discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions we may take to mitigate our exposure to such changes. Actual results may differ. See the notes to the consolidated financial statements for a description of our accounting policies and other information related to these financial instruments. We do not hold or issue derivative financial instruments for trading purposes.

Aircraft Fuel. Our results of operations are significantly impacted by changes in the price of aircraft fuel. During 2004 and 2003, aircraft fuel and related taxes accounted for 15.9% and 15.2%, respectively, of our operating expenses. Based on our expected fuel consumption in 2005, a hypothetical one dollar increase in the price of crude oil will increase our annual fuel expense by approximately $40 million. Periodically, we enter into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide us with short-term hedge protection (generally three to six months) against sudden and significant increases in jet fuel prices, while simultaneously ensuring that we are not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel. As of December 31, 2004, we did not have any fuel hedges in place.

Foreign Currency. We are exposed to the effect of exchange rate fluctuations on the U.S. dollar value of foreign currency denominated operating revenue and expenses. We attempt to mitigate the effect of certain potential foreign currency losses by entering into forward and option contracts that effectively enable us to sell Japanese yen, British pounds, Canadian dollars and euros expected to be received from the respective denominated net cash flows over the next 12 months at specified exchange rates.

We had the following foreign currency hedges outstanding at December 31, 2004 (for 2005 projected cash flows) and December 31, 2003 (for 2004 projected cash flows):

- Forward and option contracts to hedge approximately 61% of our projected Japanese yen-denominated net cash flows for both 2005 and 2004.
- Forward and option contracts to hedge approximately 45% and 63% of our British pound-denominated net cash flows for 2005 and 2004, respectively.

- Forward contracts to hedge approximately 42% of our projected Canadian dollar-denominated net cash flows for 2005.
- Forward and option contracts to hedge approximately 39% and 50% of our projected euro-denominated net cash flows for 2005 and the first six months of 2004, respectively.

We estimate that at December 31, 2004, a uniform 10% strengthening in the value of the U.S. dollar relative to the Japanese yen, British pound, Canadian dollar, and euro would have increased the fair value of the existing option and/or forward contracts by $15 million, $9 million, $3 million and $4 million, respectively, offset by a corresponding loss on the underlying 2005 exposure of $28 million, $36 million, $7 million and $11 million, respectively, resulting in a net losses of $13 million, $27 million, $4 million and $7 million.

At December 31, 2003, a uniform 10% strengthening in the value of the U.S. dollar relative to the Japanese yen, British pound and euro would have increased the fair value of the existing option and/or forward contracts by $6 million, $12 million and $2 million, respectively, offset by a corresponding loss on the underlying 2004 exposure of $13 million, $9 million and $3 million, respectively, resulting in a net $(7) million, $3 million and $(1) million gain (loss).

Interest Rates. Our results of operations are affected by fluctuations in interest rates (e.g., interest expense on variable-rate debt and interest income earned on short-term investments).

We had approximately $1.4 billion of variable-rate debt as of December 31, 2004 and 2003. We have mitigated our exposure on certain variable-rate debt by entering into interest rate swap agreements. The interest rate swap outstanding at December 31, 2004 and 2003 had a notional amount of $143 million and $153 million, respectively. The interest rate swap effectively locks us into paying a fixed rate of interest on a portion of our floating rate debt securities through the expiration of the swap in November 2005. If average interest rates increased by 100 basis points during 2005 as compared to 2004, our projected 2005 interest expense would increase by approximately $12 million, net of interest rate swap. At December 31, 2003, an interest rate increase by 100 basis points during 2004 as compared to 2003 was projected to increase interest expense by approximately $12 million, net of interest rate swap.

As of December 31, 2004 and 2003, we estimated the fair value of $3.4 billion and $3.4 billion (carrying value) of our fixed-rate debt to be $2.9 billion and $3.2 billion, respectively, based upon discounted future cash flows using our current incremental borrowing rates for similar types of instruments or market prices. Market risk, estimated as the potential increase in fair value resulting from a hypothetical 100 basis points decrease in interest rates, was approximately $83 million and $104 million as of December 31, 2004 and 2003, respectively. The fair value of the remaining fixed-rate debt at December 31, 2004 and 2003, with a carrying value of $745 million and $826 million, respectively, was not practicable to estimate due to the large number of remaining debt instruments with relatively small carrying amounts.

If 2005 average short-term interest rates decreased by 100 basis points over 2004 average rates, our projected interest income from cash, cash equivalents and short-term investments would decrease by approximately $15 million during 2005, compared to an estimated $13 million decrease during 2004 measured at December 31, 2003.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Continental Airlines, Inc.

We have audited the accompanying consolidated balance sheets of Continental Airlines, Inc. (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 12 and 14 to the consolidated financial statements, the Company adopted, effective January 1, 2003, Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Disposal or Exit Activities" and, effective July 1, 2003, Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
March 14, 2005

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

	Year Ended December 31,		
	2004	2003 (A)	2002 (A)
Operating Revenue:			
Passenger (excluding fees and taxes of $1,046, $904 and $878) (B)	$8,984	$8,135	$7,862
Cargo, mail and other	760	735	540
	9,744	8,870	8,402
Operating Expenses:			
Wages, salaries and related costs	2,819	3,056	2,959
Aircraft fuel and related taxes	1,587	1,319	1,084
ExpressJet capacity purchase, net	1,351	153	-
Aircraft rentals	891	896	902
Landing fees and other rentals	646	620	633
Commissions, booking fees, credit card fees and other distribution costs	552	525	592
Maintenance, materials and repairs	414	509	476
Depreciation and amortization	414	444	444
Passenger servicing	306	297	296
Security fee reimbursement	-	(176)	-
Special charges	121	100	254
Other	872	924	1,074
	9,973	8,667	8,714
Operating Income (Loss)	(229)	203	(312)
Nonoperating Income (Expense):			
Interest expense	(389)	(393)	(372)
Interest capitalized	14	24	36
Interest income	29	19	24
Income from affiliates	118	40	8
Gain on dispositions of ExpressJet Holdings shares	-	173	-
Other, net	17	135	(15)
	(211)	(2)	(319)
Income (Loss) before Income Taxes and Minority Interest	(440)	201	(631)
Income Tax Benefit (Expense)	77	(114)	208
Minority Interest	-	(49)	(28)
Net Income (Loss)	$(363)	$ 38	$ (451)
Earnings (Loss) per Share:			
Basic	$(5.49)	$ 0.58	$(7.02)
Diluted	$(5.55)	$ 0.57	$(7.02)
Shares Used for Computation:			
Basic	66.1	65.4	64.2
Diluted	66.1	65.6	64.2

A. Amounts include the consolidation of ExpressJet Holdings, Inc. through November 12, 2003. See Note 15 for further discussion.
B. The fees and taxes are primarily U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign departure taxes.

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	December 31, 2004	December 31, 2003
Current Assets:		
Cash and cash equivalents	$ 1,055	$ 999
Restricted cash and cash equivalents	211	170
Short-term investments	403	431
Total cash, cash equivalents and short-term investments	1,669	1,600
Accounts receivable, net of allowance for doubtful receivables of $22 and $19	472	403
Spare parts and supplies, net of allowance for obsolescence of $93 and $98	214	191
Deferred income taxes	170	157
Note receivable from ExpressJet Holdings, Inc.	81	67
Prepayments and other	222	168
Total current assets	2,828	2,586
Property and Equipment:		
Owned property and equipment:		
Flight equipment	6,744	6,574
Other	1,262	1,195
	8,006	7,769
Less: Accumulated depreciation	2,023	1,784
	5,983	5,985
Purchase deposits for flight equipment	105	225
Capital leases	396	404
Less: Accumulated amortization	140	126
	256	278
Total property and equipment	6,344	6,488
Routes	615	615
Airport operating rights, net of accumulated amortization of $316 and $293	236	259
Intangible pension asset	108	124
Investment in affiliates	156	173
Note receivable from ExpressJet Holdings, Inc.	18	126
Other assets, net	240	278
Total Assets	$10,545	$10,649

(continued on next page)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2004	December 31, 2003

Current Liabilities:		
Current maturities of long-term debt and capital leases	$ 670	$ 422
Accounts payable	766	840
Air traffic liability	1,157	957
Accrued payroll	281	280
Accrued other liabilities	385	366
Total current liabilities	3,259	2,865
Long-Term Debt and Capital Leases	5,167	5,558
Deferred Income Taxes	382	446
Accrued Pension Liability	1,132	680
Other	339	308
Commitments and Contingencies		
Stockholders' Equity:		
Series B Junior Participating 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; 91,938,816 and 91,507,192 shares issued	1	1
Additional paid-in capital	1,408	1,401
Retained earnings	585	948
Accumulated other comprehensive loss	(587)	(417)
Treasury stock - 25,476,881 and 25,471,881 shares, at cost	(1,141)	(1,141)
Total stockholders' equity	266	792
Total Liabilities and Stockholders' Equity	$10,545	$10,649

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

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

	Year Ended December 31,		
	2004	2003 (A)	2002 (A)
Cash Flows from Operating Activities:			
Net income (loss)	$ (363)	$ 38	$ (451)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	(77)	101	(179)
Depreciation and amortization	414	444	444
Special charges	121	100	254
Gains on investments	-	(305)	-
Equity in the income of affiliates	(66)	(23)	(8)
Other, net	(73)	(36)	-
Changes in operating assets and liabilities:			
Increase in accounts receivable	(76)	(25)	(23)
(Increase) decrease in spare parts and supplies	(37)	4	4
Decrease in accounts payable	(74)	(19)	(79)
Increase (decrease) in air traffic liability	200	75	(132)

Increase (decrease) in air traffic liability	200	73	(132)
Increase (decrease) in accrued pension liability and other	404	(12)	124
Net cash provided by (used in) operating activities	373	342	(46)
Cash Flows from Investing Activities:			
Capital expenditures	(162)	(205)	(539)
Purchase deposits paid in connection with future aircraft deliveries	(33)	(29)	(73)
Purchase deposits refunded in connection with aircraft delivered	144	81	219
Sale (purchase) of short-term investments, net	28	(134)	(56)
Proceeds from sales of ExpressJet Holdings, net	-	134	447
Proceeds from sales of Internet-related investments	98	76	-
Proceeds from disposition of property and equipment	16	16	9
Other	(3)	53	(43)
Net cash provided by (used in) investing activities	88	(8)	(36)
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt, net	67	559	596
Payments on long-term debt and capital lease obligations	(447)	(549)	(383)
Proceeds from issuance of common stock	5	5	23
Increase in restricted cash	(41)	(108)	(32)
Other	11	-	-
Net cash (used in) provided by financing activities	(405)	(93)	204
Impact on cash of ExpressJet deconsolidation	-	(225)	-
Net Increase in Cash and Cash Equivalents	56	16	122
Cash and Cash Equivalents - Beginning of Period	999	983	861
Cash and Cash Equivalents - End of Period	$1,055	$ 999	$ 983
Supplemental Cash Flows Information:			
Interest paid	$ 372	$ 374	$ 345
Income taxes paid (refunded)	$ (4)	$ 13	$ (31)
Investing and Financing Activities Not Affecting Cash:			
Property and equipment acquired through the issuance of debt	$ 226	$ 120	$ 908
Capital lease obligations incurred	$ 1	$ 22	$ 36
Contribution of ExpressJet stock to pension plan	$ -	$ 100	$ -

A. Amounts include the consolidation of ExpressJet Holdings, Inc. through November 12, 2003. See Note 15 for further discussion.

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

CONTINENTAL AIRLINES, INC.
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(In millions)

	Class B Common Stock		Additional		Accumulated Other	Treasury	
	Shares	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Stock, At Cost	Total
December 31, 2001	63.2	$1	$1,069	$1,361	$(130)	$(1,140)	$1,161
Net Loss	-	-	-	(451)	-	-	(451)
Other Comprehensive Income:							
Increase in Additional Minimum Pension Liability, net of income taxes of $146	- -	- -	- -	- -	(250)	- -	(250)
Other	-	-	-	-	(15)	-	(15)
Total Comprehensive Loss							(716)
Issuance of Common Stock pursuant to Stock Plans	2.6	- -	36	- -	- -	- -	36
Sales of ExpressJet Holdings Stock, net of applicable income taxes of $175	- -	- -	291	- -	- -	- -	291
Other	-	-	(5)	-	-	-	(5)
December 31, 2002	65.8	1	1,391	910	(395)	(1,140)	767
Net Income	-	-	-	38	-	-	38
Other Comprehensive Income:							
Increase in Additional Minimum Pension							

Increase in Additional Minimum Pension Liability, net of income taxes of $11	- -	- -	- -	- -	(20)	- -	(20)
Other	-	-	-	-	(2)	-	(2)
Total Comprehensive Income							16
Issuance of Common Stock pursuant to Stock Plans	0.3	- -	5	- -	- -	- -	5
Other	-	-	5	-	-	(1)	4
December 31, 2003	66.1	1	1,401	948	(417)	(1,141)	792
Net Loss	-	-	-	(363)	-	-	(363)
Other Comprehensive Income:							
Increase in Additional Minimum Pension Liability	- -	- -	- -	- -	(176)	- -	(176)
Other	-	-	-	-	6	-	6
Total Comprehensive Loss							(533)
Issuance of Common Stock pursuant to Stock Plans	0.4	- -	5	- -	- -	- -	5
Other	-	-	2	-	-	-	2
December 31, 2004	66.5	$1	$1,408	$ 585	$(587)	$(1,141)	$ 266

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

CONTINENTAL AIRLINES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Continental Airlines, Inc., a Delaware corporation, is a major United States air carrier engaged in the business of transporting passengers, cargo and mail. We are the world's sixth largest airline (as measured by the number of scheduled miles flown by revenue passengers, known as revenue passenger miles, in 2004). Together with ExpressJet Airlines, Inc. ("ExpressJet"), a wholly-owned subsidiary of ExpressJet Holdings, Inc. ("Holdings") from which we purchase seat capacity, and our wholly-owned subsidiary, Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, we operate more than 2,500 daily departures throughout the Americas, Europe and Asia. As of December 31, 2004, we flew to 130 domestic and 113 international destinations and offered additional connecting service through alliances with domestic and foreign carriers. We directly served 18 European cities, seven South American cities, Tel Aviv, Hong Kong and Tokyo as of December 31, 2004. In addition, we provide service to more destinations in Mexico and Central America than any other U.S. airline, serving 39 cities. Through our Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

The current U.S. domestic network carrier financial environment continues to be the worst in history and could deteriorate further. We have had substantial losses since September 11, 2001. Losses of the magnitude incurred by us since September 11, 2001 are not sustainable if they continue. With the current weak domestic yield environment caused in large part by the growth of low cost competitors and fuel prices at twenty-year highs, our cost structure is not competitive. Additionally, it has been increasingly difficult for us to obtain financing in the face of our significant and continuing losses and our current revenue and cost outlook. Many of our network competitors, such as American Airlines, Delta Air Lines, United Airlines and US Airways, have used bankruptcy or the threat of bankruptcy to reduce their costs significantly, and may continue to restructure their costs downward.

The $1.1 billion of cost-cutting and revenue-generating measures that we have implemented in recent years have proven insufficient to return us to profitability in the current environment. As a result, on November 18, 2004, we announced that we needed an annual $500 million reduction in wage and benefit costs. In late 2004 and early 2005, we finalized (but have not yet implemented) changes to wages, work rules and benefits for U.S.-based management and clerical, reservations, food services, airport and cargo agents and customer service employees that result in savings of $169 million annually. On February 28, 2005, we announced that we had reached tentative agreements on new contracts covering our pilots, flight attendants, mechanics and dispatchers following negotiations with ALPA, the IAM, the Teamsters, and the TWU. We also reached a tentative agreement with our simulator technicians, represented by the TWU. Each of the agreements is subject to ratification by the members of each covered work group, and the effectiveness of each agreement is conditioned on ratification of each other agreement. Results of the ratification process for each of the agreements are expected by the end of March 2005. If the agreements are ratified, the wage and benefit reductions will become effective as of the date of ratification and we will begin to implement the agreements. Some of the savings from the agreements will take time to achieve, while others, such as the wage reductions and certain benefit changes, will result in immediate savings. Our officers and Board of Directors implemented their reductions on February 28, 2005.

The tentative agreements, along with previously announced pay and benefit reductions for other work groups, conclude the negotiation process with all our employees, except some CMI and international employees. The pay and benefits of international employees must be adjusted in accordance with laws and regulations of the various countries. We expect to complete the process with these remaining employees in the near future.

Each of the agreements is for a 45-month term, so that the agreements would become amendable again on December 31, 2008. 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. We expect to achieve approximately $500 million of annual cost savings on a run-rate basis if the agreements with our various work groups are fully implemented. This excludes the non-cash cost of approximately ten million stock options that we expect to issue to our employees in connection with the pay and benefit reductions and accruals for certain non-cash costs or charges relating to items contained in the tentative agreements. Further, our ability to achieve certain of the cost reductions will depend on timely and effective implementation of new work rules, actual productivity improvements, implementation of changes in technology pertaining to employee work rules and benefits and other items.

Each of the tentative agreements require that, even if ratified, they will not go into effect (and thus will not be implemented) unless all of the other tentative agreements are ratified. As a result, there is the risk that if one or more of the tentative agreements is not ratified, then one or more of the other tentative agreements would not become effective and thus would not be implemented. If the tentative agreements were not implemented, we would not achieve the necessary $500 million reduction in wage and benefit costs and would ultimately have inadequate liquidity to meet our obligations under current market conditions. We would be forced to pursue alternate survival strategies, including taking significant steps to reduce both our future financial commitments and current cash outflows. This would mean that we would be forced to obtain annual pay and benefit reductions totaling $800 million from our work groups later in 2005.

In addition to having to obtain significantly larger pay and benefit reductions from our work groups, actions we would be forced to take if the tentative agreements are not ratified and do not take effect include canceling plans to lease eight 757-300 aircraft from Boeing Capital Corporation and canceling the accelerated delivery of six 737-800 aircraft which were to be delivered in 2006. Those aircraft would instead be delivered in 2008, the original delivery year. However, we anticipate that we would enter into discussions with Boeing to defer all aircraft deliveries beyond 2005, representing a total of 40 aircraft. We would also be forced to cancel our recent order for ten Boeing 787 aircraft, which were planned for delivery beginning in 2009.

Additionally, we would pursue shrinking our fleet. As part of our contingency planning, we have engaged Focus Aviation, Inc., an aircraft broker, with regard to our Boeing 737-500 fleet. These aircraft have relatively few seats compared to our other mainline aircraft and have become less attractive to operate in a low-fare environment. If the tentative agreements are not ratified and do not take effect, we will market for sale or lease twenty-four 737-500 aircraft. This fleet reduction would result in frequency and aircraft size reductions in certain markets. Moreover, if the aircraft are withdrawn from the fleet, we would need to furlough a significant number of pilots, flight attendants, mechanics and other positions associated with those aircraft.

If the tentative agreements are not ratified and do not take effect, absent significant declines in fuel prices in the near future, we expect that we would fail to meet certain financial covenants in our bank-issued credit card processing agreement. In that event, we would be required to post up to an additional $335 million cash collateral, which would adversely affect our liquidity needed for our operations and debt service.

We could experience an increase in early retirements caused by concern among our employees about our financial stability. The potential of an increase in early retirements could be exacerbated by the fact that our employees are entitled to lump-sum distributions from our defined benefit pension plan upon their retirement, including early retirement within the provisions of the plan. Some of our competitors have terminated, or have sought to terminate, their defined benefit pension plans in bankruptcy, which can cause employees to receive less than the full amount of their pension benefits under applicable federal pension benefit insurance, and can also limit or eliminate the ability of employees to receive their pension benefits in a lump-sum. If liquidity concerns increase, we could experience a significant increase in early retirements which could negatively impact our operations and materially increase our near-term funding obligations to our defined benefit pension plan, which could itself resu lt in a material adverse effect on our liquidity.

If the current adverse environment does not improve, we expect to incur a significant loss in 2005. However, absent adverse factors outside our control such as additional terrorist attacks, hostilities involving the United States or further significant increases in fuel prices, we currently believe that our existing liquidity and projected 2005 cash flows will be sufficient to fund our current operations and other financial obligations through 2005 if we achieve the timely ratification and implementation of the tentative agreements with our unions concerning wage and benefit reductions or, if the tentative agreements are not ratified and do not take effect, by taking the steps described above to reduce our future financial commitments and current cash outflows. These steps include canceling our tentative agreements with Boeing, marketing for sale or lease twenty-four 737-500 aircraft and furloughing a significant number of employees.

In developing our plan for 2005, we considered our current projections for 2005 revenue, including the impact of fare reductions initiated in early January 2005 by Delta Air Lines, current and forward fuel price levels as of March 14, 2005, our expectations with regard to union ratification of the tentative agreements described above and our ability to execute additional financing transactions. While we believe our 2005 plan is achievable, a combination of some or all of several events, most of which are outside of our direct control, may result in us being unable to generate sufficient cash from operations or complete financing transactions that we would need to maintain adequate liquidity through December 31, 2005. These events include the failure of our unions to ratify the tentative agreements so that they do not go into effect, further significant declines in yields and fuel prices higher than current levels for an extended period of time. Additionally, we have significant financial obligation s due in 2006 and thereafter, and we will have inadequate liquidity to meet those obligations if the current financial environment for network carriers continues and we are unable to increase our revenues or decrease our costs considerably.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation -

Our consolidated financial statements include the accounts of Continental and all wholly-owned domestic and foreign subsidiaries. Through November 12, 2003, we also consolidated Holdings. See Note 15 for a discussion of the changes in our ownership of Holdings and the resulting impact on our consolidated financial statements. All intercompany accounts, transactions and profits arising from consolidated entities have been eliminated in consolidation.

b. Investments in Affiliates -

Investments in unconsolidated affiliates that are not variable interest entities (see Note 14) are accounted for by the equity method when we have significant influence over the operations of the companies.

As of December 31, 2004, we had a 49% interest in Compania Panamena de Aviacion, S.A. ("Copa") with a carrying value of $110 million. The investment is accounted for under the equity method of accounting. The carrying amount of our investment exceeds the amount of underlying equity in Copa's net assets by $40 million. This difference is treated as goodwill and is not amortized.

c. Use of Estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

d. Cash and Cash Equivalents -

We classify short-term, highly liquid investments, which are readily convertible into cash and have a maturity of three months or less when purchased as cash and cash equivalents. Restricted cash is primarily collateral for estimated future workers' compensation claims, credit card processing contracts, letters of credit, performance bonds and interest rate swap agreements.

e. Short-Term Investments -

We invest in commercial paper, asset-backed securities and U.S. government agency securities with original maturities in excess of three months but less than one year. These investments are classified as short-term investments in the accompanying consolidated balance sheet. Short-term investments are stated at cost, which approximates market value.

f. Spare Parts and Supplies -

Inventories, expendable parts and supplies relate to flight equipment and are carried at average acquisition cost and are expensed when consumed in operations. An allowance for obsolescence is provided over the remaining estimated useful life of the related aircraft, plus allowances for spare parts currently identified as excess to reduce the carrying costs to the lower of amortized cost or net realizable value. These allowances are based on management estimates, which are subject to change.

g. Property and Equipment -

Property and equipment are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Jet aircraft are assumed to have an estimated residual value of 15% of original cost; other categories of property and equipment are assumed to have no residual value. The estimated useful lives for our property and equipment are as follows:

	Estimated Useful Life
Jet aircraft and simulators	25 to 30 years
Buildings and improvements	10 to 30 years
Food service equipment	6 to 10 years
Maintenance and engineering equipment	8 years

Surface transportation and ground equipment	6 years
Communication and meteorological equipment	5 years
Computer software	3 to 10 years
Capital lease - flight and ground equipment	Lease Term

h. Routes and Airport Operating Rights -

Routes represent the right to fly between cities in different countries. Routes are indefinite-lived intangible assets and are not amortized. We perform a test for impairment of our routes in the fourth quarter of each year.

Airport operating rights represent gate space and slots (the right to schedule an arrival or departure within designated hours at a particular airport). Airport operating rights are amortized over the stated term of the related lease or 20 years.

i. Measurement of Impairment of Long-Lived Assets -

We record impairment losses on long-lived assets, consisting principally of property and equipment and airport operating rights, when events or changes in circumstances indicate, in management's judgement, that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The net carrying value of assets not recoverable is reduced to fair value if lower than carrying value. In determining the fair market value of the assets, we consider market trends, recent transactions involving sales of similar assets and, if necessary, estimates of future discounted cash flows.

j. Revenue/Air Traffic Liability -

Passenger revenue is recognized either when transportation is provided or when the ticket expires unused rather than when a ticket is sold. Nonrefundable tickets expire on the date of intended flight, unless the date is extended by notification from the customer or payment of a change fee.

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. We record the related passenger revenue and related expenses, with payments under the capacity purchase agreement reflected as a separate operating expense.

Revenue from the shipment of cargo and mail is recognized when transportation is provided. Other revenue includes charter services, ticket change fees and other incidental services.

The amount of passenger ticket sales and sales of frequent flyer mileage credits to partners not yet recognized as revenue is included in our consolidated balance sheets as air traffic liability. We perform periodic evaluations of the estimated liability for passenger ticket sales and any adjustments, which can be significant, are included in results of operations for the periods in which the evaluations are completed. These adjustments relate primarily to differences between our statistical estimation of certain revenue transactions and the related sales price, as well as refunds, exchanges, interline transactions and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.

k. Frequent Flyer Program -

For those OnePass accounts that have sufficient mileage credits to claim the lowest level of free travel, we record a liability for either the estimated incremental cost of providing travel awards that are expected to be redeemed on us or the contractual rate of expected redemption on alliance carriers. Incremental cost includes the cost of fuel, meals, insurance and miscellaneous supplies and does not include any costs for aircraft ownership, maintenance, labor or overhead allocation. A change to these cost estimates, the actual redemption activity, the amount of redemptions on alliance carriers or the minimum award level could have a significant impact on our liability in the period of change as well as future years. We also record a liability for payments we expect to make to partner airlines for OnePass members' redemptions for travel on the other airline. The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and changes in the OnePass pro gram, and is included in the accompanying consolidated balance sheets as air traffic liability. In the fourth quarter of 2004, we recorded a change in expected future costs for frequent flyer reward redemptions on alliance carriers, resulting in a one-time increase in other operating expenses of $18 million.

We also sell mileage credits in our frequent flyer program to participating partners, such as credit/debit card companies, phone companies, alliance carriers, hotels, car rental agencies and various shopping and gift partners. Revenue from the sale of mileage credits is deferred and recognized as passenger revenue over the period when transportation is expected to be provided, based on estimates of the fair value of tickets to be redeemed. Amounts received in excess of the tickets' fair value are recognized in income currently and classified as a reimbursement of advertising expenses. A change to the time period over which the mileage credits are used (currently six to 32 months), the actual redemption activity or our estimate of the number or fair value of tickets could have a significant impact on our revenue in the year of change as well as future years. In the fourth quarter of 2003, we adjusted our estimates of the mileage credits we expect to be redeemed for travel, resulting in a one-time incre ase in other revenue of $24 million.

At December 31, 2004, we estimated that approximately 2.1 million free travel awards outstanding were expected to be redeemed for free travel on Continental, ExpressJet, CMI or participating alliance carriers. Our total liability for future OnePass award redemptions for free travel and unrecognized revenue from sales of OnePass miles to other companies was approximately $195 million at December 31, 2004. This liability is recognized as a component of air traffic liability in our consolidated balance sheet.

l. Deferred Income Taxes -

Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Due to our continued losses, we were required to provide a valuation allowance on the deferred tax assets recorded on losses beginning with the third quarter of 2004. As a result, our net losses for the third and fourth quarter of 2004 were not reduced by any tax benefit.

m.

n. Maintenance and Repair Costs -

Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expense as incurred, including engine overhaul costs covered by power-by-the-hour agreements, which are expensed on the basis of hours flown.

o. Advertising Costs -

We expense the costs of advertising as incurred. Gross advertising expense was $84 million, $87 million and $89 million for the years ended December 31, 2004, 2003 and 2002, respectively. These amounts are reported in the consolidated statement of operations net of the reimbursement of some of our advertising expenses by third-party purchasers of our OnePass miles.

p. Stock Plans and Awards -

We account for our stock-based compensation plans under the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). No stock-based employee compensation cost is reflected in net income (loss) for our stock option plans, 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 Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation" ("SFAS 123"), for the years ended December 31, 2004, 2003 and 2002. See Note 8 for the assumptions we used to compute the pro forma amounts.

	2004	2003	2002
Net income (loss), as reported	$(363)	$ 38	$(451)
Deduct: total stock-based employee compensation expense determined under SFAS 123, net of tax	(6)	(6)	(20)
Net income (loss), pro forma	$(369)	$ 32	$(471)
Basic earnings (loss) per share:			
As reported	$(5.49)	$0.58	$(7.02)
Pro forma	$(5.58)	$0.49	$(7.33)
Diluted earnings (loss) per share:			
As reported	$(5.55)	$0.57	$(7.02)
Pro forma	$(5.64)	$0.47	$(7.33)

q. ExpressJet Capacity Purchase, Net -

Payments made to ExpressJet under our capacity purchase agreement are reported as ExpressJet capacity purchase, net. In addition to the payments for the purchased capacity, ExpressJet capacity purchase, net, also includes ExpressJet's fuel expense in excess of the cap provided in the capacity purchase agreement and a related fuel purchase agreement (71.2 cents per gallon, including fuel taxes, in 2004 and 2003) and is net of our sublease income on aircraft we lease to ExpressJet. Prior to November 12, 2003, the date we deconsolidated Holdings, all of these items were eliminated in our consolidated financial statements.

r. Reclassifications -

Certain reclassifications have been made in the prior years' consolidated financial statement amounts and related note disclosures to conform with the current year's presentation.

NOTE 2 - PENDING ACCOUNTING PRONOUNCEMENT

In December 2004, the 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 option-pricing models. 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 the beginning of the third quarter of 2005. It will be effective for all awards granted after that date. For those awards granted prior to the adoption date but for which the vesting period is not complete, expense will be recognized based on the grant-date fair value and vesting schedule of those awards calculated for the pro forma disclosures under SFAS 123. See Note 1(o) for the impact of the fair value recognition provisions of SFAS 123 on our net income (loss) and earnings (loss) per share. The adoption of this standard will not impact on our financial position or liquidity.

NOTE 3 - EARNINGS PER SHARE

Basic earnings (loss) per common share ("EPS") excludes dilution and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings (losses).

On September 30, 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," which changes the treatment of contingently convertible debt instruments in the calculation of diluted earnings per share. Contingently convertible debt instruments are financial instruments that include a contingent feature, such as a feature by which the debt becomes convertible into common shares of the issuer if the issuer's common stock price has exceeded a predetermined threshold for a specified time period. Prior to the consensus, most issuers, including us, excluded the potential dilutive effect of the conversion feature from diluted earnings per share until the contingency threshold was met. EITF Issue No. 04-8 provides that these debt instruments should be included in the earnings per share computation (if dilutive) regardless of whether the contingent feature has been met. This change does not have any effect o n net income (loss), but it can affect the related per share amounts.

We adopted EITF Issue No. 04-8 as of December 31, 2004 and restated the computations of earnings (loss) per share for prior periods. The assumed conversion of our 5% Convertible Notes issued in June 2003 was antidilutive to our earnings per share calculations and accordingly was not included in the computation of diluted earnings per share. Additionally, we adjusted net income (loss) in our diluted earnings per share calculations to reflect the reduction of our proportionate equity in Holdings resulting from the assumed conversion of Holdings' contingently convertible debt securities. These changes had no impact on our diluted loss per share in 2002 and decreased our 2003 diluted earnings per share by $0.01.

In each of years 2002 through 2004, our Convertible Junior Subordinated Debentures Held by Subsidiary Trust and 4.5% Convertible Notes were also antidilutive and therefore were not included in the calculation of diluted earnings per share.

	2004	2003	2002
Numerator:			
Numerator for basic earnings per share - net income (loss)	$(363)	$ 38	$(451)
Effect of dilutive securities issued by equity investee	(4)	(1)	-
Numerator for diluted earnings per share - net income (loss) after effect of dilutive securities of equity investee	$(367)	$ 37	$(451)

Denominator:			
Denominator for basic earnings (loss) per share - weighted-average shares	66.1	65.4	64.2
Effect of dilutive securities - employee stock options	-	0.2	-
Denominator for diluted earnings (loss) per share - adjusted weighted - average and assumed conversions	66.1	65.6	64.2

Approximately 6.2 million in 2004, 5.3 million in 2003 and 4.0 million in 2002 of weighted average options to purchase shares of our Class B common stock were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares or the effect of including the options would have been antidilutive. In addition, 17.9 million, 14.0 million and 8.7 million potential common shares related to convertible debt securities were excluded from the computation of diluted earnings per share in 2004, 2003 and 2002, respectively, because they were antidilutive.

NOTE 4 - LONG-TERM DEBT

Long-term debt as of December 31 is summarized as follows (in millions):

	2004	2003
Secured		
Notes payable, interest rates of 5.0% to 8.5%, (weighted average rate of 6.99% as of December 31, 2004) payable through 2019	$3,147	$3,268
Floating rate notes, interest rates of LIBOR (2.56% on December 31, 2004) plus 0.45% to 1.3%; Eurodollar (2.54% on December 31, 2004) plus 1.375%, payable through 2014	872	923
Floating rate notes, interest rate of LIBOR plus 2.5% to 4.5%, payable through 2016	343	275
Floating rate notes, interest rate of LIBOR plus 4.53%, payable through 2007	123	139
Floating rate notes, interest rate of LIBOR plus 7.5%, payable through 2007	97	97
Other	17	17
Unsecured		
Convertible junior subordinated debentures, interest rate of 6.0%, payable in 2030	248	248
Convertible notes, interest rate of 4.5%, payable in 2007	200	200
Senior notes payable, interest rate of 8.0%, payable in 2005	195	195
Convertible notes, interest rate of 5.0%, callable beginning in 2010	175	175
Note payable, interest rate of 8.1%, payable in 2008	112	112
Other	8	8
	5,537	5,657
Less: current maturities	642	397
Total	$4,895	$5,260

Maturities of long-term debt due over the next five years are as follows (in millions):

Year ending December 31,	
2005	$642
2006	533
2007	908
2008	603
2009	468

Substantially all of our property and equipment and spare parts inventory is subject to agreements securing our indebtedness. We do not have any debt obligations that would be accelerated as a result of a credit rating downgrade.

We also have letters of credit and performance bonds relating to various real estate and customs obligations at December 31, 2004 in the amount of $54 million with expiration dates through June 2008.

In October 2004, we issued two floating rate classes of Series 2004-1 Pass Through Trust Certificates in the aggregate amount of $77 million that amortize through November 2011. The certificates are secured by a lien on 21 spare engines.

During the first half of 2004, we incurred $86 million of floating rate indebtedness and $128 million of fixed rate indebtedness. These loans are secured by the five 757-300 aircraft that were delivered in the first half of 2004.

In May 2003, we issued $100 million of Floating Rate Secured Subordinated Notes due December 2007 (the "Junior Notes"). The Junior Notes are secured by a portion of our spare parts inventory and bear interest at the three-month LIBOR plus 7.5%. In connection with the Junior Notes and with $200 million of Floating Rate Secured Notes due December 2007 secured by the same pool of spare parts (the "Senior Notes"), we have entered into a collateral maintenance agreement requiring us, among other things, to maintain a loan-to-collateral value ratio of not greater than 45% with respect to the Senior Notes and a loan-to-collateral value ratio of not greater than 67.5% with respect to both the Senior Notes and the Junior Notes combined. We must also maintain a certain level of rotable components within the spare parts collateral pool. The ratios are calculated on a semi-annual basis based on an independent appraisal of the spare parts collateral pool. If any of the collateral ratio requirements are not me t, we must take action to meet all ratio requirements by adding additional eligible spare parts to the collateral pool, purchasing or redeeming some of the outstanding notes, providing other collateral acceptable to the bond insurance policy provider for the Senior Notes, or any combination of the above. We met the collateral ratio requirements at December 25, 2004, the most recent valuation date.

The $175 million of 5% Convertible Notes due 2023 are convertible into our Class B common stock at an initial conversion price of $20 per share, subject to certain conditions on conversion. The notes are redeemable for cash at our option on or after June 18, 2010 at par plus accrued and unpaid interest, if any. Holders of the notes may require us to repurchase the notes on June 15 of 2010, 2013 or 2018 or in the event of certain changes in control at par plus accrued and unpaid interest, if any.

The $200 million of 4.5% convertible notes due February 1, 2007 are convertible into our common stock at an initial conversion price of $40 per share. The notes are redeemable at our option on or after February 5, 2005, at specified redemption prices.

In November 2000, Continental Airlines Finance Trust II, a Delaware statutory business trust (the "Trust") of which we own all the common trust securities, completed a private placement of five million 6% Convertible Preferred Securities, Term Income Deferrable Equity Securities or "TIDES". The TIDES have a liquidation value of $50 per preferred security and are convertible at any time at the option of the holder into shares of Class B common stock at a conversion rate of $60 per share of Class B common stock (equivalent to approximately 0.8333 share of Class B common stock for each preferred security). Distributions on the preferred securities are payable by the Trust at an annual rate of 6% of the liquidation value of $50 per preferred security.

The sole assets of the trust are 6% Convertible Junior Subordinated Debentures ("Convertible Subordinated Debentures") with an aggregate principal amount of $248 million as of December 31, 2004 issued by us and which mature on November 15, 2030. The Convertible Subordinated Debentures are redeemable by us, in whole or in part, on or after November 20, 2003 at designated redemption prices. If we redeem the Convertible Subordinated Debentures, the Trust must redeem the TIDES on a pro rata basis having an aggregate liquidation value equal to the aggregate principal amount of the Convertible Subordinated Debentures redeemed. Otherwise, the TIDES will be redeemed upon maturity of the Convertible Subordinated Debentures, unless previously converted.

Taking into consideration our obligations under (i) the Preferred Securities Guarantee relating to the TIDES, (ii) the Indenture relating to the Convertible Subordinated Debentures to pay all debt and obligations and all costs and expenses of the Trust (other than U.S. withholding taxes) and (iii) the Indenture, the Declaration relating to the TIDES and the Convertible Subordinated Debentures, we have fully and unconditionally guaranteed payment of (i) the distributions on the TIDES, (ii) the amount payable upon redemption of the TIDES and (iii) the liquidation amount of the TIDES.

NOTE 5 - LEASES

We lease certain aircraft and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, maintenance facilities, training centers and general offices. Most aircraft leases include both renewal options and purchase options. The purchase options are generally effective at the end of the lease term at the then-current fair market value. Our leases do not include residual value guarantees.

At December 31, 2004, the scheduled future minimum lease payments under capital leases and the scheduled future minimum lease rental payments required under operating leases, that have initial or remaining noncancelable lease terms in excess of one year, are as follows (in millions):

	Capital Leases	Operating Leases	
		Aircraft	Non-aircraft
Year ending December 31,			
2005	$ 46	$ 982	$ 406
2006	39	933	397
2007	40	903	390
2008	45	884	369
2009	16	840	370
Later years	459	6,707	5,809
Total minimum lease payments	645	$11,249	$7,741
Less: amount representing interest	345		
Present value of capital leases	300		
Less: current maturities of capital leases	28		
Long-term capital leases	$272		

At December 31, 2004, Continental had 474 aircraft under operating leases and seven aircraft under capital leases, including aircraft subleased to ExpressJet. These operating leases have remaining lease terms ranging up to 20-1/4 years. Projected sublease income to be received from ExpressJet through 2021, not included in the above table, is approximately $3.9 billion.

NOTE 6 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As part of our risk management program, we use or have used a variety of financial instruments, including petroleum call options, petroleum swap contracts, jet fuel purchase commitments, foreign currency average rate options, foreign currency forward contracts and interest rate cap and swap agreements. We do not hold or issue derivative financial instruments for trading purposes.

Notional Amounts and Credit Exposure of Derivatives

The notional amounts of derivative financial instruments summarized below do not represent amounts exchanged between parties and, therefore, are not a measure of our exposure resulting from our use of derivatives. The amounts exchanged are calculated based upon the notional amounts as well as other terms of the instruments, which relate to interest rates, exchange rates or other indices.

Fuel Price Risk Management

We use a combination of petroleum call options, petroleum swap contracts and/or jet fuel purchase commitments to provide us with short-term hedge protection (generally three to six months) against sudden and significant increases in jet fuel prices, while simultaneously ensuring that we are not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel.

We account for the call options and swap contracts as cash flow hedges. They are recorded at fair value with the offset to accumulated other comprehensive income (loss), net of applicable income taxes and hedge ineffectiveness, and recognized as a component of fuel expense when the underlying fuel being hedged is used. The ineffective portion of these call options and swap agreements is determined based on the correlation between West Texas Intermediate Crude Oil prices and jet fuel prices. Hedge ineffectiveness is included in other nonoperating income (expense) in the accompanying consolidated statement of operations and was not material for the years ended December 31, 2004, 2003 and 2002. Our gain related to these hedging instruments, net of premium expense, was $74 million in 2004 and was not material in 2003 or 2002.

We had no fuel hedges outstanding at December 31, 2004 or December 31, 2003, although we did have fuel hedges in place during these years.

Foreign Currency Exchange Risk Management

We use a combination of foreign currency average rate options and forward contracts to hedge against the currency risk associated with our forecasted Japanese yen, British pound, Canadian dollar and euro-denominated net cash flows. The average rate options and forward contracts have only nominal intrinsic value at the date contracted.

We account for these instruments as cash flow hedges. They are recorded at fair value with the offset to accumulated other comprehensive income (loss), net of applicable income taxes and hedge ineffectiveness, and recognized as passenger revenue when the underlying service is provided. We measure hedge effectiveness of average rate options and forward contracts based on the forward price of the underlying currency. Hedge ineffectiveness is included in other nonoperating income (expense) in the accompanying consolidated statement of operations and was not material for the years ended December 31, 2004, 2003 and 2002. Our net gain (loss) on our foreign currency forward and option contracts was $(10) million for the year ended December 31, 2004 and was not material in the years ended December 31, 2003 and 2002. These gains are included in passenger revenue in the accompanying consolidated statement of operations.

We had the following foreign currency hedges outstanding at December 31, 2004 (for 2005 projected cash flows) and December 31, 2003 (for 2004 projected cash flows):

- Forward and option contracts to hedge approximately 61% of our projected Japanese yen-denominated net cash flows for both 2005 and 2004.
- Forward and option contracts to hedge approximately 45% and 63% of our British pound-denominated net cash flows for 2005 and 2004, respectively.
- Forward contracts to hedge approximately 42% of our projected Canadian dollar-denominated net cash flows for 2005.
- Forward and option contracts to hedge approximately 39% and 50% of our projected euro-denominated net cash flows for 2005 and the first six months of 2004, respectively.

These hedges had a liability fair value of $7 million at both December 31, 2004 and December 31, 2003.

Interest Rate Risk Management

We have entered into an interest rate swap agreement to reduce the impact of potential interest rate increases on floating rate debt. The notional amount of the outstanding interest rate swap at December 31, 2004 and 2003 was $143 million and $153 million, respectively. The swap expires in November 2005. We account for the interest rate swap as a cash flow hedge whereby the fair value of the interest rate swap is reflected in other assets in the accompanying consolidated balance sheet with the offset, net of income taxes and any hedge ineffectiveness (which is not material), recorded as accumulated other comprehensive income (loss). The fair value of the interest rate swap liability was $4 million at December 31, 2004 and $11 million at December 31, 2003. Amounts recorded in accumulated other comprehensive income (loss) are amortized as an adjustment to interest expense over the term of the related hedge. Such amounts were not material during 2004, 2003 or 2002.

Other Financial Instruments

Judgment is necessarily required in interpreting market data and the use of different market assumptions or estimation methodologies may affect the estimated fair value amounts.

a. Cash Equivalents -

   Cash equivalents are carried at cost and consist primarily of commercial paper with original maturities of three months or less and approximate fair value due to their short-term maturity.

b. Short-term Investments -

   Short-term investments consist primarily of commercial paper, asset-backed securities and U.S. government agency securities with original maturities in excess of three months but less than one year and approximate fair value due to their short-term maturity.

c. Internet Travel Distribution Investments -

   In November 2003, we sold all of our investment in Hotwire, Inc. for $42 million in cash, resulting in a gain of $40 million. During 2003 and 2004, we sold all of our investment in Orbitz in two separate transactions. On December 19, 2003, we sold approximately 28% of our investment in Orbitz in connection with its initial public offering ("IPO"), reducing our interest in Orbitz from approximately 13% to 9%, for proceeds of $34 million, net of underwriting discount. Our gain on the sale was $32 million. Subsequent to the IPO in 2003, we accounted for our investment in Orbitz in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". We designated the remaining investment as a "trading security", based on our intention to dispose of the securities of Orbitz that we owned. Therefore, the remaining investment was carried at its fair value, with changes in the fair value reported in our statement of operations. The fair value adjustment on the Orbitz shares duri ng 2004 was $15 million and is included in other nonoperating income in the accompanying consolidated statement of operations, as are the gains recognized in 2003 on the dispositions of Hotwire and Orbitz. On November 12, 2004, we sold our remaining Orbitz shares for proceeds of $98 million. Since our initial investment in Orbitz, we have recognized cumulative gains of $123 million.

   During 2000, we established an officer retention and incentive award plan (the "Incentive Award Program") that allows officers to share in approximately 25% of the appreciation of certain of our internet-related investments. Under the Incentive Award Program, participants receive phantom appreciation rights ("PARs") when we make investments in internet-related businesses. We made no PARs awards in 2004, one PARs award and one follow-up award in 2003 and five PARs awards and one follow-up award in 2002. Each PARs is a right, which generally vests quarterly over a four-year period, to receive the difference, if any, between the market value of the applicable equity investment over the established base value (generally the cost of the investment). Our related PARs expense was $3 million in 2004, $21 million in 2003 and $9 million in 2002. At December 31, 2004, our remaining PARS liability was $2 million, which is expected to be paid by 2006.

d. Debt -

   The fair value of our debt with a carrying value of $4.9 billion at each of December 31, 2004 and 2003 was approximately $4.3 billion and $4.6 billion, respectively. These estimates were based on the discounted amount of future cash flows using our current incremental rate of borrowing for a similar liability or market prices. The fair value of the remaining debt was not practicable to estimate.

e. Investment in Company Owned Life Insurance (COLI) Products -

In connection with certain of our supplemental retirement plans, we have company owned life insurance policies on certain of our officers. As of December 31, 2004 and 2003, the carrying value of the underlying investments was $38 million and $36 million, respectively, which approximated market value.

f. Note Receivable from Holdings -

The fair value of our note receivable from Holdings with a carrying value of $99 million and $193 million at December 31, 2004 and 2003, respectively, approximated carrying value. The fair value was estimated based on anticipated future cash flows discounted at our current incremental rate of borrowing for similar liabilities.

Credit Exposure of Financial Instruments

We are exposed to credit losses in the event of non-performance by issuers of financial instruments. To manage credit risks, we select issuers based on credit ratings, limit our exposure to a single issuer under our defined guidelines and monitor the market position with each counterparty.

NOTE 7 - PREFERRED AND COMMON STOCK

Preferred Stock

We have ten million shares of authorized preferred stock. We currently have one share of Series B preferred stock outstanding, which is held by Northwest Airlines, Inc. The material provisions of the Series B Junior Participating Preferred Stock are listed below:

Ranking. The Series B preferred stock ranks junior to all classes of capital stock other than our common stock upon liquidation, dissolution or winding up of the company.

Dividends. No dividends are payable on the Series B preferred stock.

Voting Rights. The holder of the Series B preferred stock has the right to block certain actions we may seek to take, including:

- Certain business combinations and similar changes of control transactions involving us and a third party major air carrier;
- Certain amendments to our rights plan (or redemption of those rights);
- Any dividend or distribution of all or substantially all of our assets; and
- Certain reorganizations and restructuring transactions involving us.

Redemption. The Series B preferred stock is redeemable by us at a nominal price under the following circumstances:

- Northwest Airlines, Inc. transfers or encumbers the Series B preferred stock;
- There is a change of control of Northwest Airlines Corporation involving a third party major air carrier;
- Our alliance with Northwest Airlines Corporation terminates or expires (other than as a result of a breach by us); or
- Northwest Airlines Corporation materially breaches its standstill obligations to us or triggers our rights agreement.

Common Stock

We currently have one class of common stock issued and outstanding, Class B common stock. Each share of Class B common stock is entitled to one vote per share. At December 31, 2004, approximately 29 million shares were reserved for future issuance related to the conversion of convertible debt securities and the issuance of stock under our stock incentive plans.

Stockholder Rights Plan

We have a Rights Plan which was adopted effective November 20, 1998 and expires on November 20, 2008, unless extended or unless the rights are earlier redeemed or exchanged by us.

The rights become exercisable upon the earlier of (i) the tenth day following a public announcement or public disclosure of facts indicating that a person or group of affiliated or associated persons has acquired beneficial ownership of 15% (25% in the case of an institutional investor) or more of the total number of votes entitled to be cast generally by holders of our common stock then outstanding, voting together as a single class (such person or group being an "Acquiring Person"), or (ii) the tenth business day (or such later date as may be determined by action of our Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in any person becoming an Acquiring Person. Certain persons and entities related to us are exempt from the definition of "Acquiring Person;" however, Northwest Airlines is not an exempt entity.

Subject to certain adjustments, if any person becomes an Acquiring Person, each holder of a right, other than rights beneficially owned by the Acquiring Person and its affiliates and associates (which rights will thereafter be void), will thereafter have the right to receive, upon exercise thereof, that number of shares of Class B common stock having a market value of two times the exercise price ($200, subject to adjustment) of the right.

If at any time after a person becomes an Acquiring Person, (i) we merge into any other person, (ii) any person merges into us and all of our outstanding common stock does not remain outstanding after such merger, or (iii) we sell 50% or more of our consolidated assets or earning power, each holder of a right (other than the Acquiring Person and its affiliates and associates) will have the right to receive, upon the exercise thereof, that number of shares of common stock of the acquiring corporation (including us as successor thereto or as the surviving corporation) which at the time of such transaction will have a market value of two times the exercise price of the right.

At any time after any person becomes an Acquiring Person, and prior to the acquisition by any person or group of a majority of our voting power, our Board of Directors may exchange the rights (other than rights owned by such Acquiring Person, which will have become void), in whole or in part, at an exchange ratio of one share of Class B common stock per right (subject to adjustment).

At any time prior to any person becoming an Acquiring Person, our Board of Directors may redeem the rights at a price of $.001 per right. The Rights Plan may be amended by our Board of Directors without the consent of the holders of the rights, except that from and after the time that any person becomes an Acquiring Person no such amendment may adversely affect the interests of the holders of the rights (other than the Acquiring Person and its affiliates and associates). Until a right is exercised, its holder, as such, will have no rights as one of our stockholders, including the right to vote or to receive dividends.

Restrictions on Dividends and Share Repurchases

Under our tentative agreement with the union representing our pilots, if that agreement becomes effective, we have agreed that we will not declare a cash dividend or repurchase our outstanding common stock for cash until we have contributed at least $500 million to the pilots' defined benefit plan, measured from the date of ratification of the pilots' tentative agreement.

NOTE 8 - STOCK PLANS AND AWARDS

Stock Options

Our stockholders have approved the following incentive plans, which, subject to adjustment as provided in the respective plans, permit the issuance of the number of shares of Class B common stock set forth below:

Incentive Plan 2000	3,000,000 shares
1998 Stock Incentive Plan	5,500,000 shares
1997 Stock Incentive Plan	2,000,000 shares
1994 Incentive Equity Plan	9,000,000 shares

The Incentive Plan 2000 provides for awards in the form of stock options, restricted stock, performance awards and incentive awards. Each of the other plans permits awards of either stock options or restricted stock. Each plan permits awards to be made to the non-employee directors of the company or the employees of the company or its subsidiaries. Stock issued under the plans may be originally issued shares, treasury shares or a combination thereof. Approximately 972,000 shares remained for award under the plans as of December 31, 2004.

Stock options are awarded under the plans with exercise prices equal to the fair market value of the stock on the date of grant and typically vest over a three to four-year period. Employee stock options generally have a five-year term, while outside director stock options have ten-year terms.

Under the terms of the Plans, a change in control would result in all outstanding options under these plans becoming exercisable in full and restrictions on restricted shares being terminated.

The table below summarizes stock option transactions pursuant to our Plans (share data in thousands):

	2004		2003		2002	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	6,469	$17.86	6,871	$18.28	980	$36.34
Granted	729	$11.99	296	$15.00	6,079	$15.82
Exercised	(181)	$14.62	(306)	$15.62	(65)	$28.04
Cancelled	(842)	$19.10	(392)	$24.82	(123)	$35.45
Outstanding at end of year	6,175	$17.10	6,469	$17.86	6,871	$18.28
Options exer-cisable at end of year	4,837	$17.91	5,018	$18.27	3,856	$19.61

The following tables summarize the range of exercise prices and the weighted average remaining contractual life of the options outstanding and the range of exercise prices for the options exercisable at December 31, 2004 (share data in thousands):

			Options Outstanding
Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.65-$15.77	904	4.57	$11.70
$15.78	4,719	2.41	$15.78
$16.84-$56.81	552	3.71	$37.14
$3.65-$56.81	6,175	2.84	$17.10

		Options Exercisable
Range of Exercise Prices	Exercisable	Weighted Average Exercise Price
$3.65-$15.77	173	$11.26
$15.78	4,212	$15.78
$16.84-$56.81	452	$40.34
$3.65-$56.81	4,837	$17.91

Anticipated Grant of Options to Employees

On February 28, 2005, we announced that we plan to issue to our employees stock options for approximately ten million shares of our Class B common stock upon ratification and effectiveness of the tentative agreements for wage and benefit cost reductions with the unions representing our work groups. The stock options will be issued pursuant to two plans, a broad-based plan for all of our employees and a supplemental plan for eligible pilots.

We anticipate that substantially all of the options will be issued by the end of March 2005, subject to the ratification and effectiveness of the tentative agreements with our major unions. Under the stock option program, each stock option grant will represent the right to acquire shares of our common stock on the New York Stock Exchange at the closing price of the common stock on the date of grant. The options will generally become exercisable in three equal installments on the first, second and third anniversaries of the date of grant, and will have a term ranging from six to eight years. No further options may be granted under either plan after ten years from the date the plan is adopted by our Board of Directors.

The stock option program applies to all U.S.-based employees, except officers and members of Continental's Board of Directors, and international employees where practical based on foreign laws and regulations.

Also in connection with the wage and benefit cost reductions, our five most senior executives agreed to surrender options for 14,293 shares of our common stock effective February 28, 2005.

Restricted Stock

In April 2002, we awarded 444,750 shares of restricted stock. The restricted stock was awarded pursuant to our equity incentive plans and had a fair value on the grant date of $12.5 million ($28.10 per share). The restricted stock is scheduled to vest in 25% increments on the first four anniversaries of the grant.

Our five most senior executives agreed to surrender 12,225 shares of restricted stock effective February 28, 2005 in connection with the wage and benefit cost reductions.

Employee Stock Purchase Plan

On March 12, 2004, our stockholders voted to adopt the 2004 Employee Stock Purchase Plan. All of our employees (including CMI employees) are eligible to participate in this program, which began in the second quarter of 2004. Participants may purchase shares of our Class B common stock at 85% (or higher in certain circumstances) of the fair market value of the stock on either the first day or the last day of the option period (whichever is lower), limited to a minimum purchase price of $10 per share. In the aggregate, 3,000,000 shares may be purchased. These shares may be newly issued or reacquired shares. During 2004, 249,160 shares of Class B common stock were issued to participants at a purchase price of $10 per share. An additional 237,984 shares were issued in January 2005 at a purchase price of $10 per share.

Under a former plan, all of our employees (including ExpressJet and CMI employees) were eligible to participate in our employee stock purchase program under which they could purchase shares of Class B common stock at 85% of the lower of the fair market value on the first day of the option period or the last day of the option period. During 2002, 2,076,745 shares of Class B common stock were issued at prices ranging from $4.58 to $34.60. No shares have been issued under this plan subsequent to 2002.

SFAS 123 Assumptions

We account for our stock-based compensation plans under the recognition and measurement principles of APB 25. Pro forma information regarding net income and earnings per share disclosed in Note 1(o) has been determined as if we had accounted for our employee stock options and purchase rights under the fair value method of SFAS 123. For purposes of the pro forma SFAS 123 calculation, the fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions indicated below for the year ended December 31:

	2004	2003	2002
Risk-free interest rate	3.3%	2.5%	2.9%
Dividend yield	0%	0%	0%
Expected market price volatility of our Class B common stock	78%	77%	64%
Weighted-average expected life of options (years)	3.5	3.2	2.0
Weighted-average fair value of options granted	$6.59	$7.77	$5.73

For purposes of the pro forma SFAS 123 calculation, the fair value of the purchase rights under the stock purchase plans was also estimated using the Black-Scholes model with the following weighted-average assumptions indicated below for the year ended December 31:

	2004	2003	2002
Risk-free interest rate	1.4%	N/A	1.7%
Dividend yield	0%	N/A	0%
Expected market price volatility of our Class B common stock	48%	N/A	63%
Weighted-average expected life of the purchase rights (years)	0.25	N/A	0.25
Weighted-average fair value of purchase rights granted	$3.40	N/A	$2.86

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options and purchase rights have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options and purchase rights.

Restricted Stock Units

During 2004, we implemented the Restricted Stock Unit (RSU) program. This program is designed to reward our officers for significant increases in our stock price over multi-year measurement periods. If our stock price reaches a target price and averages at least that level for 20 consecutive trading days, the officers are paid cash for each unit equal to the stock price at the date specified below. As of March 14, 2005, there were awards outstanding with respect to two performance periods that began on April 1, 2004 and end as follows:

	Units (In thousands)	Target Price per Share
March 31, 2006	1,100	$20.48
December 31, 2007	1,383	22.48
	2,483	

On February 15, 2005, our officers voluntarily surrendered all of their awards for the performance period ending June 30, 2005 (not shown above) as part of the wage and benefit cost reductions. As of December 31, 2004, our stock price had not achieved any of the target prices and, accordingly, we had recorded no expense or liability related to the RSU program.

NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss (which are all net of applicable income taxes) are as follows (in millions):

	Minimum Pension Liability	Unrealized Gain/(Loss) on Derivative Instruments	Total
Balance at December 31, 2001	$(138)	$ 8	$(130)
Current year net change in accumulated other comprehensive loss	(250)	(15)	(265)
Balance at December 31, 2002	(388)	(7)	(395)
Current year net change in accumulated other comprehensive loss	(20)	(2)	(22)
Balance at December 31, 2003	(408)	(9)	(417)
Current year net change in accumulated other comprehensive loss	(176)	6	(170)
Balance at December 31, 2004	$(584)	$ (3)	$(587)

The minimum pension liability recorded in other comprehensive loss before applicable income taxes was $818 million and $642 million at December 31, 2004 and 2003, respectively.

NOTE 10 - EMPLOYEE BENEFIT PLANS

We have defined benefit pension and defined contribution (including 401(k) savings) plans. Substantially all of our domestic employees are covered by one or more of these plans. The benefits under the active defined benefit pension plan are based on years of service and an employee's final average compensation. Our pension obligations are measured as of December 31 of each year.

Pension Plan. The following table sets forth the defined benefit pension plan's change in projected benefit obligation (in millions) at December 31:

	2004	2003
Accumulated benefit obligation	$2,412	$1,958
Projected benefit obligation at beginning of year	$2,362	$2,061
Service cost	151	156
Interest cost	152	134
Plan amendments	(6)	-
Actuarial losses	310	192
Benefits paid	(113)	(187)
Other	7	6
Projected benefit obligation at end of year	$2,863	$2,362

The following table sets forth the defined benefit pension plan's change in the fair value of plan assets (in millions) at December 31:

	2004	2003
Fair value of plan assets at beginning of year	$1,280	$ 866
Actual gain on plan assets	113	218
Employer contributions	1	383
Benefits paid	(113)	(187)
Fair value of plan assets at end of year	$1,281	$1,280

Pension cost recognized in the accompanying consolidated balance sheets at December 31 is computed as follows (in millions):

	2004	2003

Funded status of the plan - net underfunded	$(1,582)	$(1,081)
Unrecognized net actuarial loss	1,275	1,041
Unrecognized prior service cost	101	126
Net amount recognized	$ (206)	$ 86

Accrued benefit liability	$(1,132)	$ (680)
Intangible asset	108	124
Accumulated other comprehensive loss	818	642
Net amount recognized	$ (206)	$ 86

The following actuarial assumptions were used to determine the actuarial present value of our projected benefit obligation at December 31:

	2004	2003
Weighted average assumed discount rate	5.75%	6.25%
Weighted average rate of compensation increase	3.00%	2.87%

Net periodic defined benefit pension expense for the years ended December 31 included the following components (in millions):

	2004	2003	2002
Service cost	$ 151	$156	$114
Interest cost	152	134	114
Expected return on plan assets	(116)	(72)	(95)
Amortization of prior service cost	19	20	19
Amortization of unrecognized net actuarial loss	87	90	33
Net periodic benefit expense	$293	$328	$185

Unrecognized prior service cost is expensed using a straight-line amortization of the cost over the average future service of employees expected to receive benefits under the plan.

The following actuarial assumptions were used to determine our net periodic benefit expense for the year ended December 31:

	2004	2003	2002
Weighted average assumed discount rate	6.25%	6.75%	7.50%
Expected long-term rate of return on plan assets	9.00%	9.00%	9.50%
Weighted average rate of compensation increase	2.87%	3.34%	3.34%

Plan assets consist primarily of equity and fixed-income securities. As of December 31, 2003, the plan held 4.5 million shares of Holdings common stock, which had a fair value of $67 million. The plan's trustee sold these shares during 2004 and the plan held no Holdings common stock at December 31, 2004. As of December 31, the asset allocations by category were as follows:

	2004	2003
U.S. equities	49%	52%
International equities	17	17
Fixed income	28	27
Other	6	4
Total	100%	100%

We develop our expected long-term rate of return assumption based on historical experience and by evaluating input from the trustee managing the plan's assets. Our expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on our goal of earning the highest rate of return while maintaining risk at acceptable levels. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio. Plan assets are allocated within the following guidelines:

	Percent of Total	Expected Long-Term Rate of Return
U.S. equities	40-60%	10.0
International equities	5-20	10.0

Fixed income	20-50		6.5	
Other	0-10		13.0	

We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plans' investments to our targeted allocation when considered appropriate.

Due to record high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we elected in 2004 to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we were not required to make any contributions to our primary defined benefit pension plan in 2004 and did not do so. Based on current legislation and current assumptions, we will be required to contribute in excess of $1.5 billion to our defined benefit pension plan over the next five years, including $307 million in 2005, to meet our minimum funding obligations before considering the potential changes discussed below. On January 6, 2005, we contributed six million shares of Holdings common stock valued at $65 million to our pension plan, which represents an 11.0% interest in Holdings.

We could experience an increase in early retirements caused by concern among our employees about our financial stability. The potential of an increase in early retirements could be exacerbated by the fact that our employees are entitled to lump-sum distributions from our defined benefit pension plan upon their retirement, including early retirement within the provisions of the plan. Some of our competitors have terminated, or have sought to terminate, their defined benefit pension plans in bankruptcy, which can cause employees to receive less than the full amount of their pension benefits under applicable federal pension benefit insurance, and can also limit or eliminate the ability of employees to receive their pension benefits in a lump-sum. If liquidity concerns increase, we could experience a significant increase in early retirements which could negatively impact our operations and materially increase our near-term funding obligations to our defined benefit pension plan, which could itself resu lt in a material adverse effect on our liquidity.

We project that our pension plan will make the following benefit payments, which reflect expected future service, for the years ended December 31 (in millions):

2005	$ 147
2006	179
2007	289
2008	288
2009	232
2010 through 2014	1,414

The tentative agreements with our pilots and flight attendants each provide that benefits accruals with respect to those groups under our defined benefit pension plan will be frozen and we will begin to make contributions to alternate retirement programs. All of the pilots' and flight attendants' existing benefits under our plan at the date of the freeze will be preserved, including the right to receive a lump-sum payment upon their retirement.

The tentative agreement with our pilots provides for a new defined contribution plan to be established after the existing pension benefits are frozen on May 31, 2005. That plan will be a money purchase pension plan that is also subject to minimum contribution rules under the Internal Revenue Code. If the pilots' tentative agreement is ratified and takes effect, contributions under the new defined contribution plan will generally be specified percentages of applicable pilot compensation, subject to applicable legal limits. Further, the tentative agreement provides for additional contributions to the pilots' 401(k) plan, depending on our pre-tax profits during a portion of the term of the pilots' agreement. To the extent contributions to either plan are limited by applicable law, the difference between the contractual amounts and the amounts permitted by law to be contributed to the defined contribution plans will be paid directly to pilots under a corresponding nonqualified arrangement.

The tentative agreement with our flight attendants provides that the flight attendants will join the IAM National Pension Fund ("National Pension Plan") in connection with the freezing of their benefits under our existing defined benefit plan. The National Pension Plan is a multiemployer pension plan managed by representatives of participating employers and representatives of the IAM. Our obligation will be to make a fixed contribution to the National Pension Plan per hour of flight attendant service, as specified in the tentative agreement.

Funding requirements under our pre-existing defined benefit plan (including a separate plan to be established that will contain the assets and obligations related to pilots formerly contained in our defined benefit plan) will continue to be determined under applicable law. However, if the pilots' tentative agreement takes effect, we have agreed that we will not declare a cash dividend or repurchase our outstanding common stock for cash until we have contributed at least $500 million to the pilots' defined benefit plan, measured from the date of ratification of the pilots' tentative agreement. Further, we have agreed that we will not make an election under any optional funding legislation that would eliminate the lump-sum benefit option without the consent of ALPA.

We have also agreed with each of ALPA, the IAM, the Teamsters and the TWU that for a limited time period we will not seek to reject or modify the collective bargaining agreements or retiree benefits in the event of our bankruptcy, subject to certain exceptions.

401(k) Plan. Our defined contribution 401(k) employee savings plans cover substantially all domestic employees. Company matching contributions are made in cash. For the years ended December 31, 2004, 2003 and 2002, total expense for the defined contribution plan was $30 million, $35 million and $36 million, respectively. If the tentative agreements with our unions to reduce wage and benefit costs are ratified and become effective, we anticipate suspending the company matching contributions to the plan effective March 31, 2005 for substantially all employees.

Profit Sharing Plan. During 2004, we terminated our profit sharing program under which an award pool consisting of 15% of our annual pre-tax net income, subject to certain adjustments, was distributed each year to substantially all Continental employees (other than employees whose collective bargaining agreement provides otherwise or who participate in our management or officer bonus programs). We paid no profit sharing to Continental employees in 2004, 2003 or 2002.

In January 2005, we announced an enhanced profit sharing program. The new program, which will be in place through 2009, creates an award pool of 30% of the first $250 million of pre-tax net income, 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 wage and benefit concessions of each work group and the other half will be allocated based on the relative wages of each work group. Substantially all Continental employees (other than employees who participate in our management or officer bonus programs and certain non-U.S. employees) will participate in the plan.

NOTE 11 - INCOME TAXES

Income tax benefit (expense) for the years ended December 31 consists of the following (in millions):

	2004	2003	2002
Federal:			
Current	$ -	$ (7)	$ 40
Deferred	143	(94)	158
State:			
Current	-	(5)	(10)

Deferred	13	(7)	21
Foreign:			
Current	-	(1)	(1)
Valuation allowance	(79)	-	-
Total income tax benefit (expense)	$ 77	$(114)	$ 208

The reconciliations of income tax computed at the United States federal statutory tax rates to income tax benefit (expense) for the years ended December 31 are as follows (in millions):

	Amount			Percentage		
	2004	2003	2002	2004	2003	2002
Income tax (expense) benefit at United States statutory rates	$154	$ (70)	$222	35.0%	35.0%	35.0 %
State income tax benefit (expense), net of federal benefit	8	(8)	8	1.9	3.8	1.3
Tax on equity in the income of subsidiary	- -	(16)	(12)	- -	8.1	(1.9)
Non-deductible loss on contribution of Holdings stock to defined benefit pension plan	- -	(9)	- -	- -	4.4	-
Meals and entertainment disallowance	(6)	(8)	(9)	(1.4)	3.9	(1.4)
Valuation allowance	(79)	-	-	(18.0)	-	-
Other	-	(3)	(1)	-	1.6	(0.1)
Income tax benefit (expense)	$ 77	$(114)	$ 208	17.5%	56.8%	32.9 %

For financial reporting purposes, income tax benefits recorded on net losses result in deferred tax assets for financial reporting purposes. We are required to provide a valuation allowance for deferred tax assets to the extent management determines that it is more likely than not that such deferred tax assets will ultimately not be realized. Due to our continued losses, we were required to provide a valuation allowance on deferred tax assets recorded on losses beginning in the third quarter of 2004. As a result, our third and fourth quarter 2004 net losses were not reduced by any tax benefit. Furthermore, we expect to be required to provide additional valuation allowance in conjunction with deferred tax assets recorded on losses in the future.

Holdings' initial public offering caused it to separate from our consolidated tax group. As a result, we were required to accrue income tax expense on our share of Holdings' net income after its initial public offering in all periods where we consolidated Holdings' operations. The impact of this is reflected above in tax on equity in the income of subsidiary.

During 2003, we contributed 7.4 million shares of Holdings common stock valued at approximately $100 million to our defined benefit pension plan. For tax purposes, our deduction was limited to the market value of the shares contributed. Since our tax basis in the shares was higher than the market value at the time of the contribution, the nondeductible portion increased our tax expense by $9 million.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the related amounts used for income tax purposes. Significant components of our deferred tax liabilities and assets as of December 31 are as follows (in millions):

	2004	2003
Fixed assets, intangibles and spare parts	$1,596	$1,459
Other, net	110	69
Gross deferred tax liabilities	1,706	1,528
Net operating loss carryforwards	(1,209)	(1,038)
Pension liability	(311)	(69)
Accrued liabilities	(232)	(246)
Basis in subsidiary stock	(105)	(105)
Gross deferred tax assets	(1,857)	(1,458)
Valuation allowance	363	219
Net deferred tax liability	212	289

Less: current deferred tax asset	(170)	(157)
Non-current deferred tax liability	$ 382	$ 446

At December 31, 2004, we had estimated tax NOLs of $3.2 billion for federal income tax purposes that will expire beginning in 2006 through 2024. Due to our ownership change on April 27, 1993, the ultimate utilization of our NOLs may be limited.

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 4.27% for December 2004). Any unused annual limitation may be carried over to later years. The amount of the limitation may, under certain circumstances, be increased by built-in gains 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 $39 million per year, before consideration of any built-in gains.

The IRS is in the process of examining our income tax returns for years through 2001 and has indicated that it may disallow certain deductions we claimed. We believe the ultimate resolution of these audits will not have a material adverse effect on our financial condition, liquidity or results of operations.

NOTE 12 - SPECIAL CHARGES

Effective January 1, 2003, we adopted SFAS No. 146, "Accounting for Costs Associated with Disposal or Exit Activities" ("SFAS 146"), which requires liabilities for costs associated with exit or disposal activities to be recognized when the liabilities are incurred, rather than when an entity commits to an exit plan. In July 2003, we announced plans to remove all our remaining MD-80 aircraft from service. Prior to the adoption of SFAS 146, we would have recognized a charge associated with future obligations for rent and return conditions, net of estimated sublease income, on the entire fleet at the time we were committed to permanently removing the aircraft from service. However, subsequent to the adoption of SFAS 146, we recorded these charges as each of the aircraft were permanently grounded.

In 2004, we recorded special charges of $87 million ($69 million after taxes) primarily associated with future obligations for rent and return conditions related to 16 leased MD-80 aircraft that were permanently grounded during the period. Our last two active MD-80 aircraft were permanently grounded in January 2005. We recorded a non-cash charge of $34 million ($22 million after taxes) related to the termination of a 1993 service agreement with United Micronesian Development Association in the first quarter of 2004.

In 2003, we recorded fleet impairment losses and other special charges of $100 million ($62 million after taxes). In the first quarter of 2003, we recorded fleet impairment losses and the special charges of $65 million ($41 million after taxes). This charge includes a $44 million additional impairment of our fleet of owned MD-80s, which was initially determined to be impaired and written down to then current fair value in 2002. The remainder of the charge consisted primarily of the write-down to market value of spare parts inventory for permanently grounded fleets. The charge reflected the impact of the war in Iraq and the resulting deterioration of the already weak revenue environment for the U.S. airline industry. These write-downs were necessary because the fair market values of the MD-80 and spare parts inventory had declined as a result of the difficult financial environment and further reductions in capacity by U.S. airlines. In the second quarter of 2003, we recorded a special charge of $ 14 million ($8 million after taxes) relating to the deferral of aircraft deliveries. In December 2003, we determined five previously grounded leased MD-80 aircraft to be permanently grounded and recorded a charge of $21 million ($13 million after income taxes) associated with future obligations for rent and return conditions, net of estimated sublease income, on those aircraft.

During 2002, we recorded special charges totaling $254 million ($161 million after taxes) primarily related to the impairment of owned aircraft and the accrual of future obligations for leased aircraft which have been permanently grounded or were to be permanently grounded within 12 months following the charge. The charge included $242 million ($153 million after income taxes) of retirement and impairment charges for DC 10-30, MD-80 and turboprop aircraft. In addition, we recorded a charge of $12 million in 2002 to write down our receivable from the U.S. government based on our final application under the Air Transportation Safety and System Stabilization Act.

The impairment losses in 2003 and 2002 were each partially the result of the September 11, 2001 terrorist attacks and the related aftermath. As a result of the U.S. domestic airline industry environment and our continuing losses, we determined that indicators of impairment were present for certain fleet types in each year. We estimated undiscounted cash flows to be generated by each fleet type. Our cash flow estimates were based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying values of impaired aircraft and related items not recoverable were reduced to fair value. Our estimates of fair value represented our best estimate based on industry trends and reference to market rates.

Activity related to the accruals for the allowance for future lease payments and return conditions and closure/under-utilization of facilities for the years ended December 31 are as follows (in millions):

	Beginning Balance	Accrual	Payments	Other	Ending Balance
2004					
Allowance for future lease payments and return conditions	$ 83	$ 87	$(57)	3	$116
Closure/under-utilization of facilities	17	-	(3)	-	14
2003					
Allowance for future lease payments and return conditions	$107	$ 21	$(45)	$ -	$ 83
Closure/under-utilization of facilities	22	-	(5)	-	17
2002					
Allowance for future lease payments and return conditions	$ 20	$142	$(45)	$(10)	$107
Closure/under-utilization of facilities	26	-	(4)	-	22
Severance/leave of absence costs	11	-	(11)	-	-

We expect these accruals to be substantially paid by 2007.

As of December 31, 2004, we had 12 owned and 17 leased MD-80 aircraft out of service. The 12 owned out-of-service MD-80 aircraft are being carried at an aggregate fair market value of $24 million, and the remaining rentals and obligations for return conditions on those aircraft accounted for as operating leases have been accrued. As of December 31, 2004, we subleased one out-of service MD-80 aircraft to a third party.

Additionally, we have 12 Embraer 120 turboprop aircraft and 11 ATR 42 turboprop aircraft out of service. We lease 15 and own eight of these aircraft. The eight owned aircraft are being carried at fair value, and the remaining rentals and obligations for return conditions on those aircraft accounted for as operating leases have been accrued. We currently sublease seven of the leased out-of-service turboprop aircraft to third parties.

We are currently exploring lease or sale opportunities for the remaining out-of-service owned aircraft and sublease opportunities for the out-of-service leased aircraft that do not have near-term lease expirations. The timing of the disposition of these aircraft will depend upon our ability to find purchasers, lessees or sublessees for the aircraft, which is limited in part because of a large surplus of similar aircraft available in the market and a weak economic environment in the airline industry. We cannot predict when or if the economic environment for airlines will improve or if purchasers, lessees or sublessees can be found, and it is possible that our assets (including aircraft currently in service) could suffer additional impairment.

NOTE 13 - SECURITY FEE REIMBURSEMENT

In May 2003, we received and recognized in earnings $176 million in cash from the United States government pursuant to the Emergency Wartime Supplemental Appropriations Act enacted in April 2003. This amount is reimbursement for our proportional share of passenger security and air carrier security fees paid or collected by U.S. air carriers as of the date of enactment of the legislation, together with other items.

NOTE 14 - VARIABLE INTEREST ENTITIES

Effective July 1, 2003, we adopted FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), that 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 fr om 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.

We have variable interests in the following types of variable interest entities:

<u>Aircraft Leases</u>. We are the lessee in a series of operating leases covering the majority of our leased aircraft. The lessors are trusts established specifically to purchase, finance and lease aircraft to us. These leasing entities meet the criteria for variable interest entities. We are generally not the primary beneficiary of the leasing entities if the lease terms are consistent with market terms at the inception of the lease and do not include a residual value guarantee, fixed-price purchase option or similar feature that obligates us to absorb decreases in value or entitles us to participate in increases in the value of the aircraft. This is the case for most of our operating leases; however, leases of approximately 75 aircraft contain a fixed-price purchase option that allow us to purchase the aircraft at predetermined prices on specified dates during the lease term. We have not consolidated the related trusts upon application of FIN 46 because, even taking into consideration these p urchase options, we are still not the primary beneficiary based on our cash flow analysis. Our maximum exposure under these leases is the remaining lease payments, which are reflected in future lease commitments in Note 5.

<u>Airport Leases</u>. We are the lessee of real property under long-term operating leases at a number of airports where we are also the guarantor of approximately $1.7 billion of underlying debt and interest thereon. The leases are typically with municipalities or other governmental entities. FIN 46 is not applicable to arrangements with governmental entities. To the extent our lease and related guarantee are with a separate legal entity other than a governmental entity, we are not the primary beneficiary because the lease terms are consistent with market terms at the inception of the lease and the lease does not include a residual value guarantee, fixed price purchase option or similar feature as discussed above.

<u>Subsidiary Trust</u>. We have a subsidiary trust that has Mandatorily Redeemable Preferred Securities outstanding with a liquidation value of $248 million ($241 million net of issuance costs). These securities were issued in November 2000. The trust is a variable interest entity under FIN 46 because we have a limited ability to make decisions about its activities. However, we are not the primary beneficiary of the trust. Therefore, the trust and the Mandatorily Redeemable Preferred Securities issued by the trust are not reported on our balance sheet. Instead, we report our Convertible Junior Subordinated Debentures held by the trust as long-term debt and interest on the notes is recorded as interest expense for all periods presented in the accompanying financial statements.

<u>Capacity Purchase Agreement</u>. Holdings and ExpressJet each meet the criteria for a variable interest entity because the voting rights and economic interests we hold in these entities are disproportional 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 between Holdings and us, a note payable from Holdings to us, convertible debentures issued by Holdings and held by third parties and Holdings common stock. Our assessment under FIN 46 of expected losses and expected residual returns indicated that the main factors that caused us to have a disproportionate share of the expected losses were the possibility that ExpressJet would be unable to fully repay its debt or to make payments under the tax sharing agreement. The assessment indicated that we exceeded 50% of the expected losses even though our equity interest had fallen below 50%. Furthermo re, the assessment indicated that only when our combined direct equity interest and the interest held by our defined benefit pension plan fell to 41% did our share of the expected losses drop below 50%, the point at which FIN 46 required deconsolidation. This occurred on November 12, 2003. Therefore, we deconsolidated Holdings as of that date. See Note 15 for further discussion of our ownership of Holdings and our capacity purchase agreement with Holdings and ExpressJet.

NOTE 15 - INVESTMENT IN EXPRESSJET AND REGIONAL CAPACITY PURCHASE AGREEMENT

<u>Investment in ExpressJet</u>

In April 2002, Holdings, our then wholly-owned subsidiary and the sole stockholder of ExpressJet, which operates as "Continental Express", sold ten million shares of its common stock in an initial public offering and used the net proceeds to repay $147 million of ExpressJet's indebtedness to us. In addition, we sold 20 million of our shares of Holdings common stock in the offering for net proceeds of $300 million. In connection with the offering, our ownership of Holdings fell to 53.1%. The sale of Holdings' shares and our shares in the offering was accounted for as a capital transaction resulting in a $291 million increase in additional paid-in capital and a $175 million increase in tax liabilities.

During 2003, we sold approximately 9.8 million shares of our Holdings common stock to Holdings and contributed approximately 7.4 million shares of Holdings common stock to that plan, further reducing our ownership of Holdings to 30.9%. We recognized gains totaling $173 million in 2003 as a result of these transactions.

Prior to these transactions, we consolidated Holdings because we owned over 50% of the voting interest in Holdings. Following these transactions, we would have deconsolidated Holdings and accounted for our interest using the equity method of accounting set forth in APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", which was the applicable accounting literature prior to the adoption of FIN 46. However, we adopted FIN 46 on July 1, 2003 and elected to restate prior period financial statements for retroactive application.

As a result of sales of Holdings shares to unrelated parties by our defined benefit pension plan, on November 12, 2003 the combined amount of Holdings common stock owned by us and our defined benefit pension plan fell below 41%, the point at which we no longer were the primary beneficiary under FIN 46. Therefore, in accordance with FIN 46, we deconsolidated Holdings as of November 12, 2003.

Effective November 12, 2003, we account for our interest in Holdings using the equity method of accounting set forth in APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". We believe that use of the equity method is appropriate given our percentage ownership and our continued ability to significantly influence Holdings' operations through our capacity purchase agreement and our continued representation on Holdings' Board of Directors. Since the inception of our capacity purchase agreement with Holdings and ExpressJet, we have purchased all of ExpressJet's capacity and are responsible for selling all of the purchased seat inventory. As a result, after deconsolidation, we continue to record the related passenger revenue and related expenses, with payments under the capacity purchase agreement reflected as a separate operating expense. Prior to November 12, 2003, expenses under the capacity purchase agreement were eliminated in consolidation and the portion of Hold ings' net income attributable to the equity of Holdings that we did not own was reported as minority interest in our consolidated statement of operations. After deconsolidation, nonoperating income has increased due to our equity in Holdings' earnings and earnings under our tax sharing agreement with Holdings. Additionally, after deconsolidation, we no longer record minority interest on either our balance sheet or statement of operations.

As of December 31, 2004, we owned 16.7 million shares of Holdings common stock with a market value of $215 million, which represented a 30.8% interest in Holdings, and our defined benefit pension plan owned no shares of Holdings common stock. On January 6, 2005, we contributed six million shares of Holdings common stock to our defined benefit pension plan, reducing our direct ownership to 10.7 million shares, which represents a 19.7% interest in Holdings. We will recognize a gain of approximately $51 million in the first quarter of 2005 related to this transaction. We will continue to account for our interest in Holdings using the equity method of accounting because of our ongoing ability to influence Holdings' operations significantly through our capacity purchase agreement and our continued, although reduced, representation on Holdings' Board of Directors.

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 some or all of our shares of Holdings common stock in the future.

Capacity Purchase Agreement with ExpressJet

General. Under our capacity purchase agreement, ExpressJet currently flies all of its aircraft (which consist entirely of regional jet aircraft) on our behalf, and we handle scheduling, ticket prices and seat inventories for these flights. In exchange for ExpressJet's operation of the flights and performance of other obligations under the agreement, we pay them 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 passenger ticket processing expenses.

Compensation and Operational Responsibilities. Under the agreement, we pay ExpressJet a base fee for each scheduled block hour based on a formula that was in place through December 31, 2004. The formula was designed to provide ExpressJet with an operating margin of approximately 10% before taking into account variations in some costs and expenses that are generally controllable by them, the most significant of which is wages, salaries and benefits. We and ExpressJet have amended the capacity purchase agreement with respect to certain matters. Pursuant to the terms of the agreement, we have made the first annual adjustment to the block hour rate portion of the compensation we pay to ExpressJet. In addition, ExpressJet's prevailing margin, which is the operating margin excluding certain revenues and costs as specified in the agreement, will be capped at 10% before certain incentive payments.

Our obligations under the capacity purchase agreement and ExpressJet's fuel expense in excess of the cap provided in the capacity purchase agreement and a related fuel purchase agreement (71.2 cents per gallon, including fuel taxes), less our rental income on aircraft we lease to ExpressJet, totaled $1.4 billion, $1.1 billion and $0.9 billion in 2004, 2003 and 2002, respectively. Subsequent to November 12, 2003, these amounts are reported as "ExpressJet capacity purchase, net"; prior to that date they were eliminated in our consolidated financial statements.

Our future payments under the capacity purchase agreement are dependent on numerous variables, and therefore difficult to predict. The most important of those variables is the number of scheduled block hours, which takes into account the number of ExpressJet aircraft and our utilization rates of such aircraft. However, if we changed our utilization of ExpressJet's aircraft, we would also change the number of available seat miles on ExpressJet's flights and the revenue that we generate by selling those seats. Any decision by us to change the utilization of ExpressJet's aircraft (or to remove aircraft from the capacity purchase agreement) would be made by determining the net effect of such change on our income and cash flow, taking into account not only our cash commitment to ExpressJet but also our expected revenue from ExpressJet's flights.

Set forth below are estimates of our future minimum noncancelable commitments under the capacity purchase agreement. These estimates of our future minimum noncancelable commitments under the capacity purchase agreement do not include the portion of the underlying obligations for aircraft and facility rent that are disclosed as part of our consolidated operating lease commitments. For purposes of calculating these estimates, we have assumed (i) that ExpressJet's aircraft deliveries continue as scheduled through March 2006, (ii) 2005 contractual rates with an inflationary assumption of 2% for subsequent years, (iii) a constant fuel rate of 71.2 cents per gallon, including fuel taxes, (iv) that we exercise our rights to initiate termination of the capacity purchase agreement at the earliest possible date permitted under the contract (January 1, 2007), (v) that prior to termination we exercise our rights to remove as many aircraft as quickly as contractually permitted (beginning March 2006) from th e capacity purchase agreement, (vi) an average daily utilization rate of 9.1 hours for 2005 through 2008 and (vii) cancellations are at historical levels resulting in no incentive compensation payable to ExpressJet. Based on these assumptions, our future minimum noncancelable commitments under the capacity purchase agreement at December 31, 2004 are estimated as follows (in millions):

2005	$1,233
2006	1,092
2007	525
2008 and thereafter	7
Total	$2,857

It is important to note that in making the assumptions used to develop these estimates, we are attempting to estimate our minimum noncancelable commitments and not the amounts that we currently expect to pay to ExpressJet (which amounts are expected to be higher as we do not currently expect to reduce capacity under the agreement to the extent assumed above or terminate the agreement at the earliest possible date). In addition, our actual minimum noncancelable commitments to ExpressJet could differ materially from the estimates discussed above, because actual events could differ materially from the assumptions described above. For example, a 10% increase or decrease in scheduled block hours (whether a result of change in delivery dates of aircraft or average daily utilization) in 2005 would result in a corresponding increase or decrease in cash obligations under the capacity purchase agreement of approximately 7.7%, or $95 million.

ExpressJet's base fee includes compensation for scheduled block hours associated with some cancelled flights, based on historical cancellation rates constituting rolling five-year monthly averages. To the extent that ExpressJet's rate of controllable or uncontrollable cancellations is less than its historical cancellation rate, ExpressJet will be entitled to additional payments. ExpressJet is also entitled to receive a small per-passenger fee and incentive payments for first flights of a day departing on time and baggage handling performance. As a result of a better-than-expected completion rate and other incentives in 2004, ExpressJet earned an additional $17 million.

Under the agreement and a related fuel purchase agreement, ExpressJet's fuel costs were capped at 71.2 cents per gallon, including fuel taxes, in 2004 and will remain capped at this level for the duration of the agreement. Accordingly, we absorbed $126 million of ExpressJet's fuel costs and fuel taxes in 2004 and will likely continue to do so in the future.

If a change of control (as defined in the agreement) of ExpressJet occurs without our consent, the block hour rates that we will pay under the agreement will be reduced by an amount approximately equal to the operating margin built into the rates.

In accordance with the agreement, ExpressJet has agreed to meet with us each year to review and set the block hour rates to be paid in the following year, in each case based on the formula used to set the original block hour rates (including a 10% targeted operating margin). If we and ExpressJet cannot come to an agreement on the annual adjustments, we have agreed to submit our disagreement to arbitration. In addition, the agreement gives each party the right to "meet and confer" with the other regarding any material change in the underlying assumptions regarding the cost of providing services under the agreement and whether the compensation provisions of the agreement should be changed as a result, but does not require any party to agree to any change in the compensation provisions.

Capacity and Fleet Matters. The agreement covers all of ExpressJet's existing fleet, as well as the 29 Embraer regional jets subject to firm orders. Under the capacity purchase agreement, we have the right to give no less than twelve months' notice to ExpressJet reducing the number of its aircraft covered by the contract. As of March 14, 2005, we have not given any such notice. Under the agreement, we are entitled to remove capacity under an agreed upon methodology. If we remove aircraft from the terms of the agreement, ExpressJet will have the option to (i) fly the released aircraft for another airline (subject to its ability to obtain facilities, such as gates and slots, and subject to its exclusive arrangement with us that prohibits ExpressJet during the term of the agreement from flying under its or another carrier's code in or out of our hub airports), (ii) fly the aircraft under ExpressJet's own flight designator code subject to its ability to obtain facilities, such as gates and slo ts, and subject to ExpressJet's exclusive arrangement with us respecting our hubs or (iii) decline to fly the aircraft and cancel the related subleases with us. If ExpressJet does not cancel the aircraft subleases, the implicit interest rate used to calculate the scheduled lease payments under our aircraft sublease with ExpressJet will automatically increase by 200 basis points to compensate us for our continued participation in ExpressJet's lease financing arrangements.

Term of Agreement. The agreement currently expires on December 31, 2010 but allows us to terminate the agreement at any time after December 31, 2006 upon 12 months' notice, or at any time without notice for cause (as defined in the agreement). We may also terminate the agreement at any time upon a material breach by ExpressJet that does not constitute cause and continues for 90 days after notice of such breach, or without notice or opportunity to cure if we determine that there is a material safety concern with ExpressJet's flight operations. We have the option to extend the term of the agreement with 24 months' notice for up to four additional five-year terms through December 31, 2030.

Service Agreements. We provide various services to ExpressJet and charge them at rates in accordance with the capacity purchase agreement. The services provided to ExpressJet by us include fuel service, certain customer services such as ground handling and infrastructure services, including but not limited to insurance, technology (including transaction processing), treasury, tax, real estate, environmental affairs, corporate security, human resources, internal corporate accounting, payroll, accounts payable and risk management. For providing these services, we charged ExpressJet approximately $322 million, $270 million and $206 million in 2004, 2003 and 2002, respectively.

Note Receivable from ExpressJet. At December 31, 2004 we had a $99 million note receivable from ExpressJet. In accordance with our amended and restated promissory note agreement dated November 5, 2002 with ExpressJet, principal and accrued interest on the note are payable quarterly by ExpressJet. During the third quarter of 2004, ExpressJet paid in advance $54 million in lieu of principal payments that would have otherwise been scheduled to be made on December 31, 2004 and March 31, 2005. As a result of an agreement between us and ExpressJet regarding the application of this advance payment, no principal payment was made on December 31, 2004 and no principal payment is scheduled to be made on March 31, 2005. We anticipate that the final payment will be made on March 31, 2006. The interest rate is fixed for each quarter at a rate equal to the three-month London interbank offered rate ("LIBOR") on the second business day prior to such quarter plus 1.25% per annum, subject to an aggregate cap of 6.72% in 2004. There is no such cap in subsequent years.

Leases. As of December 31, 2004, ExpressJet leased all 245 of its aircraft under long-term operating leases from us. ExpressJet's lease agreements with us have substantially the same terms as the lease agreements between us and the lessors and expire between 2013 and 2020. ExpressJet leases or subleases, under various operating leases, ground equipment and substantially all of its ground facilities, including facilities at public airports, from us or the municipalities or agencies owning and controlling such airports. If ExpressJet defaults on any of its payment obligations with us, we are entitled to reduce any payments required to be made by us to ExpressJet under the capacity purchase agreement by the amount of the defaulted payment. ExpressJet's total rental expense related to all leases with us was approximately $292 million, $279 million and $231 million in 2004, 2003 and 2002, respectively. After deconsolidation of Holdings on November 12, 2003, our related aircraft rental income is reported as a reduction to ExpressJet capacity purchase, net.

Income Taxes. In conjunction with Holdings' offering, our tax basis in the stock of Holdings and the tax basis of ExpressJet's tangible and intangible assets were increased to fair value. The increased tax basis should result in additional tax deductions available to ExpressJet over a period of 15 years. To the extent ExpressJet generates taxable income sufficient to realize the additional tax deductions, our tax sharing agreement with ExpressJet provides that it will be required to pay us a percentage of the amount of tax savings actually realized, excluding the effect of any loss carrybacks. ExpressJet is required to pay us 100% of the first third of the anticipated tax benefit, 90% of the second third and 80% of the last third. However, if the anticipated benefits are not realized by the end of 2018, ExpressJet will be obligated to pay us 100% of any benefits realized after that date. We recognize the benefit of the tax savings associated with ExpressJet's asset step-up for financial re porting purposes in the year paid to us by ExpressJet due to the uncertainty of realization. ExpressJet paid us $52 million in 2004 and $17 million in 2003 related to the agreement, which is included in income from affiliates in the accompanying statement of operations.

Other. So long as we are ExpressJet's largest customer, if it enters into an agreement with another major airline (as defined in the agreement) to provide regional airline services on a capacity purchase or other similar economic basis for ten or more aircraft on terms and conditions that are in the aggregate less favorable to ExpressJet than the terms and conditions of the capacity purchase agreement, we will be entitled to amend our capacity purchase agreement to conform the terms and conditions of the capacity purchase agreement to the terms and conditions of the agreement with the other major airline.

Summarized Financial Information for Holdings. Holdings' stand-alone financial statements and the calculation of our equity in Holdings' earnings (post deconsolidation) and minority interest (pre-deconsolidation) in our consolidated financial statements are based on Holdings' results of operations under the capacity purchase agreement. On this basis, selected Holdings' results of operations were as follows for the year ended December 31 (in millions):

	2004	2003	2002
Revenue	$1,508	$1,311	$1,089
Operating income before taxes and dividends	198	175	139
Net income	123	108	84

Holdings' balance sheet information at December 31 was as follows (in millions):

	2004	2003
Current assets	$253	$234
Total assets	543	510
Current liabilities	206	219
Stockholders' equity (deficit)	114	(10)

NOTE 16 - RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions that occurred during 2004, 2003 and 2002, other than those discussed elsewhere in the Notes to Consolidated Financial Statements. The payments to and from the related parties in the ordinary course of business were based on prevailing market rates and do not include interline billings, which are common among airlines for transportation-related services.

Northwest Airlines. Northwest Airlines, Inc. holds the one share of our Series B Junior Participating Preferred Stock issued and outstanding. We have a long-term global alliance with Northwest involving extensive codesharing, frequent flyer reciprocity and other cooperative activities. The services provided are considered normal to the daily operations of both airlines. As a result of these activities, we paid Northwest $32 million, $47 million and $38 million in 2004, 2003 and 2002, respectively, and Northwest paid us $26 million, $24 million and $30 million in 2004, 2003 and 2002, respectively.

Copa. As of December 31, 2004, we had a 49% interest in Copa. We have a long-term global alliance with Copa involving extensive codesharing, frequent flyer reciprocity and other cooperative activities. The services provided are considered normal to the daily operations of both airlines. As a result of these activities, we paid Copa $2 million, $3 million and $2 million in 2004, 2003 and 2002, respectively, and Copa paid us $8 million, $5 million and $4 million in 2004, 2003 and 2002, respectively.

Orbitz. Until November 12, 2004, we had an investment in Orbitz, a comprehensive travel planning website, as more fully discussed in Note 6. We paid Orbitz approximately $6 million, $7 million and $3 million for services during 2004, 2003 and 2002, respectively. Consumers booked approximately $226 million, $229 million and $171 million of air travel on us via Orbitz in 2004, 2003 and 2002, respectively. Other airlines also owned equity interests in Orbitz until November 2004 and distribute air travel tickets through Orbitz. The distribution services provided by Orbitz are considered normal to the daily operations of both Orbitz and us.

Hotwire. We have a marketing agreement with Hotwire, Inc., a web-based travel services company, pursuant to which we make available to Hotwire tickets for air travel. The agreement extends through January 7, 2006. Other airlines also sell air travel tickets to Hotwire. We sold Hotwire approximately $38 million and $33 million of tickets during 2003 and 2002, respectively. In January 2002, we purchased $2 million of redeemable preferred stock of Hotwire in a transaction in which other airlines made similar investments. Prior to the sale of their indirect interests in Hotwire during 2003, two of our former directors, David Bonderman and William Price, controlled approximately 27% of Hotwire's general voting power. We sold our interest in Hotwire for $42 million in cash in 2003. The distribution services provided to us by Hotwire are considered normal to both their and our daily operations.

America West. Two of our former directors, Messrs. Bonderman and Price, may be deemed to have indirectly controlled approximately 54% of the voting power of America West Holdings Corporation. In 1994, we entered into a series of agreements with America West Airlines, Inc., a subsidiary of America West Holdings Corporation, related to codesharing and ground handling activities such as passenger check-in and ticketing and baggage handling and delivery. The services provided are considered normal to the daily operations of both airlines. As a result of these agreements, we paid America West Airlines $5 million and $18 million in 2003 and 2002, respectively, and they paid us $16 million and $24 million in 2003 and 2002, respectively. The majority of these agreements were terminated in 2002, although agreements for services at certain airports are continuing.

Gate Gourmet. We pay Gate Gourmet International AG for catering services considered normal to the daily operations of both Gate Gourmet and us. Payments to Gate Gourmet totaled $43 million in each of 2003 and 2002. Former directors Bonderman and Price may be deemed to indirectly control substantially all of the voting securities of Gate Gourmet.

NOTE 17 - SEGMENT REPORTING

We have two reportable segments: mainline and regional. The mainline segment consists of flights to cities with jets with a capacity of greater than 100 seats while the regional segment consists of flights with jets with a capacity of 50 or fewer seats. The regional segment is operated by ExpressJet through a capacity purchase agreement. See Note 15 for further discussion of the capacity purchase agreement and the impact of the deconsolidation of Holdings effective November 12, 2003.

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 year ended December 31 by business segment is set forth below (in millions):

	2004	2003	2002
Operating Revenue:			
Mainline	$8,172	$7,559	$7,432
Regional	1,572	1,311	970
Total Consolidated	$9,744	$8,870	$8,402
Depreciation and amortization expense:			
Mainline	$ (403)	$ (416)	$ (403)
Regional	(11)	(28)	(41)
Total Consolidated	$ (414)	$ (444)	$ (444)
Special Charges (Note 12):			
Mainline	$(121)	$ (91)	$ (197)
Regional	-	(9)	(57)
Total Consolidated	$(121)	$ (100)	$ (254)
Operating Income (Loss):			
Mainline	$ 2	$ 234	$ (154)
Regional	(231)	(31)	(158)
Total Consolidated	$(229)	$ 203	$ (312)
Interest Expense:			
Mainline	$(371)	$ (372)	$ (350)
Regional	(18)	(27)	(37)
Intercompany Eliminations	-	6	15
Total Consolidated	$(389)	$ (393)	$ (372)

Interest Income:

Interest Income:

Mainline	$ 25	$ 16	$ 22
Regional	4	9	17
Intercompany Eliminations	-	(6)	(15)
Total Consolidated	$ 29	$ 19	$ 24

Income Tax Benefit (Expense):

Mainline	$ 45	$ (110)	$ 160
Regional	32	(4)	48
Total Consolidated	$ 77	$ (114)	$ 208

Net Income (Loss):

Mainline	$(169)	$ 131	$ (300)
Regional	(194)	(93)	(151)
Total Consolidated	$(363)	$ 38	$ (451)

The amounts presented above are presented on the basis of how our management reviews segment results. Under this basis, the regional segment's revenue include a pro-rated share of our ticket revenue for segments flown by Holdings and expenses include all activity related to the regional operations, regardless of whether the costs were paid by us or by Holdings. Net loss for the regional segment for 2003 and 2002 includes a $49 million and $28 million, respectively, after tax reduction in earnings attributable to the minority interest that is reflected in our consolidated statement of operations.

Information concerning operating revenue for the year ended December 31 by principal geographic areas is as follows (in millions):

	2004	2003	2002
Domestic (U.S.)	$6,415	$6,050	$5,570
Atlantic	1,489	1,203	1,205
Latin America	1,139	1,050	1,016
Pacific	701	567	611
	$9,744	$8,870	$8,402

We attribute revenue among the geographical areas based upon the origin and destination of each flight segment. Our tangible assets and capital expenditures consist primarily of flight and related ground support equipment, which is mobile across geographic markets and, therefore, has not been allocated.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Purchase Commitments. We have substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of December 31, 2004, we had firm commitments for 47 aircraft from Boeing (excluding the recently announced order discussed below), with an estimated cost of approximately $1.9 billion, and options to purchase an additional 84 Boeing aircraft. On December 29, 2004, we announced that we had reached an agreement with Boeing for a new order of ten 787 aircraft, with the first 787 to be delivered in 2009. We also agreed to lease eight used 757-300 aircraft from Boeing Capital Corporation. The used 757-300 aircraft will be delivered beginning in the third quarter of 2005 through the first quarter of 2006. Additionally, we will accelerate into 2006 the delivery of six Boeing 737-800 aircraft that were previously scheduled to be delivered in 2008. The agreements with Boeing are subject to several conditions, including the approval of our Board of Directors by March 31 , 2005. In addition, the 787 agreement is conditioned on the resolution of certain open matters including the negotiation of an acceptable engine supply arrangement. Taking these new agreements with Boeing into consideration, we expect to take delivery of 13 Boeing aircraft in 2005 (seven new 737-800s and six used 757-300s) and eight in 2006 (six new 737-800s and two used 757-300s), with delivery of the remaining 44 Boeing aircraft occurring in 2008 and later years.

The eight used 757-300 aircraft discussed above will be leased from Boeing Capital Corporation, which has also agreed to provide backstop lease financing for the six 737-800 aircraft to be delivered in 2006. We do not have backstop financing or any other financing currently in place for the remainder of the aircraft. 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.

As of December 31, 2004, ExpressJet had firm commitments for 29 regional jets from Empresa Brasileira de Aeronautica S.A. ("Embraer"), with an estimated cost of approximately $600 million. ExpressJet currently anticipates taking delivery of 21 regional jets in 2005. 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 deliver to ExpressJet. We cannot predict whether passenger traffic levels will enable us to utilize fully regional jets scheduled for future delivery to ExpressJet.

Financings and Guarantees. As of December 31, 2004, we were the guarantor of approximately $1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon (exclusive of $53 million bonds issued by the City of Houston which we became the guarantor of in January 2005 and the US Airways contingent liability, both discussed 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.

In August 2001, the City of Houston completed the offering of $324 million aggregate principal amount of tax-exempt special facilities revenue bonds to finance the construction of Terminal E and a new international ticketing hall facility at Bush Intercontinental Airport. In connection therewith, we entered into a long-term lease with the City of Houston requiring that upon completion of construction, with limited exceptions, we will make rental payments sufficient to service the related tax-exempt bonds through their maturity in 2029. We have also entered into a binding corporate guaranty with the bond trustee for the repayment of all of the principal and interest on the bonds. The guarantee became effective for the repayment of principal and interest with respect to $271 million of the bonds upon completion of the terminal during the first quarter of 2004. The remainder of the guarantee, relating to $53 million of the bonds, became effective upon completion of the international ti cketing facility in January 2005.

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 December 31, 2004 and a final scheduled maturity in 2015. If US Airways defaults on these obligations, we would be obligated to cure the default, and the applicable documents provide that we would have the right to occupy the terminal after US Airways' interest in the lease had been terminated. In September 2004, US Airways filed for reorganization under Chapter 11 of the United States Bankruptcy Code. On December 1, 2004, US Airways made only a portion of the payment due under the lease agreement on that date, such portion being that amount of the payment due that was deemed attributable to the period of time after their bankruptcy filing, and we paid the difference in an amount of approximately $9 million. If US Airways assumes the lease, we expect to be repaid this amount together with interest thereon. As of March 14, 2005, US Airways has made no election to assume or to reject the lease agreement in its bankruptcy case.

We also have letters of credit and performance bonds relating to various real estate and customs obligations at December 31, 2004 in the amount of $54 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 as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to our use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, we typically indemnify such parties for any environmental liability that arises out of or relates to our use of the leased premises.

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

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

In our financing transactions that include loans 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. We had $1.4 billion of floating rate debt at December 31, 2004. 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. 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. Our lease obligations for these two aircraft totaled $59 million at Dece mber 31, 2004.

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. Although 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 $335 million of cash collateral, which would adversely affect our liquidity needed for our operations and debt service, but would not result in a default under any of our debt or lease agreements. Additionally, 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 and Poor's.

Employees. As of December 31, 2004, we had approximately 38,255 full-time equivalent employees, consisting of approximately 16,755 customer service agents, reservations agents, ramp and other airport personnel, 7,900 flight attendants, 5,800 management and clerical employees, 4,125 pilots, 3,575 mechanics and 100 dispatchers. While there can be no assurance that our generally good labor relations and high labor productivity will continue, we have established as a significant component of our business strategy the preservation of good relations with our employees, approximately 43% of whom are represented by unions.

On November 18, 2004, we announced that we needed an annual $500 million reduction in wage and benefit costs. In late 2004 and early 2005, we finalized (but have not yet implemented) changes to wages, work rules and benefits for U.S.-based management and clerical, reservations, food services, airport and cargo agents and customer service employees that result in savings of $169 million annually. On February 28, 2005, we announced that we had reached tentative agreements on new contracts covering our pilots, flight attendants, mechanics and dispatchers following negotiations with ALPA, the IAM, the Teamsters, and the TWU. We also reached a tentative agreement with our simulator technicians, represented by the TWU. Each of the agreements is subject to ratification by the members of each covered work group, and the effectiveness of each agreement is conditioned on ratification of each other agreement. Results of the ratification process for each of the agreements are expected by the end of Ma rch 2005. If the agreements are ratified, the wage and benefit reductions will become effective as of the date of ratification and we will begin to implement the agreements. Some of the savings from the agreements will take time to achieve, while others, such as the wage reductions and certain benefit changes, will result in immediate savings. Our officers and Board of Directors implemented their reductions on February 28, 2005.

The tentative agreements, along with previously announced pay and benefit reductions for other work groups, conclude the negotiation process with all our employees, except some CMI and international employees. The pay and benefits of international employees must be adjusted in accordance with laws and regulations of the various countries. We expect to complete the process with these remaining employees in the near future.

Each of the agreements is for a 45-month term, so that the agreements would become amendable again on December 31, 2008. 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 timely and effective implementation of new work rules, actual productivity improvements, implementation of changes in technology pertaining to employee work rules and benefits and other items.

Environmental Matters. We could potentially 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 mandated a field study of the site and it was completed in September 2001. 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 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 December 31, 2004.

We expect our total losses from environmental matters to be approximately $50 million, for which we were fully accrued at December 31, 2004. 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 impact our financial condition, liquidity or results of operations.

IRS Examinations. The IRS is in the process of examining our income tax returns for years through 2001 and has indicated that it may disallow certain deductions we claimed. We believe the ultimate resolution of these audits will not have a material adverse effect on our financial condition, liquidity or results of operations.

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 such 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 a number of lawsuits brought by travel agencies relating to these base commission reductions and eliminations.

Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C. Eastern District of North Carolina). This class action was filed in federal court on June 21, 2000 by a travel agent, on behalf of herself and other similarly situated U.S. travel agents, challenging the reduction and subsequent elimination of travel agent base commissions. The amended complaint alleged an unlawful agreement among the airline defendants to reduce, cap or eliminate commissions in violation of federal antitrust laws during the years 1997 to 2002. The plaintiffs sought compensatory and treble damages, injunctive relief and their attorneys' fees. The class was certified on September 18, 2002. On October 30, 2003, a summary judgment and order was granted in favor of all of the defendants. Plaintiffs filed their appeal to this judgment and order on November 5, 2003. On December 9, 2004 the Fourth Circuit Court of Appeals affirmed the award of summary judgment. On January 4, 2005, the plaintiffs' Pe tition for Rehearing with the Fourth Circuit Court of Appeals was denied. We have been advised that plaintiffs will not pursue further appeals.

Several travel agents who purportedly opted out of the Hall class action filed similar suits against Continental and other major carriers alleging violations of antitrust laws in eliminating the base commission: Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 2003; Paula Fausky, et al. v. American Airlines, et al. (U.S.D.C., Northern District of Ohio), filed on May 8, 2003; and Swope Travel Agency, et al. v. Orbitz LLC et al. (U.S.D.C., Eastern District of Texas), filed on June 5, 2003. By order dated November 12, 2003, these actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has recently been served on Continental.

Always Travel, et. al. v. Air Canada, et al. On December 6, 2002, the named plaintiffs in this case, pending in the Federal Court of Canada, Trial Division, filed an amended statement of claim alleging that between 1995 and the present, Continental, the other defendant airlines, and the International Air Transport Association conspired to reduce commissions paid to Canada-based travel agents in violation of the Competition Act of Canada. By Order dated December 10, 2004, the Court approved the plaintiffs' motion to discontinue their action and abandon their motion for class certification with prejudice.

In addition to the lawsuits brought by travel agencies discussed above, Continental was a defendant in an alleged securities fraud class action filed in federal court in Phoenix, Arizona relating to the sale of certain America West stock in 1998 brought against America West Airlines, America West Holdings Corporation and various other defendants, entitled Employer-Teamsters Joint Council No. 84 Pension Trust Fund v. America West Holdings Corp., et al. This action was first filed in March 1999, but was dismissed. Plaintiffs then filed a Second Amended Consolidated Complaint in January 2001, which was dismissed with prejudice in June 2001. Plaintiffs appealed that dismissal and in 2003 the Ninth Circuit Court of Appeals reversed and remanded the lower court's dismissal. In January 2004 the class was certified and was set for trial in November 2004. By Order dated September 27, 2004, the Court granted full summary judgment in favor of Continental and it is not anticipated that there will be a ny further appeal.

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 impact on our financial condition, liquidity and results of operations.

We and/or certain of our subsidiaries are defendants in various other lawsuits, including suits relating to certain environmental claims, and proceedings arising in the normal course of business. While 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.

NOTE 19 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 2004 and 2003 is as follows (in millions, except per share data):

	Three Months Ended			
	March 31	June 30	September 30	December 31
2004				
Operating revenue	$2,269	$2,514	$2,564	$2,397
Operating income (loss)	(135)	43	24	(161)
Nonoperating expense, net	(58)	(68)	(40)	(45)
Net loss	(124)	(17)	(16)	(206)
Loss per share (a):				
Basic	$(1.88)	$(0.26)	$(0.24)	$(3.10)
Diluted	$(1.90)	$(0.27)	$(0.26)	$(3.12)
2003				
Operating revenue	$2,042	$2,216	$2,365	$2,248
Operating income (loss)	(224)	238	174	16
Nonoperating income (expense), net	(90)	(79)	87	80
Net income (loss)	(221)	79	133	47
Earnings (loss) per share (a):				
Basic	$(3.38)	$ 1.20	$ 2.04	$ 0.72
Diluted	$(3.38)	$ 1.08	$ 1.65	$ 0.61

a. The sum of the four quarterly earnings (loss) per share amounts does not agree with the earnings per share as calculated for the full year due to the fact that the full year calculation uses a weighted average number of shares based on the sum of the four quarterly weighted average shares divided by four quarters. Per share amounts reflect the adoption of EITF 04-8, as discussed in Note 3. The adoption of EITF 04-08 caused our diluted loss per share to increase (or our diluted earnings per share to decrease) from per share amounts previously reported by the following amounts:

2004	
First quarter	$0.02
Second quarter	0.01
Third quarter	0.02
Fourth quarter	N/A

2003	
First quarter	-
Second quarter	0.02
Third quarter	0.18
Fourth quarter	0.06

The quarter results are impacted by the following significant items:

In 2004, we recorded the following special charges primarily associated with future obligations for rent and return conditions related to leased MD-80 aircraft that were permanently grounded during the applicable quarter (in millions):

Three months ended:	
March 31, 2004	$21
June 30, 2004	30
September 30, 2004	22
December 31, 2004	14
Total	$87

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 Micronesian Development Association.

In the fourth quarter of 2004, we recorded operating expense of $18 million related to a change in expected future costs for frequent flyer reward redemptions on alliance carriers.

During the first quarter of 2003, we recorded $65 million of special charges related to additional impairment of our fleet of owned MD-80s and the write-down to market value of spare parts inventory for permanently grounded fleet.

In the second quarter of 2003, we recorded $176 million income related to the security fee reimbursement received from the U.S. government and a special charge for $14 million related to the deferral of aircraft deliveries.

In the third quarter of 2003, we recognized gains of $173 million related to dispositions of Holdings stock.

In the fourth quarter of 2003, we recorded gains of $132 million related to our Hotwire and Orbitz investments, after related compensation expense and including an adjustment to fair value of the remaining investment in Orbitz, and a special charge of $21 million related to five permanently grounded MD-80 aircraft. Also in the fourth quarter of 2003, we adjusted our estimates of the frequent flyer mileage credits we expect to be redeemed for travel, resulting in a one-time increase in other revenue of $24 million.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE.

There were no changes in or disagreements on any matters of accounting principles or financial statement disclosure between us and our independent auditors during our two most recent fiscal years or any subsequent interim period.

ITEM 9A. CONTROLS AND PROCEDURES.

Management's Conclusion on the Effectiveness 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 the controls and procedures were effective as of December 31, 2004 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.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial reporting and financial statement preparation and presentation.

Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 was conducted. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on their assessment, management concluded that, as of December 31, 2004, the Company's internal control over financial reporting was effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, has been audited by Ernst & Young, LLP, the independent registered public accounting firm who also has audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting appears below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Continental Airlines, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Continental Airlines, Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the com pany's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2004 and 2003, and the related consolidated statements of operations, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004, and our report dated March 14, 2005, expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas

March 14, 2005

Other Control Matters

During the three months ended December 31, 2004, we have made no change in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION.

Fourth Amendment to the Capacity Purchase Agreement

On March 11, 2005 we entered into the Fourth Amendment to the Capacity Purchase Agreement with ExpressJet (the "Amendment") which amends the Amended and Restated Capacity Purchase Agreement dated as of April 17, 2002, as previously amended by the first, second and third amendments thereto, dated March 27, 2003, December 9, 2003, and September 28, 2004, respectively (as so amended, the "CPA"). The provisions of the Amendment are effective January 1, 2005 and make the following changes to the CPA:

- We added and revised definitions as necessary to clarify language and to delete definitions that are no longer used.
- Pursuant to the terms of the CPA, we have made the first annual adjustment to the block hour rate portion of the compensation we pay to ExpressJet. In addition, ExpressJet's prevailing margin, which is the operating margin excluding certain revenues and costs as specified in the CPA, will be capped at 10% before certain incentive payments.
- We will now reconcile accounting accruals to specified balance sheet accounts so that adjustments to accrual balances between quarters are properly accounted for when calculating the compensation we pay to ExpressJet.
- We revised the reconciliation provisions related to 401(k) and profit sharing plan costs as necessary to reflect that we now own less than 50% of the voting power of ExpressJet and we eliminated a date reference that no longer applies.
- The formula for calculating the incentive payment related to flight cancellations was revised such that ExpressJet will only be penalized when they complete less than 99.5% of the flights within their operational control.
- Reconciliations related to pilot seniority and pilot training were eliminated.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 16, 2005.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 16, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 16, 2005 and from Item 5. "Market for Registrant's Common Equity and Related Stockholder Matters" of this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 16, 2005.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 16, 2005.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

a. The following financial statements are included in Item 8. "Financial Statements and Supplementary Data":

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Operations for each of the Three Years in the Period Ended December 31, 2004
Consolidated Balance Sheets as of December 31, 2004 and 2003
Consolidated Statements of Cash Flows for each of the Three Years in the Period Ended December 31, 2004
Consolidated Statements of Common Stockholders' Equity for each of the Three Years in the Period Ended December 31, 2004
Notes to Consolidated Financial Statements

b. Financial Statement Schedule:

Report of Independent Registered Public Accounting Firm
Schedule II - Valuation and Qualifying Accounts

All other schedules have been omitted because they are inapplicable, not required, or the information is included elsewhere in the consolidated financial statements or notes thereto.

c. See accompanying Index to Exhibits.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the consolidated financial statements of Continental Airlines, Inc. (the "Company") as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated March 14, 2005 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedule listed in Item 15(b) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Houston, Texas
March 14, 2005

CONTINENTAL AIRLINES, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2004, 2003, and 2002
(In millions)

	Balance at Beginning of Year	Additions Charged to Expense	Deductions from Reserve	Other Adjustments		Balance at End of Year
2004						
Allowance for Doubtful Accounts	19	11	(8)	- -		22
Allowance for Obsolescence	98	11	(16)	-		93
Valuation Allowance on Deferred Tax Asset	219	79	- -	65	(1)	363
Environmental Reserves	52	1	(3)	-		50
2003						
Allowance for Doubtful Accounts	30	1	(12)	- -		19
Allowance for Obsolescence	98	15	(5)	(10)	(2)	98
Valuation Allowance on Deferred Tax Asset	219	- -	- -	- -		219
Valuation Allowance - Net Tax Agreement Obligations	384	- -	- -	(384)	(2)	- -
Environmental Reserves	50	2	-	-		52

2002						
Allowance for Doubtful Accounts	27	20	(18)	1		30
Allowance for Obsolescence	80	17	(4)	5		98
Valuation Allowance on Deferred Tax Asset	245	- -	(26)	- -		219
Valuation Allowance - Net Tax Agreement Obligation	- -	- -	- -	384	(3)	384
Environmental Reserves	49	2	(1)	-		50

1. Relates to increase in minimum pension liability.
2. Relates to the deconsolidation of ExpressJet Holdings, Inc. on November 12, 2003.
3. Related to deferral in realization of tax savings caused by the step-up in basis of ExpressJet's assets.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By /s/ JEFFREY J. MISNER

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer

(On behalf of Registrant)

Date: March 15, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on March 15, 2005.

Signature	Capacity
/s/ LAWRENCE W. KELLNER Lawrence W. Kellner	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ JEFFREY J. MISNER Jeffrey J. Misner	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ CHRIS KENNY Chris Kenny	Vice President and Controller (Principal Accounting Officer)
THOMAS J. BARRACK, JR.* Thomas J. Barrack, Jr.	Director
KIRBYJON CALDWELL* Kirbyjon Caldwell	Director
DOUGLAS McCORKINDALE* Douglas McCorkindale	Director
HENRY L. MEYER III* Henry L. Meyer III	Director
OSCAR MUNOZ* Oscar Munoz	Director

GEORGE G. C. PARKER*	Director
George G. C. Parker	
JEFFERY A. SMISEK	Director
Jeffery A. Smisek	
KAREN HASTIE WILLIAMS*	Director
Karen Hastie Williams	
RONALD B. WOODARD*	Director
Ronald B. Woodard	
CHARLES A. YAMARONE*	Director
Charles A. Yamarone	

*By /s/ Jennifer L. Vogel

Jennifer L. Vogel
Attorney in fact
March 15, 2005

INDEX TO EXHIBITS OF
CONTINENTAL AIRLINES, INC.

3.1	Amended and Restated Certificate of Incorporation of Continental -- incorporated by reference to Exhibit 3.1 to Continental's Annual Report on Form 10-K for the year ended December 31, 2000 (File no. 1-10323) (the "2000 10-K").
3.1(a)	Certificate of Designation of Series A Junior Participating Preferred Stock, included as Exhibit A to Exhibit 3.1.
3.1(a)(i)	Certificate of Amendment of Certificate of Designation of Series A Junior Participating Preferred Stock - incorporated by reference to Exhibit 3.1(b) to Continental's Annual Report on Form 10-K for the year ended December 31, 2001 (File no. 1-10323) (the "2001 10-K").
3.1(b)	Certificate of Designation of Series B Preferred Stock -- incorporated by reference to Exhibit 3.1(b) to the 2000 10-K.
3.1(c)	Corrected Certificate of Designations of Series B Preferred Stock -- incorporated by reference to the Exhibit 3.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File no. 1-10323) (the "2003 Q-1 10-Q").
3.2	Bylaws of Continental, as amended through February 26, 2003 -- incorporated by reference to Exhibit 3.2 to the 2003 Q-1 10-Q.
4.1	Specimen Series B Preferred Stock Certificate of Continental -- incorporated by reference to Exhibit 3.1(c) to the 2000 10-K.
4.2	Specimen Class B Common Stock Certificate of Continental -- incorporated by reference to Exhibit 4.1 to Continental's Form S-1 Registration Statement (No. 33-68870) (the "1993 S-1").
4.3	Amended and Restated Rights Agreement, dated as of November 15, 2000, between Continental and ChaseMellon Shareholder Services, LLC -- incorporated by reference to Exhibit 99.11 to Continental's Current Report on Form 8-K dated November 15, 2000 (File no. 1-10323) (the "11/00 8-K").
4.3(a)	

	Form of Right Certificate, included as Exhibit B to Exhibit 4.3 -- incorporated by reference to Exhibit 99.11 to the 11/00 8-K.
4.3(b)	Amendment to Amended and Restated Rights Agreement dated as of March 12, 2004 between Continental Airlines, Inc. and Mellon Investor Services LLC (as successor to ChaseMellon Shareholder Services, LLC) -- incorporated by reference to Exhibit 1.2 to the Company's Registration Statement on Form 8-A/A filed March 17, 2004.
4.4	Warrant Agreement dated as of April 27, 1993, between Continental and Continental as warrant agent -- incorporated by reference to Exhibit 4.7 to Continental's Current Report on Form 8-K, dated April 16, 1993 (File no. 1-10323). (No warrants remain outstanding under the agreement, but some of its terms are incorporated into Continental's stock option agreements.)
4.5	Continental hereby agrees to furnish to the Commission, upon request, copies of certain instruments defining the rights of holders of long-term debt of the kind described in Item 601(b)(4)(iii)(A) of Regulation S-K.
10.1	Agreement of Lease dated as of January 11, 1985, between the Port Authority of New York and New Jersey and People Express, Inc., regarding Terminal C (the "Terminal C Lease") -- incorporated by reference to Exhibit 10.61 to the Annual Report on Form 10-K (File no. 0-9781) of People Express, Inc. for the year ended December 31, 1984.
10.1(a)	Assignment of Lease with Assumption and Consent dated as of August 15, 1987, among the Port Authority of New York and New Jersey, People Express Airlines, Inc. and Continental -- incorporated by reference to Exhibit 10.2 to Continental's Annual Report on Form 10-K (File no. 1-8475) for the year ended December 31, 1987 (the "1987 10-K").
10.1(b)	Supplemental Agreement Nos. 1 through 6 to the Terminal C Lease -- incorporated by reference to Exhibit 10.3 to the 1987 10-K.
10.1(c)	Supplemental Agreement No. 7 to the Terminal C Lease -- incorporated by reference to Exhibit 10.4 to Continental's Annual Report on Form 10-K (File no. 1-10323) for the year ended December 31, 1988 (the "1988 10-K").
10.1(d)	Supplemental Agreements No. 8 through 11 to the Terminal C Lease -- incorporated by reference to Exhibit 10.10 to the 1993 S-1.
10.1(e)	Supplemental Agreements No. 12 through 15 to the Terminal C Lease -- incorporated by reference to Exhibit 10.2(d) to Continental's Annual Report on Form 10-K (File no. 1-10323) for the year ended December 31, 1995.
10.1(f)	Supplemental Agreement No. 16 to the Terminal C Lease -- incorporated by reference to Exhibit 10.1(e) to Continental's Annual Report on Form 10-K for the year ended December 31, 1997 (File no. 1-10323) (the "1997 10-K").
10.1(g)	Supplemental Agreement No. 17 to the Terminal C Lease -- incorporated by reference to Exhibit 10.1(f) to Continental's Annual Report on Form 10-K for the year ended December 31, 1999 (File no. 1-10323) (the "1999 10-K").
10.1(h)	Supplemental Agreement No. 18 to the Terminal C Lease -- as incorporated by reference to Exhibit 10.5 to the 2003 Q-1 10-Q.
10.1(i)	Supplemental Agreement No. 19 to the Terminal C Lease -- incorporated by reference to Exhibit 10.4 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File no. 1-10323).
10.1(j)	Supplemental Agreement No. 20 - to the Terminal C Lease -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for quarter ended September 30, 2003 (File no. 1-10323) (the "2003 Q-3 10-Q").

10.1(k)	Supplemental Agreement No. 22 - to the Terminal C Lease -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (File No. 1-10323) (the "2004 Q-1 10-Q").
10.2	Airport Use and Lease Agreement dated as of January 1, 1998 between Continental and the City of Houston, Texas ("Houston") regarding George Bush Intercontinental Airport -- incorporated by reference to Exhibit 10.30 to Continental's Annual Report on Form 10-K for the year ended December 31, 1998 (File no. 1-1-323) (the "1998 10-K").
10.2(a)	Special Facilities Lease Agreement dated as of March 1, 1997 between Continental and Houston regarding an automated people mover project at Bush Intercontinental -- incorporated by reference to Exhibit 10.30(a) to the 1998 10-K.
10.2(b)	Amended and Restated Special Facilities Lease Agreement dated as of December 1, 1998 by and between Continental and Houston regarding certain terminal improvements projects at Bush Intercontinental -- incorporated by reference to Exhibit 10.30(b) to the 1998 10-K.
10.2(c)	Amended and Restated Special Facilities Lease Agreement dated December 1, 1998 by and between Continental and Houston regarding certain airport improvement projects at Bush Intercontinental -- incorporated by reference to Exhibit 10.30(c) to the 1998 10-K.
10.2(d)	Terminal E Lease and Special Facilities Lease Agreement dated as of August 1, 2001 between Continental and Houston regarding Bush Intercontinental -- incorporated by reference to Exhibit 10.8 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (File no. 1-10323) (the "2001 Q-3 10-Q").
10.2(e)	Supplement to Terminal E Lease and Special Facilities Lease Agreement dated as of August 1, 2001 -- incorporated by reference to Exhibit 10.2(e) to Continental's Annual Report on Form 10-K for the year ended December 31, 2002 (File no. 1-10323) (the "2002 10-K").
10.3	Agreement and Lease dated as of May 1987, as supplemented, between Continental and the City of Cleveland, Ohio ("Cleveland") regarding Hopkins International Airport -- incorporated by reference to Exhibit 10.6 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 (File no. 1-10323).
10.3(a)	Special Facilities Lease Agreement dated as of October 24, 1997 by and between Continental and Cleveland regarding certain concourse expansion projects at Hopkins International (the "1997 SFLA") -- incorporated by reference to Exhibit 10.31(a) to the 1998 10-K.
10.3(b)	First Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1997 SFLA -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (File no. 1-10323) (the "1999 Q-1 10-Q").
10.3(c)	Special Facilities Lease Agreement dated as of December 1, 1989 by and between Continental and Cleveland regarding Hopkins International (the "1989 SFLA") -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (File no. 1-10323) (the "1999 Q-3 10-Q").
10.3(d)	First Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1989 SFLA -- incorporated by reference to Exhibit 10.1(a) to the 1999 Q-3 10-Q.
10.3(e)	Second Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1989 SFLA -- incorporated by reference to Exhibit 10.1(b) to the 1999 Q-3 10-Q.
10.4*	Employment Agreement dated as of April 14, 2004 between the Company and Lawrence W. Kellner -- incorporated by reference to Exhibit 10.16 2004 Q-1 10-

Q".

10.4(a)*	Compensation Reduction Agreement for Lawrence W. Kellner dated December 22, 2004 -- incorporated by reference to Exhibit 99.1 to Continental's Current Report on Form 8-K dated December 22, 2004 (File no. 1-10323) (the "12/04 8-K").
10.5*	Employment Agreement dated as of August 12, 2004 between the Company and Jeffery A. Smisek -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-10323) (the "2004 Q-3 10-Q").
10.5(a)*	Compensation Reduction Agreement for Jeffery A. Smisek dated December 22, 2004 -- incorporated by reference to Exhibit 99.2 to the 12/04 8-K.
10.6*	Employment Agreement dated as of August 12, 2004 between the Company and Jeffrey J. Misner. (3)
10.6(a)*	Compensation Reduction Agreement for Jeffrey J. Misner dated December 22, 2004. (3)
10.7*	Employment Agreement dated as of August 12, 2004 between the Company and Mark A. Erwin. (3)
10.7(a)*	Compensation Reduction Agreement for Mark A. Erwin dated December 31, 2004. (3)
10.8*	Employment Agreement dated as of August 12, 2004 between the Company and James E. Compton. (3)
10.8(a)*	Compensation Reduction Agreement for James E. Compton dated December 22, 2004. (3)
10.9*	Employment Agreement dated as of July 25, 2000 between the Company and Gordon M. Bethune -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File no. 1-10323).
10.9(a)*	Letter Agreement dated as of September 26, 2001 between the Company and Gordon M. Bethune -- incorporated by reference to Exhibit 10.9 to the 2001 Q-3 10-Q.
10.9(b)*	Letter Agreement dated as of April 9,2002 between the Company and Gordon M. Bethune -- incorporated by reference to Exhibit 10.1 to the 2002 Q-2 10-Q.
10.9(c)*	Agreement dated May 19, 2003 between the Company and Gordon M. Bethune -- incorporated by reference to Exhibit 10.2 to the 2003 Q-2 10-Q.
10.9(d)*	Letter of Agreement dated March 12, 2004 between the Company and Gordon M. Bethune -- incorporated by reference to Exhibit 10.12 to the 2004 Q-1 10-Q.
10.9(e)*	Amendment to Employment Agreement dated April 14, 2004 between the Company and Gordon M. Bethune -- incorporated by reference to Exhibit 10.13 to the 2004 Q-1 10-Q.
10.9(f)*	Retirement Agreement dated April 14, 2004 between the Company and Gordon M. Bethune -- incorporated by reference to Exhibit 10.14 to the 2004 Q-1 10-Q.
10.10*	Employment Agreement dated as of July 25, 2000 between the Company and Michael H. Campbell -- incorporated by reference to Exhibit 10.7 to the 2001 10-K.

10.10(a)*	Letter Agreement dated as of April 9, 2002 between the Company and Michael H. Campbell -- incorporated by reference to Exhibit 10.5 to the 2002 Q-2 10-Q.
10.10(b)*	Letter of Agreement dated March 12, 2004 between the Company and Michael H. Campbell -- incorporated by reference to Exhibit 10.20 to the 2004 Q-1 10-Q.
10.10(c)*	Early Retirement Agreement between Michael H. Campbell and the Company, dated October 29, 2004. (3)
10.11*	Continental Airlines, Inc. 1994 Incentive Equity Plan ("1994 Incentive Plan") -- incorporated by reference to Exhibit 4.3 to the Company's Form S-8 Registration Statement (No. 33-81324).
10.11(a)*	Form of Employee Stock Option Grant pursuant to the 1994 Incentive Plan -- incorporated by reference to Exhibit 10.10(e) to the 1997 10-K.
10.11(b)*	Form of Outside Director Stock Option Grant pursuant to the 1994 Incentive Plan -- incorporated by reference to Exhibit 10.10(f) to the 1997 10-K.
10.12*	Continental Airlines, Inc. 1997 Stock Incentive Plan ("1997 Incentive Plan") -- incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration Statement (No. 333-23165).
10.12(a)*	Form of Employee Stock Option Grant pursuant to the 1997 Incentive Plan -- incorporated by reference to Exhibit 10.1 to the 2001 Q-3 10-Q.
10.12(b)*	Form of Outside Director Stock Option Grant pursuant to the 1997 Incentive Plan -- incorporated by reference to Exhibit 10.11(c) to the 1997 10-K.
10.12(c)*	Form of Restricted Stock Agreement pursuant to the 1997 Incentive Plan -- incorporated by reference to Exhibit 10.9 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File no. 1-10323) (the "2002 Q-2 10-Q").
10.13*	Amendment and Restatement of the 1994 Incentive Plan and the 1997 Incentive Plan -- incorporated by reference to Exhibit 10.19 to the 1998 10-K.
10.14*	Continental Airlines, Inc. 1998 Stock Incentive Plan ("1998 Incentive Plan") -- incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration Statement (No. 333-57297).
10.14(a)*	Amendment No. 1 to 1998 Incentive Plan, 1997 Incentive Plan and 1994 Incentive Plan -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File no. 1-10323) (the "2001 Q-2 10-Q").
10.14(b)*	Form of Employee Stock Option Grant pursuant to the 1998 Incentive Plan, as amended -- incorporated by reference to Exhibit 10.2 to the 2001 Q-3 10-Q.
10.14(c)*	Form of Restricted Stock Agreement pursuant to the 1998 Incentive Plan -- incorporated by reference to Exhibit 10.10 to the 2002 Q-2 10-Q.
10.14(d)*	Amendment to 1998 Incentive Plan, 1997 Incentive Plan and 1994 Incentive Plan -- incorporated by reference to Exhibit 10.5 to the 2004 Q-1 10-Q.
10.15*	Continental Airlines, Inc. Incentive Plan 2000, as amended and restated ("Incentive Plan 2000") -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (File no. 1-10323) (the "2002 Q-1 10-Q").

10.15(a)*	Form of Employee Stock Option Agreement pursuant to the Incentive Plan 2000 -- incorporated by reference to Exhibit 10.3 to the 2001 Q-3 10-Q.
10.15(b)*	Form of Outside Director Stock Option Agreement pursuant to the Incentive Plan 2000 -- incorporated by reference to Exhibit 10.14(b) to the 2000 10-K.
10.15(c)*	Form of Restricted Stock Agreement pursuant to the Incentive Plan 2000 -- incorporated by reference to Exhibit 10.4 to the 2001 Q-3 10-Q.
10.15(d)*	Amendment to the Incentive Plan 2000 -- incorporated by reference to Exhibit 10.6 to the 2004 Q-1 10-Q.
10.16*	Continental Airlines, Inc. Officer Retention and Incentive Award Program, as amended -- incorporated by reference to Exhibit 10.7(a) to the 2001 Q-3 10-Q.
10.16(a)*	Form of Officer Retention and Incentive Award Notice -- incorporated by reference to Exhibit 10.7 to the 2001 Q-3 10-Q.
10.16(b)*	Amendment to Officer Retention and Incentive Award Program, effective as of March 12, 2004 -- incorporated by reference to Exhibit 10.9 to the 2004 Q-1 10-Q.
10.17*	Continental Airlines, Inc. Annual Executive Bonus Program -- incorporated by reference to Exhibit 10.10 to the 2004 Q-1 10-Q.
10.17(a)*	Form of Award Notice pursuant to Continental Airlines, Inc. Annual Executive Bonus Program -- incorporated by reference to Exhibit 10.10(a) to the 2004 Q-1 10-Q.
10.17(b)*	First Amendment to Annual Executive Bonus Program, dated November 30, 2004. (3)
10.18*	Continental Airlines, Inc. Long-Term Incentive and RSU Program -- as incorporated by reference to Exhibit 10.11 to the 2004 Q-1 10-Q.
10.18(a)*	Form of Award Notice pursuant to Continental Airlines, Inc. Long-Term Incentive and RSU Program (RSU Awards) -- incorporated by reference to Exhibit 10.11(a) to the 2004 Q-1 10-Q.
10.18(b)*	Form of Award Notice pursuant to Continental Airlines, Inc. Long-Term Incentive and RSU Program (NLTIP Award) -- incorporated by reference to Exhibit 10.11(b) to the 2004 Q-1 10-Q.
10.18(c)*	First Amendment to Long-Term Incentive and RSU Program, dated November 30, 2004. (3)
10.19*	Summary of Non-Employee Director compensation. (3)
10.20*	Form of Letter Agreement relating to certain flight benefits between the Company and each of its non-employee directors -- incorporated by reference to Exhibit 10.18 to the 2000 10-K.
10.21	Purchase Agreement No. 1951, including exhibits and side letters thereto, between the Company and Boeing, dated July 23, 1996, relating to the purchase of Boeing 737 aircraft ("P.A. 1951") -- incorporated by reference to Exhibit 10.8 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (File no. 1-10323) (the "1996 Q-2 10-Q). (1)
10.21(a)	Supplemental Agreement No. 1 to P.A. 1951, dated October 10, 1996 -- incorporated by reference to Exhibit 10.14(a) to Continental's Annual Report on Form 10-K for the year ended December 31, 1996 (File no. 1-1-323) (the "1996 10-K"). (1)

10.21(b)	Supplemental Agreement No. 2 to P.A. 1951, dated March 5, 1997 -- incorporated by reference to Exhibit 10.3 to Continental's Quarterly Report on Form 10-Q for the quarter ending March 31, 1997 (File no. 1-10323) (the "1997 Q1 10-Q"). (1)
10.21(c)	Supplemental Agreement No. 3, including exhibit and side letter, to P.A. 1951, dated July 17, 1997 -- incorporated by reference to Exhibit 10.14(c) to the 1997 10-K. (1)
10.21(d)	Supplemental Agreement No. 4, including exhibits and side letters, to P.A. 1951, dated October 10, 1997 -- incorporated by reference to Exhibit 10.14(d) to the 1997 10-K. (1)
10.21(e)	Supplemental Agreement No. 5, including exhibits and side letters, to P.A. 1951, dated October 10, 1997 -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File no. 1-10323). (1)
10.21(f)	Supplemental Agreement No. 6, including exhibits and side letters, to P.A. 1951, dated July 30, 1998 -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File no. 1-10323) (the "1998 Q-3 10-Q). (1)
10.21(g)	Supplemental Agreement No. 7, including side letters, to P.A. 1951, dated November 12, 1998 -- incorporated by reference to Exhibit 10.24(g) to the 1998 10-K. (1)
10.21(h)	Supplemental Agreement No. 8, including side letters, to P.A. 1951, dated December 7, 1998 -- incorporated by reference to Exhibit 10.24(h) to the 1998 10-K. (1)
10.21(i)	Letter Agreement No. 6-1162-GOC-131R1 to P.A. 1951, dated March 26, 1998 -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (File no. 1-10323). (1)
10.21(j)	Supplemental Agreement No. 9, including side letters, to P.A. 1951, dated February 18, 1999 -- incorporated by reference to Exhibit 10.4 to the 1999 Q-1 10-Q. (1)
10.21(k)	Supplemental Agreement No. 10, including side letters, to P.A. 1951, dated March 19, 1999 -- incorporated by reference to Exhibit 10.4(a) to the 1999 Q-1 10-Q. (1)
10.21(l)	Supplemental Agreement No. 11, including side letters, to P.A. 1951, dated March 14, 1999 -- incorporated by reference to Exhibit 10.4(a) to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File no. 1-10323) (the "1999 Q-2 10-Q"). (1)
10.21(m)	Supplemental Agreement No. 12, including side letters, to P.A. 1951, dated July 2, 1999 -- incorporated by reference to Exhibit 10.8 to the 1999 Q-3 10-Q. (1)
10.21(n)	Supplemental Agreement No. 13 to P.A. 1951, dated October 13, 1999 -- incorporated by reference to Exhibit 10.25(n) to the 1999 10-K. (1)
10.21(o)	Supplemental Agreement No. 14 to P.A. 1951, dated December 13, 1999 -- incorporated by reference to Exhibit 10.25(o) to the 1999 10-K. (1)
10.21(p)	Supplemental Agreement No. 15, including side letters, to P.A. 1951, dated January 13, 2000 -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (File no. 1-10323) (the "2000 Q-1 10-Q"). (1)
10.21(q)	Supplemental Agreement No. 16, including side letters, to P.A. 1951, dated March 17, 2000 -- incorporated by reference to the 2000 Q-1 10-Q. (1)

10.21(r)	Supplemental Agreement No. 17, including side letters, to P.A. 1951, dated May 16, 2000 -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File no. 1-10323). (1)
10.21(s)	Supplemental Agreement No. 18, including side letters, to P.A. 1951, dated September 11, 2000 -- incorporated by reference to Exhibit 10.6 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File no. 1-10323). (1)
10.21(t)	Supplemental Agreement No. 19, including side letters, to P.A. 1951, dated October 31, 2000 -- incorporated by reference to Exhibit 10.20(t) to the 2000 10-K. (1)
10.21(u)	Supplemental Agreement No. 20, including side letters, to P.A. 1951, dated December 21, 2000 -- incorporated by reference to Exhibit 10.20(u) to the 2000 10-K. (1)
10.21(v)	Supplemental Agreement No. 21, including side letters, to P.A. 1951, dated March 30, 2001 -- incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File no. 1-10323) (the "2001 Q-1 10-Q"). (1)
10.21(w)	Supplemental Agreement No. 22, including side letters, to P.A. 1951, dated May 23, 2001 -- incorporated by reference to Exhibit 10.3 to the 2001 Q-2 10-Q. (1)
10.21(x)	Supplemental Agreement No. 23, including side letters, to P.A. 1951, dated June 29, 2001 -- incorporated by reference to Exhibit 10.4 to the 2001 Q-2 10-Q. (1)
10.21(y)	Supplemental Agreement No. 24, including side letters, to P.A. 1951, dated August 31, 2001 -- incorporated by reference to Exhibit 10.11 to the 2001 Q-3 10-Q. (1)
10.21(z)	Supplemental Agreement No. 25, including side letters, to P.A. 1951, dated December 31, 2001 -- incorporated by reference to Exhibit 10.22(z) to the 2001 10-K. (1)
10.21(aa)	Supplemental Agreement No. 26, including side letters, to P.A. 1951, dated March 29, 2002 -- incorporated by reference to Exhibit 10.4 to the 2002 Q-1 10-Q. (1)
10.21(ab)	Supplemental Agreement No. 27, including side letters, to P.A. 1951, dated November 6, 2002 -- incorporated by reference to Exhibit 10.4 to the 2002 Q-1 10-Q. (1)
10.21(ac)	Supplemental Agreement No. 28, including side letters, to P.A. 1951, dated April 1, 2003 -- incorporated by reference to Exhibit 10.2 to the 2003 Q-1 10-Q. (1)
10.21(ad)	Supplemental Agreement No. 29, including side letters, to P.A. 1951, dated August 19, 2003 - incorporated by reference to Exhibit 10.2 to the 2003 Q-3 10-Q. (1)
10.21(ae)	Supplemental Agreement No. 30 to P.A. 1951, dated as of November 4, 2003 -- incorporated by reference to Exhibit 10.23(ae) to Continental's Annual Report on Form 10-K for the year ended December 31, 2003 (File no. 1-10323) (the "2003 10-K"). (1)
10.21(af)	Supplemental Agreement No. 31 to P.A. 1951, dated as of August 20, 2004 -- incorporated by reference to Exhibit 10.4 to the 2004 Q-3 10-Q. (1)
10.21(ag)	Supplemental Agreement No. 32 to P.A. 1951, including side letters, dated as of December 29, 2004. (2)(3)
10.21(ah)	Supplemental Agreement No. 33 to P.A. 1951, including side letters, dated as of

10.21(an) Supplemental Agreement No. 35 to P.A. 1951, including side letters, dated as of December 29, 2004. (2)(3)

10.22 Aircraft General Terms Agreement between the Company and Boeing, dated October 10, 1997 -- incorporated by reference to Exhibit 10.15 to the 1997 10-K. (1)

10.22(a) Letter Agreement No. 6-1162-GOC-136 between the Company and Boeing, dated October 10, 1997, relating to certain long-term aircraft purchase commitments of the Company -- incorporated by reference to Exhibit 10.15(a) to the 1997 10-K. (1)

10.23 Purchase Agreement No. 2060, including exhibits and side letters, between the Company and Boeing, dated October 10, 1997, relating to the purchase of Boeing 767 aircraft ("P.A. 2060") -- incorporated by reference to Exhibit 10.16 to the 1997 10-K. (1)

10.23(a) Supplemental Agreement No. 1 to P.A. 2060 dated December 18, 1997 -- incorporated by reference to Exhibit 10.16(a) to the 1997 10-K. (1)

10.23(b) Supplemental Agreement No. 2 to P.A. 2060 dated June 8, 1999 -- incorporated by reference to Exhibit 10.8 to the 1999 Q-2 10-Q. (1)

10.23(c) Supplemental Agreement No. 3 to P.A. 2060 dated October 31, 2000 -- incorporated by reference to Exhibit 10.22(c) to the 2000 10-K. (1)

10.23(d) Supplemental Agreement No. 4 to P.A. 2060 dated December 1, 2000 -- incorporated by reference to Exhibit 10.22(d) to the 2000 10-K. (1)

10.23(e) Supplemental Agreement No. 5 to P.A. 2060, dated February 14, 2001 -- incorporated by reference to Exhibit 10.2 to the 2001 Q-1 10-Q. (1)

10.23(f) Supplemental Agreement No. 6 to P.A. 2060, dated July 11, 2001 -- incorporated by reference to Exhibit 10.12 to the 2001 Q-3 10-Q. (1)

10.23(g) Supplemental Agreement No. 7 to P.A. 2060, dated August 31, 2001 -- incorporated by reference to Exhibit 10.13 to the 2001 Q-3 10-Q. (1)

10.23(h) Supplemental Agreement No. 8 to P.A. 2060, dated December 31, 2001 -- incorporated by reference to Exhibit 10.24(h) to the 2001 10-K. (1)

10.23(i) Supplemental Agreement No. 9 to P.A. 2060, dated August 5, 2002 -- incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report for the quarter ended September 30, 2002 (File no. 1-10323) (the "2002 Q-3 10-Q"). (1)

10.24 Purchase Agreement No. 2061, including exhibits and side letters, between the Company and Boeing, dated October 10, 1997, relating to the purchase of Boeing 777 aircraft ("P.A. 2061") -- incorporated by reference to Exhibit 10.17 to the 1997 10-K. (1)

10.24(a) Supplemental Agreement No. 1 to P.A. 2061 dated December 18, 1997 -- incorporated by reference to Exhibit 10.17(a) as to the 1997 10-K. (1)

10.24(b) Supplemental Agreement No. 2, including side letter, to P.A. 2061, dated July 30, 1998 -- incorporated by reference to Exhibit 10.27(b) to the 1998 10-K. (1)

10.24(c) Supplemental Agreement No. 3, including side letter, to P.A. 2061, dated September 25, 1998 -- incorporated by reference to Exhibit 10.27(c) to the 1998 10-K. (1)

10.24(d) Supplemental Agreement No. 4, including side letter, to P.A. 2061, dated February 3, 1999 -- incorporated by reference to Exhibit 10.5 to the 1999 Q-1

	10-Q. (1)
10.24(e)	Supplemental Agreement No. 5, including side letter, to P.A. 2061, dated March 26, 1999 -- incorporated by reference to Exhibit 10.5(a) to the 1999 Q-1 10-Q. (1)
10.24(f)	Supplemental Agreement No. 6 to P.A. 2061, dated June 25, 2002 -- incorporated by reference to Exhibit 10.12 to the 2002 Q-2 10-Q. (1)
10.24(g)	Supplemental Agreement No. 7, including side letter, to P.A. 2061, dated October 31, 2000 -- incorporated by reference to Exhibit 10.23(g) to the 2000 10-K. (1)
10.24(h)	Supplemental Agreement No. 8, including a side letter, to P.A. 2061, dated June 29, 2001 -- incorporated by reference to Exhibit 10.5 to the 2001 Q-2 10-Q. (1)
10.24(i)	Supplemental Agreement No. 9 to P.A. 2061, dated June 25, 2002 -- incorporated by reference to Exhibit 10.12 to the 2002 Q-2 10-Q. (1)
10.24(j)	Supplemental Agreement No. 10 to P.A. 2061, dated as of November 4, 2003 -- incorporated by reference to Exhibit 10.26(j) to the 2003 10-K. (1)
10.25	Purchase Agreement No. 2333, including exhibits and side letters thereto, between the Company and Boeing, dated December 29, 2000, relating to the purchase of Boeing 757 aircraft ("P.A. 2333") -- incorporated by reference to Exhibit 10.25 to the 2000 10-K.
10.25(a)	Supplemental Agreement No. 1, including exhibits and side letters, to P.A. 2333, dated March 29, 2002 -- incorporated by reference to Exhibit 10.5 to the 2002 Q-1 10-Q. (1)
10.25(b)	Supplemental Agreement No. 2 to P.A. 2333, dated as of November 4, 2003 -- incorporated by reference to Exhibit 10.28(b) to the 2003 10-K. (1)
10.26	Letter Agreement 6-1162-CHL-048 between the Company and Boeing, dated February 8, 2002, amending P.A. 1951, 2333, 2211, 2060 and 2061 -- incorporated by reference to Exhibit 10.44 to the 2001 10-K. (1)
10.27	Purchase Agreement No. 2484, including exhibits and side letters, between the Company and Boeing, dated December 29, 2004, relating to the purchase of Boeing 7E7 aircraft (now known as 787 aircraft) ("P.A. 2484"). (2)(3)
10.28	Letter Agreement dated December 29, 2004 between the Company and Boeing Capital Corporation relating to the lease of 757-300 aircraft. (2)(3)
10.29	Letter Agreement No. 11 between the Company and General Electric Company, dated December 22, 1997, relating to certain long-term engine purchase commitments of the Company -- incorporated by reference to Exhibit 10.23 to the 1997 10-K. (1)
10.30	Standstill Agreement dated as of November 15, 2000 among the Company, Northwest Airlines Holdings Corporation, Northwest Airlines Corporation and Northwest Airlines, Inc. -- incorporated by reference to Exhibit 99.8 to the 11/00 8-K.
10.31	Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated April 17, 2002 -- incorporated by reference to Exhibit 10.11 to the 2002 Q-2 10-Q. (1)
10.31(a)	First Amendment to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. and dated as of March 27, 2003 -- incorporated by reference to Exhibit 10.1 to the 2003 Q-1 10-Q.

10.31(b)	Second Amendment to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated as of December 9, 2003 -- incorporated by reference to Exhibit 10.32(b) to the 2003 10-K. (1)
10.31(c)	Third Amendment to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated as of September 28, 2004 -- incorporated by reference to Exhibit 10.5 to the 2004 Q-3 10-Q.
10.32	Purchase Agreement No. GPJ-003/96, between Empresa Brasileira de Aeronautica S.A. ("Embraer") and ExpressJet Airlines, Inc. (successor in interest to Continental Express, Inc.) ("ExpressJet") dated August 5, 1996 relating to the purchase of EMB 145 aircraft ("P.A. 3/96") -- incorporated by reference to Exhibit 10.3 to Amendment No. 1 to Embraer's Form F-1 Registration Statement (No. 333-12220) (the "Embraer F-1"). (1)
10.32(a)	Amendment No. 1 to P.A. 3/96 dated September 26, 1996 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(b)	Amendment No. 2 to P.A. 3/96 dated May 22, 1997 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(c)	Amendment No. 3 to P.A. 3/96 dated August 20, 1997 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(d)	Amendment No. 4 to P.A. 3/96 dated October 1, 1997 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(e)	Amendment No. 5 to P.A. 3/96 dated November 12, 1997 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(f)	Amendment No. 6 to P.A. 3/96 dated August 19, 1998 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(g)	Amendment No. 7 to P.A. 3/96 dated February 19, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(h)	Amendment No. 8 to P.A. 3/96 dated March 31, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(i)	Amendment No. 9 to P.A. 3/96 dated October 29, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(j)	Amendment No. 10 to P.A. 3/96 dated October 20, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(k)	Amendment No. 11 to P.A. 3/96 dated December 15, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(l)	Amendment No. 12 to P.A. 3/96 dated February 18, 2000 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(m)	Amendment No. 13 to P.A. 3/96 dated April 28, 2000 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(n)	Amendment No. 14 to P.A. 3/96 dated April 28, 2000 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.32(o)	Amendment No. 15 to P.A. 3/96 dated July 25, 2000 -- incorporated by reference to Exhibit 10.33(o) to the 2000 10-K. (1)

10.32(p)	Amendment No. 16 to P.A. 3/96 dated July 24, 2000 -- incorporated by reference to Exhibit 10.33(p) to the 2000 10-K. (1)
10.32(q)	Amendment No. 17 to P.A. 3/96 dated November 7, 2000 -- incorporated by reference to Exhibit 10.33(q) to the 2000 10-K. (1)
10.32(r)	Amendment No. 18 to P.A. 3/96 dated November 17, 2000 -- incorporated by reference to Exhibit 10.33(r) to the 2000 10-K. (1)
10.32(s)	Amendment No. 19 to P.A. 3/96 dated July 31, 2001 -- incorporated by reference to Exhibit 10.35(s) to the 2001 10-K. (1)
10.32(t)	Amendment No. 20 to P.A. 3/96 dated July 31, 2001 -- incorporated by reference to Exhibit 10.35(t) to the 2001 10-K. (1)
10.32(u)	Amendment No. 21 to P.A. 3/96 dated October 10, 2001 -- incorporated by reference to Exhibit 10.35(u) to the 2001 10-K. (1)
10.32(v)	Amendment No. 22 to P.A. 3/96 dated January 24, 2002 -- incorporated by reference to Exhibit 10.35(v) to the 2001 10-K. (1)
10.32(w)	Amendment No. 23 to P.A. 3/96 dated February 28, 2002 -- incorporated by reference to Exhibit 10.6 to the 2002 Q-1 10-Q. (1)
10.32(x)	Amendment No. 24 to P.A. 3/96 dated March 28, 2002 -- incorporated by reference to Exhibit 10.7 to the 2002 Q-1 10-Q. (1)
10.32(y)	Amendment No. 25 to P.A. 3/96 dated July 9, 2002 -- incorporated by reference to Exhibit 10.3 to the 2002 Q-3 10-Q. (1)
10.32(z)	Amendment No. 26 to P.A. 3/96 dated August 30, 2002 -- incorporated by reference to Exhibit 10.4 to the 2002 Q-3 10-Q. (1)
10.32(aa)	Amendment No. 27 to P.A. 3/96 dated December 28, 2002 -- incorporated by reference to Exhibit 10.4 to the 2002 Q-3 10-Q. (1)
10.32(ab)	Amendment No. 28 to P.A. 3/96 dated February 20, 2003 -- as incorporated by reference to Exhibit 10.7 to the 2003 Q-1 10-Q. (1)
10.32(ac)	Amendment No.29 to P.A. 3/96 dated February 26, 2003 -- as incorporated by reference to Exhibit 10.8 to the 2003 Q-1 10-Q.
10.32(ad)	Amendment No. 30 to P.A. 3/96 dated January 12, 2004 -- as incorporated by reference to Exhibit 10.2 to the 2004 Q-1 10-Q. (1)
10.32(ae)	Amendment No. 31 to P.A. 3/96 dated March 16, 2004 -- as incorporated by reference to Exhibit 10.2 to the 2004 Q-1 10-Q. (1)
10.33	Letter of Agreement No. GPJ-004/96 dated August 5, 1996 between Embraer and ExpressJet ("L.A. 4/96") -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(a)	Amendment No. 1 to L.A. 4/96 dated August 31, 1996 -- incorporated by reference to Exhibit 10.34(a) to the 2000 10-K.
10.33(b)	Amendment No. 2 to L.A. 4/96 and Amendment No. 1 to L.A. 4A/96 (defined below) dated August 31, 1996 between Embraer and ExpressJet -- incorporated by reference to Exhibit 10.34(b) to the 2000 10-K. (1)

10.33(c)	Amendment No. 3 to L.A. 4/96 and Amendment No. 1 to L.A. 4A/96 (defined below) dated January 24, 2002 between Embraer and ExpressJet -- incorporated by reference to Exhibit 10.36(c) to the 2001 10-K. (1)
10.33(d)	Amendment No. 4 to L.A. 4/96 dated January 12, 2004 -- incorporated by reference to Exhibit 10.4 to the 2004 Q-1 10-Q. (1)
10.34	Letter of Agreement No. PCJ-004A/96 dated August 31, 1996 among Continental, ExpressJet and Embraer ("L.A. 4A/96") -- incorporated by reference to Exhibit 10.3 to the Embraer F-1.
10.35	Letter Agreement DCT 059/2000 dated October 27, 2000 between ExpressJet and Embraer -- incorporated by reference to Exhibit 10.36 to the 2000 10-K. (1)
10.36	Purchase Agreement No. DCT-054/98 dated December 23, 1998 between Embraer and ExpressJet ("P.A. 54/98") -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.36(a)	Amendment No. 1 to P.A. 54/98 dated July 30, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.36(b)	Amendment No. 2 to P.A. 54/98 dated July 30, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.36(c)	Amendment No. 3 to P.A. 54/98 dated October 21, 1999 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.36(d)	Amendment No. 4 to P.A. 54/98 dated January 31, 2000 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.36(e)	Amendment No. 5 to P.A. 54/98 dated February 15, 2000 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.36(f)	Amendment No. 6 to P.A. 54/98 dated April 17, 2000 -- incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.36(g)	Amendment No. 7 to P.A. 54/98 dated July 24, 2000 -- incorporated by reference to Exhibit 10.37(g) to the 2000 10-K. (1)
10.36(h)	Amendment No. 8 to P.A. 54/98 dated November 7, 2000 -- incorporated by reference to Exhibit 10.37(h) to the 2000 10-K. (1)
10.36(i)	Amendment No. 9 to P.A. 54/98 dated September 20, 2000 -- incorporated by reference to Exhibit 10.37(i) to the 2000 10-K. (1)
10.36(j)	Amendment No. 10 to P.A. 54/98 dated November 17, 2000 -- incorporated by reference to Exhibit 10.37(j) to the 2000 10-K. (1)
10.36(k)	Amendment No. 11 to P.A. 54/98 dated July 31, 2001 -- incorporated by reference to Exhibit 10.39(k) to the 2001 10-K. (1)
10.36(l)	Amendment No. 12 to P.A. 54/98 dated July 31, 2001 -- incorporated by reference to Exhibit 10.39(l) to the 2001 10-K. (1)
10.36(m)	Amendment No. 13 to P.A. 54/98 dated October 10, 2001 -- incorporated by reference to Exhibit 10.39(m) to the 2001 10-K. (1)
10.36(n)	Amendment No. 14 to P.A. 54/98 dated January 24, 2002 -- incorporated by reference to Exhibit 10.39(n) to the 2001 10-K.

10.37	Letter of Agreement DCT-055/98 dated December 23, 1998 between ExpressJet and Embraer ("L.A. 55/98") -- incorporated by reference to Exhibit 10.38 to the 2000 10-K. (1)
10.37(a)	Amendment No. 1 to L.A. 55/98 dated July 24, 2000 -- incorporated by reference to Exhibit 10.38(a) to the 2000 10-K. (1)
10.38	EMB-135 Financing Letter of Agreement dated March 23, 2000 among Continental, ExpressJet and Embraer ("L.A. 135") -- incorporated by reference to Exhibit 10.39 to the 2000 10-K. (1)
10.38(a)	Amendment No. 1 to L.A. 135 -- incorporated by reference to Exhibit 10.39(a) to the 2000 10-K. (1)
10.38(b)	Amendment No. 2 to L.A. 135 -- incorporated by reference to Exhibit 10.39(b) to the 2000 10-K. (1)
10.38(c)	Amendment No. 3 to L.A. 135 dated October 27, 2000 -- incorporated by reference to Exhibit 10.39(c) to the 2000 10-K. (1)
10.39	Letter Agreement DCT-058/2000 dated October 27, 2000 between Embraer and ExpressJet -- incorporated by reference to Exhibit 10.40 to the 2000 10-K. (1)
10.40	Agreement between the Company and the United States of America, acting through the Transportation Security Administration, dated May 7, 2003 -- incorporated by reference to Exhibit 10.1 to the "2003 Q-2 10-Q").
21.1	List of Subsidiaries of Continental. (3)
23.1	Consent of Ernst & Young LLP. (3)
24.1	Powers of attorney executed by certain directors and officers of Continental. (3)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. (3)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. (3)
32	Section 1350 Certifications. (3)

____

*These exhibits relate to management contracts or compensatory plans or arrangements.

1. The Commission has granted confidential treatment for a portion of this exhibit.
2. Continental has applied to the Commission for confidential treatment of a portion of this exhibit.
3. Filed herewith.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **Jeffrey J. Misner** ("Executive"), and is dated and effective as of August 12, 2004 (the "Effective Date").

W I T N E S S E T H:

WHEREAS, Company and Executive are parties to that certain Employment Agreement dated May 15, 2001, as amended by letter agreements dated April 9, 2002 and March 12, 2004 (the "Existing Agreement"); and

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

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

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

ARTICLE 1: EMPLOYMENT AND DUTIES

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

1.2 **Positions**. From and after the Effective Date, Company shall employ Executive in the position of Executive Vice President and Chief Financial Officer, or in such other positions as the parties mutually may agree.

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

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

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

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

(i) upon Executive's death;

(ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance that renders Executive mentally or physically incapable of performing the material duties and services required of Executive hereunder on a full-time basis during such period;

(iii) Executive's gross negligence or willful misconduct in the performance of, or Executive's abuse of alcohol or drugs rendering Executive unable to perform, the material duties and services required of Executive pursuant to this Agreement;

(iv) upon the conviction or plea of *nolo contendre* of Executive for a felony or any crime involving moral turpitude;

(v) upon Executive committing an act of deceit or fraud intended to result in personal and unauthorized enrichment of Executive at Company's expense;

(vi) upon Executive's material breach of a material obligation of Executive under this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Company to Executive; or

(vii) for any other reason whatsoever, in the sole discretion of the Board of Directors.

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

(i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date, or the failure to elect or reelect Executive to any of the positions described in paragraph 1.2 or the removal of Executive from any such positions;

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to Executive as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Chief Executive Officer or President of Company;

(iii) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(iv) the taking of any action by Company that would materially reduce the corporate amenities enjoyed by Executive below the level of corporate amenities enjoyed by any other executive of Company other than Company's Chief Executive Officer and President;

(v) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in (a) Executive's then current annual base salary, or (b) Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., an annual cash bonus opportunity of 0%, if entry level goal is not met, and if entry level goal is met, between 50% and 150% of annual base salary, depending on achievement of entry, target and stretch goals), shall in each case constitute a material breach by Company of this Agreement; or

(vi) for any other reason whatsoever, in the sole discretion of Executive.

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

ARTICLE 3: COMPENSATION AND BENEFITS

3.1 **Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) $450,000 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

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

3.3 **Life Insurance**. During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7, and based on a Severance Period of thirty-six months). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months), and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executiv e an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment (based on a Severance Period of thirty-six months) and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

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

3.5 **Supplemental Executive Retirement Plan.**

(i) Base Benefit. Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 26 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 2001 ("Actual Years of Service"), (2) an additional year of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on Janu ary 1, 2001 and ending on December 31, 2006, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), an additional three years of service. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) $450,000 or (B) the average of the five highest annual cash compensation amounts paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company (including RSUs awarded under Company's Long Term Incentive and RSU Program), and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

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

(iii) Normal and Early Retirement Benefits. Executive's benefit under the Plan shall be paid only in a lump sum payment in an amount that is the actuarial equivalent of a straight life annuity in the annual amount of the Base Benefit for the life of Executive paying equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit"). For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated, for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall receive the Normal Retirement Benefit as of the first day of the month coin ciding with or next following Executive's termination of employment (an "Early Retirement Benefit"); provided, however, that the amount of the benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vi) and adjusted for the actual time of payment).

(iv) Death Benefit. In the event of Executive's death prior to payment of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a death benefit payable only as a lump sum payment in an amount that is the actuarial equivalent of a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, been entitled to elect and elected a joint and 50% survivor annuity and began to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive been entitled to elect and elected a joint and 50% survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death.Payment of such benefit shall be made no later than the first day of the month following the Executive's date of death; provided, however, that if Executive was eligible to receive an Early Retirement Benefit as of the date of Executive's death, then the amount of such benefit shall be reduced based on the principles used for the reductions described in the proviso to the third sentence of paragraph 3.5(iii).

(v) Unfunded Benefit. The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that Executive must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vi) Actuarial Equivalent. For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to Executive's spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP; provided, however, that with respect to the discount rate used to calculate benefits under the Plan, the discount rate shall be the Aa Corporate Bond Rate. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such indi vidual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse. The term "Aa Corporate Bond Rate" shall mean the average of the Moody's daily long-term corporate bond yield averages for Aa-rated corporate bonds published by Moody's Investors Service, for the three-month period ending on the last day of the second month preceding the date Executive) or, in the case of Executive's death, Executive's spouse) is to receive the lump-sum payment, as determined by the Actuary (or, if such yield information is no longer so published, then the average of the daily corporate bond yields for a comparable sample of Aa-rated corporate bonds of comparable tenor determined in good faith by the Actuary). Upon request, Company shall cause the Actuary to compute the Aa Corporate Bond Rate for a specified period and the amount of the lump-sum payment for Executive (or, in the case of Executive's death, Executive's spouse) and s hall deliver such information to Executive or such spouse.

(vii) Medicare Payroll Taxes. Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

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

(i) Automobile - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on the same terms as its current practices relating to the choice and use of automobiles by its Chief Executive Officer. If the automobile is leased, Company agrees to take such actions as may be necessary to permit Executive, at Executive's option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii), (iv), (v) or (vi)), then Company (1) if the automobile is leased, will continue to make all payments under the lease and permit Executive (or Executive's estate, as applicable) to use the automobile during the remainder of such lease and will, at the conclusion of the lease, cause the title to the automobile to be transferred to Executive (or Executive's estate) without cost to Executive (or Executive's estate), or (2) if the automobile is owned by Company, transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate).

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

(iii) Parking - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

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

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 **By Expiration.** If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of Executive's employment, except that (A) the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i) and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awa rded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) cause all Awards made to Executive under Company's Officer Retention and Incentive Award Program ("Retention Program") to vest immediately upon such termination, (iii) cause Company to pay to Executive, at the same time as other Payment Amounts with respect to Awards are paid to other participants under Company's Long Term Incentive Performance Award Program ("LTIP") and Long Term Incentive and RSU Program ("NLTIP/RSU Program"), as the case may be, all Payment Amounts with respect to Awards made to Executive under the LTIP or the NLTUP/RSU Program having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in Executive's current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately prece ding such termination), less any amounts paid to Executive under the LTIP or the NLTIP/RSU Program, as the case may be, upon the occurrence of a Qualifying Event with respect to Executive in connection with a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP or in the NLTIP/RSU Program, as may be applicable to the relevant Awards), (iv) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (v) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (vi) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

4.2 **By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii), (iv), (v) or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, (2) cause all Awards made to Executive under the Retention Program to vest immediately upon such termination, (3) cause Company to pay to Executive (or Executive's estate), at the same time as other Payment Amounts with respect to Awards are paid to other participants under the LTIP or NLTIP/RSU Program, as the case may be, all Payment Amounts with respect to Awards made to Executive under the LTIP or NLTIP/RSU Program having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in Executive's current p osition through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP or in the NLTIP/RSU Program upon the occurrence of Executive's death or Disability after a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP or in the NLTIP/RSU Program, as may be applicable to the relevant Awards), (4) if termination was due to Executive's death, provide Executive's designated beneficiary or beneficiaries with the benefits contemplated under paragraph 3.3 , and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i).

4.3 **By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i) and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv) or (v), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1.

4.4 **Certain Additional Payments by Company**. Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decid es to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

4.5 **Payment Obligations Absolute**. Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against Executive or anyone else; provided that all payments and other Company obligations under this Article 4 shall be subject to Executive's execution, promptly upon request by Company upon Executive's termination of employment, of a general release and waiver substantially in the form attached as Exhibit A to this Agreement, which has become irrevocable. Company agrees to execute such form of release and waiver concurrently with the execution thereof by Executive. All amounts payable by Company shall be paid without notice or demand. Executi ve shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

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

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

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

ii. "Change in Control" shall have the meaning assigned to such term in Company's Incentive Plan 2000 in effect on the Effective Date;

(iii) "Continuation Coverage" shall mean the continued coverage of Executive and Executive's eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, vision care, accidental death and dismemberment, and prescription drug (but excluding disability), at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

(iv) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on the Effective Date), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determ ined by Executive, lifetime Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's and children's names for use on the CO system, lifetime memberships for Executive and Executive's spouse and children (subject to the terms and conditions of membership, including minimum age requirements) in the Company's President's Club (or any successor program maintained in the CO system) and payment by the Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits according to the methodology used by the Company as of the Effective Date or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of the Company;

i. "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of Executive's position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;

(vi) "Severance Period" shall mean:

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

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

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

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially $66,500), which amount shall be adjusted (i) annually (beginning with the year 2004) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 2004, and (iii) after adjustments described in clauses (i) and (ii) above (and after adding thereto, on a one-time basis on the Effective Date, the unused balance, as of the beginning of the year 2004, of Executive's Annual Travel Limit under Executive's Existing Agre ement), automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of the Effective Date), so as to preserve the benefit of $66,500 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of the Effective Date (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of the Effective Date, then the Annual Travel Limit would be increased by 15% to $76,475, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant ran dom sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially $13,300), which amount shall be adjusted (i) annually (beginning with the year 2004) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 2004, and (iii) after adjustments described in clauses (i) and (ii) above (and after adding thereto, on a one-time basis on the Effective Date, the unused balance, as of the beginning of the year 2004, of Executive's Annual Gross Up Limit under Executive's Existing Agreement), automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of the Effective Date), so as to preserve the benefit of $1 3,300 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of the Effective Date (e.g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of the Effective Date, then the Annual Gross Up Limit would be increased by 15% to $15,295, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of the Effective Date for purposes of Flight Benefits for a year to commence on November 1 and end on the following October 31 (for example, the twelve-month period from November 1, 2003 to October 31, 2004 is considered the year 2004 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of the Company means any entity controlled by, controlling, or under common control with the Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from the Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, Executive will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on Executive's UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.6(ii) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive' s UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits consistently with the methodology used by Company as of the Effective Date or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which the Company is obligated to provide the tax gross up described above, Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), lifetime Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's, Executive's spouse's and Executive's children's names, lifetime membership cards in Company's Presidents Club (or any successor program maintained in the CO system) for Executive, Executive's spouse and Executive's children (subject to the terms and conditions of membership, including minimum age requirements), and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits.

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

Upon Executive's death, Executive's surviving spouse and children will be permitted, in the aggregate, to continue to use (in the proportions specified in Executive's last will and testament or, if not so specified or if Executive dies intestate, in equal proportions) Executive's Flight Benefits on the CO system (out of any amounts unused by Executive at the date of Executive's death) for up to a total amount of $100,000 in value of flights (in any fare class) on the CO system, valued identically to the valuation of flights as currently contained in Executive's Flight Benefits, which amount shall adjust automatically upon any change in the valuation methodology, from and after the date hereof, for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by Company as of the date hereof), so as to preserve the benefit of $100,000 of flights relative to the valuations resulting from the valuation methodology used by Company as of the date h ereof (e.g., if a change in the valuation methodology results, on average, in such flights being valued 10% higher than the valuation that would result using the valuation methodology used by Company as of the date hereof, then such amount would be increased by 10% to $110,000). Company will promptly notify Executive in writing of any adjustments to such amount.

ARTICLE 5: <u>MISCELLANEOUS</u>

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

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

If to Company to: Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

If to Executive to: Jeffrey Misner

42 Meadow Brook Place

The Woodlands, Texas 77382

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

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

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

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

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

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

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

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

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

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

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.6(iv) and any awards under the Company's stock incentive plans or programs, LTIP, Retention Program, Annual Executive Bonus Program, NLTIP/RSU Program or similar plans or programs, and (ii) separate agreements governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect, and neither party shall have any rights or obligations thereunder. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charge d.

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

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

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

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on September 14, 2004, to be effective as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By: /s/ Michael H. Campbell

Name: Michael H. Campbell

Title: Senior Vice President -

Human Resources and

Labor Relations

"EXECUTIVE"

/s/ Jeffrey J. Misner

Jeffrey J. Misner

APPROVED:

/s/ Charles A. Yamarone

Charles A. Yamarone

Chair, Human Resources Committee

Exhibit A

Form of Release Agreement

(to be executed by Company and Executive)

In consideration of the benefits provided by Company to Executive, Executive hereby releases Continental Airlines, Inc. ("Continental") and each of its subsidiaries and affiliates and their respective stockholders, officers, directors, employees, representatives, agents and attorneys (collectively, "Releasees") from any and all claims or liabilities, known or unknown, of any kind, including, without limitation, any and all claims and liabilities relating to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, or relating to the cessation of such employment or under the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 1981, the Texas Commission on Human Rights Act, and any other statutory, tort, contract or common law cause of action, other than claims or liabilities arising from a breach by Continental of (i) that certain Employment Agreement dated as of August 12, 2004 between Continental and Executive (the "Employment Agreement"), (ii) its obligations under the Continental Retirement Plan ("CARP"), under Executive's outstanding grants of stock options or restricted stock, under awards under the Continental Airlines, Inc. Annual Executive Bonus Program (the "Annual Bonus Program"), the Retention Program, the NLTIP/RSU Program, or under any other compensation plan or program of Continental (such capitalized but undefined terms having the meanings attributed to them in the Employment Agreement), or (iii) its obligations under existing agreements governing Executive's flight benefits relating to other airlines. Continental hereby releases Executive from any and all claims or liabilities, known or unknown, of any kind in any way relating to or pertaining to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, other than fraud or intentional malfeasance harmful to Continental or any Releasee or claims arising from a breach by Executive of the Employment Agreement or of Executive's obligations under the CARP, under Executive's outstanding grants of stock options or restricted stock, under awards under the Retention Program, the Annual Executive Bonus Program or the NLTIP/RSU Program, under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines. These releases are to be broadly construed in favor of the released persons. These releases do not apply to any rights or claims that may arise after the date of execution of this [Release Agreement] by Executive and Continental. Both parties agree that this [Release Agreement] is not and shall not be construed as an admission of any wrongdoing or liability on the part of either party. Notwithstanding the foregoing, the obligations created by the Employment Agreement, the CARP and Executive's outstanding option grants, grant s of restricted stock and awards under the Retention Program, the Annual Executive Bonus Program and the NLTIP/RSU Program, or under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines, are not released.

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

Executive acknowledges that Executive has received a copy of this Release Agreement on [date that Executive receives Release Agreement]. Executive understands that Executive may consider whether to agree to the terms contained herein for a period of twenty-one days after the date Executive has received this Release Agreement. Accordingly, Executive may execute this Release Agreement by [date 21 days after Release Agreement is given to Executive], to acknowledge Executive's understanding of and agreement with the foregoing. Executive acknowledges that Executive has been advised to consult with an attorney prior to executing this Release Agreement.

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

COMPENSATION REDUCTION AGREEMENT

THIS COMPENSATION REDUCTION AGREEMENT (this "Agreement") is entered into as of December 22, 2004, by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and **Jeffrey J. Misner** ("Executive").

W I T N E S S E T H:

WHEREAS, Company and Executive have heretofore entered into that certain Employment Agreement dated as of August 12, 2004 (the "Employment Agreement"); and

WHEREAS, Company has heretofore granted to Executive various awards under Company's Incentive Plan 2000, as amended (the "Incentive Plan 2000"), and the programs maintained under the Incentive Plan 2000, including Company's Annual Executive Bonus Program, as amended (the "Bonus Program"), Company's Long Term Incentive and RSU Program, as amended (the "LTIP/RSU Program"), and Company's Officer Retention and Incentive Award Program, as amended (the "Retention Program") (the Incentive Plan 2000, the Bonus Program, the LTIP/RSU Program and the Retention Program are collectively referred to herein as the "Compensation Programs"); and

WHEREAS, as part of Company's continuing efforts to reduce its costs of operation, Company desires to reduce the compensation it provides to Executive, and Executive is willing to accept such reduction, in an effort to enhance the financial health of Company and to preserve employment opportunities for Executive and others with Company.

NOW, THEREFORE, in consideration of the premises set forth above, the mutual agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and notwithstanding any provision to the contrary in the Employment Agreement, the Compensation Programs or the award notices issued to Executive under the Compensation Programs, Company and Executive hereby agree as follows:

1. **REDUCTION OF BASE SALARY:** Subject to Executive's continuous employment by Company from the date of this Agreement to February 28, 2005, commencing on February 28, 2005, and continuing until such time, if any, as the parties may agree to a different amount, Executive's annual base salary shall be reduced by 20% of the amount in effect on the date hereof (i.e., from Executive's current base salary of $450,000 to a reduced based salary of $360,000). Executive acknowledges that such reduction in annual base salary will also result in a reduction in certain compensation and other benefits provided by Company to Executive pursuant to the terms of Company's benefit plans and programs, including, without limitation, under the Bonus Program, the LTIP/RSU Program, and Executive's supplemental executive retirement plan.

2. **REDUCTION IN OUTSTANDING AWARDS:** Set forth on Exhibit A attached hereto is a list of the stock options, restricted stock awards, RSUs (as such term is defined in the LTIP/RSU Program) and PARs (as such term is defined in the Retention Program) that have been awarded to Executive by Company prior to the date of this Agreement and in which Executive will not have a 100% vested and nonforfeitable interest as of the close of business on February 28, 2005 (determined based on the terms of the Compensation Programs and the applicable award notices issued thereunder, and assuming Executive's continuous employment by Company from the date of this Agreement until February 28, 2005). Subject to Executive's continuous employment by Company from the date of this Agreement through February 28, 2005, effective as of the close of business on February 28, 2005, Executive hereby surrenders and forfeits to Company 20% of the portion of each award that is listed on Exhibit A in which Executive will not have a 100% vested and nonforfeitable interest as of the close of business on February 28, 2005 (labeled on Exhibit A as "Nonvested"). The surrender and forfeiture of the applicable percentage of the nonvested portion of each such award shall be applied separately as of each vesting date under such award that will occur after February 28, 2005. For example, if, prior to the date of this Agreement, Executive has been granted a stock option with respect to 1,000 shares of Company's common stock and, as of the close of business on February 28, 2005, Executive has the vested right to exercise such option with respect to only 200 shares, then, as of the close of business on February 28, 2005, Executive shall surrender and forfeit to Company the right to purchase 160 shares of Company's common stock under such option (20% multiplied by 800 unvested option shares). Further, if the original terms of such stock option provide that it was to becom e exercisable with respect to 200 additional shares on each of four dates that will occur after February 28, 2005, then such stock option shall become exercisable with respect to only 160 additional shares on each of such dates as the right to exercise such option with respect to 40 shares on each such vesting date has been surrendered and forfeited to Company pursuant to this paragraph. If the provisions of this paragraph would result in the surrender and forfeiture of a fraction of a share or other unit subject to an award, then, notwithstanding the preceding provisions of this paragraph, such fractional share or unit shall not be surrendered and forfeited.

3. **NOTICES:** For purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be given in the same manner as indicated in the Employment Agreement.

4. **ASSIGNMENT:** This Agreement shall be binding upon and inure to the benefit of Company and any successor of Company, by merger or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit, or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5. **AMENDMENT:** This Agreement may not be modified except by an agreement in writing executed by both Company and Executive.

6. **GOVERNING LAWS:** This Agreement shall be subject to and governed by the laws of the State of Texas, without giving effect to principles of conflicts of law.

7. **VALIDITY:** In the event that any portion or provision of this Agreement is found to be invalid or unenforceable, the other portions or provisions hereof shall not be affected thereby.

8. **COUNTERPARTS:** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

9. **EFFECT OF AGREEMENT:** Except as provided in any signed written agreement contemporaneously or hereafter executed by Company and Executive, this Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof. Without limiting the scope of the preceding sentence, all understandings and agreements preceding the date of execution of this Agreement and relating to the subject matter hereof are hereby null and void and of no further force and effect. This Agreement constitutes an amendment to the Employment Agreement and, to the extent applicable, the award notices that have been issued to Executive prior to the date hereof pursuant to the Compensation Programs. Neither this Agreement nor any action taken by Company in accordance with the terms of this Agreement shall give Executive any right to terminate Executive's employment under the Employment Agreement under circumstances that would give rise to the payment of a Termination Payment (or the payment or provision of related severance amounts and benefits) under the Employment Agreement. Further, nothing in this Agreement shall confer to Executive any right of future employment with Company or any of its affiliates.

[Signatures begin on next page.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"COMPANY"

CONTINENTAL AIRLINES, INC

By: /s/ Michael H. Campbell

Name: Michael H. Campbell

Title: Senior Vice President -

Human Resources and

Labor Relations

"EXECUTIVE"

/s/ Jeffrey J. Misner

JEFFREY J. MISNER

EXHIBIT A

TO

COMPENSATION REDUCTION AGREEMENT

Stock Options

Date of Grant of Option	Nonvested Options as of February 28, 2005	Nonvested Options to be Surrendered and Forfeited as of February 28, 2005
6/28/2002	8,125	1,625

Restricted Stock Awards

Date of Grant of Award	Nonvested Shares as of February 28, 2005	Nonvested Shares to be Surrendered and Forfeited as of February 28, 2005
4/9/2002	5,000	1,000

RSUs

Performance Period Relating to the Award	Total Number of RSUs subject to Award (all Nonvested)	RSUs to be Surrendered and Forfeited as of February 28, 2005
April 1, 2004 to June 30, 2005	40,000	8,000
April 1, 2004 to March 31, 2006	40,000	8,000
April 1, 2004 to December 31, 2007	50,000	10,000

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PARs

Date of Grant of Award	Investment to which Award Relates	Nonvested PARs as of February 28, 2005	Nonvested PARs to be Surrendered and Forfeited as of February 28, 2005
11/1/2001	LastMinuteTravel.com, Inc.	1,102	220
2/24/2003	Patheo, Inc.	3,145	629
11/13/2003	Hotwire, Inc.	$9,649.00	$1,929.80
11/15/2004	Orbitz, Inc.	$29,257.43	$5,851.49

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **Mark Erwin** ("Executive"), and is dated and effective as of August 12, 2004 (the "Effective Date").

W I T N E S S E T H:

WHEREAS, Company and Executive are parties to that certain Employment Agreement dated as of September 10, 2002, as amended by letter agreement dated March 12, 2004 (as so amended, the "Existing Agreement"); and

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

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

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

ARTICLE 1: EMPLOYMENT AND DUTIES

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

1.2 **Position**. Company shall employ Executive in the position of Senior Vice President Asia/Pacific and Corporate Development, or in such other position or positions as the parties mutually may agree.

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

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

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

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

(i) upon Executive's death;

(ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance that renders Executive mentally or physically incapable of performing the material duties and services required of Executive hereunder on a full-time basis during such period;

(iii) for cause, which for purposes of this Agreement shall mean Executive's gross negligence or willful misconduct in the performance of, or Executive's abuse of alcohol or drugs rendering Executive unable to perform, the material duties and services required of Executive pursuant to this Agreement;

(iv) for Executive's material breach of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice to Executive by Company of such breach; or

(v) for any other reason whatsoever, in the sole discretion of the Board of Directors or the HR Committee.

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

(i) the assignment to Executive by the Board of Directors or HR Committee or other officers or representatives of Company of duties materially inconsistent with the duties associated with the position described in paragraph 1.2 as such duties are constituted as of the Effective Date (excluding any duties associated with a subsidiary of Company, which Company may eliminate in its sole discretion);

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or title from those applicable to Executive as of the Effective Date (excluding any authority, responsibilities or title associated with a subsidiary of Company, which Company may eliminate in its sole discretion);

(iii) the occurrence of material acts or conduct on the part of Company or its officers or representatives that prevent Executive from performing Executive's duties and responsibilities pursuant to this Agreement;

(iv) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(v) the taking of any action by Company that would materially adversely affect the corporate amenities enjoyed by Executive on the Effective Date;

(vi) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company; or

(vii) for any other reason whatsoever, in the sole discretion of Executive.

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

ARTICLE 3: **COMPENSATION AND BENEFITS**

3.1 **Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) $400,000 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

3.2 **Bonus Programs**. Executive shall participate in each cash bonus program maintained by Company on and after the Effective Date at a level which is not less than the maximum participation level made available to any other executive of Company at substantially the same title or level of Executive (determined without regard to period of service or other criteria that might otherwise be necessary to entitle Executive to such level of participation).

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

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

(i) **Business and Entertainment Expenses** - Subject to Company's standard policies and procedures with respect to expense reimbursement as applied to its executive employees generally, Company shall reimburse Executive for, or pay on behalf of Executive, reasonable and appropriate expenses incurred by Executive for business related purposes, including dues and fees to industry and professional organizations, costs of entertainment and business development, and costs reasonably incurred as a result of Executive's spouse accompanying Executive on business travel.

(ii) **Parking** - Company shall provide at no expense to Executive a parking place convenient to Executive's office and a parking place at Intercontinental Airport in Houston, Texas. Notwithstanding the foregoing, Executive acknowledges that she has agreed that Company may charge Executive for parking at Company's headquarters building garage.

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

3.5 **Supplemental Executive Retirement Plan.**

(i) Base Benefit. Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 24 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 2000 ("Actual Years of Service"), (2) an additional one year of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on January 1, 2000 and ending on December 31, 2004, and (3) three additional years of service if Executive is paid the Termination Payment under this Agreement. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) $315,000 or (B) the average of the five highest annual cash compensation amounts (or, if Executive has been employed less than five years by Company, the average over the full years employed by Company) paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of the Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Exe cutive dated as of April 14, 1998, (iii) any Termination Payment paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company (including RSUs awarded under Company's Long Term Incentive and RSU Program), and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

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

(iii) Normal and Early Retirement Benefits. Executive's benefit under the Plan shall be payable in equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit") or, at Executive's written election made not less than 15 days prior to the Retirement Date, in a lump-sum on the first day of such month in an amount equal to the Lump-Sum Payment less 10% of such sum (provided, however, that the Human Resources Committee of the board of directors of Company (the "HR Committee") may, in its sole and absolute discretion, waive all or any part of such 10% reduction). For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated, for a reason other t han death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall be entitled to elect to receive the Lump-Sum Payment or commence to receive Executive's monthly installment benefit under the Plan, in either case as of the first day of any month coinciding with or next following Executive's termination of employment, or as the first day of any subsequent month preceding the Retirement Date (an "Early Retirement Benefit"); provided, however, that (1) written notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the monthly installment benefit (or the date of payment, in the case of a Lump-Sum Payment), (2) each monthly installment payment under an Early Retirement Benefit, or the amount of the Lump-Sum Payment, as the case may be, shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit (determined without regard to c lause (3) of this proviso) to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for the actual time and form of payments), and (3) each monthly installment payment under an Early Retirement Benefit that is made prior to the Retirement Date, or the Lump-Sum Payment, as the case may be, shall be reduced by an additional 10% of the amount of such payment as initially determined pursuant to clause (2) of this proviso. The HR Committee may, in its sole and absolute discretion, waive all or any part of the reductions contemplated in clauses (2) and/or (3) of the proviso of the preceding sentence. As used herein, "Lump-Sum Payment" shall mean the lump-sum actuarial equivalent of the value of the Normal Retirement Benefit, based on the actuarial assumptions set forth in paragraph 3.5(vii) and adjusted for the actual time of payment.

(iv) Form of Retirement Benefit. If Executive is not married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive in the form of a single life annuity for the life of Executive (unless Executive elects a Lump-Sum Payment, in which case benefits under the Plan will be paid in cash in a lump-sum). If Executive is married on the date Executive's benefit under paragraph 3.5(iii) commences, then benefits under the Plan will be paid to Executive (unless Executive has elected a Lump-Sum Payment), at the written election of Executive made at least 15 days prior to the first payment of benefits under the Plan, in either (1) the form of a single life annuity for the life of Executive, or (2) the form of a joint and survivor annuity that is actuarially equivalent to the benefit that would have been payable under the Plan to Executive if Executive was not married on such date, with Executive's spouse as of the date benef it payments commence being entitled during such spouse's lifetime after Executive's death to a benefit equal to 50% of the benefit payable to Executive during their joint lifetimes. If Executive fails to make such election and does not make an election to receive a Lump-Sum Payment, Executive will be deemed to have elected a joint and survivor annuity.

(v) Death Benefit. Except as provided in this paragraph 3.5(v), no benefits shall be paid under the Plan if Executive dies prior to the date Executive's benefit commences pursuant to paragraph 3.5(iii). In the event of Executive's death prior to the commencement of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive, at such spouse's written election made within 90 days after Executive's death, either (A) a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, elected a joint and survivor annuity and began to receive Executive's Plan ben efit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive elected a joint and survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death, or (B) a Spousal Lump-Sum Payment less 10% of such sum (provided, however, that the HR Committee may, in its sole and absolute discretion, waive all or any part of such 10% reduction), which shall be paid as a lump-sum in cash on the date that the first payment of the single life annuity described in clause (A) of this sentence would have been paid if the surviving spouse had elected to receive such single life annuity. As used herein, "Spousal Lump-Sum Payment" shall mean the lump-sum actuarial equivalent of the value of the single life annuity described in clause (A) of the foregoing sentence, based on the actuarial assumptions set forth in paragraph 3.5(vi i) and adjusted for the actual time of payment. Payment of such survivor annuity, if so elected, shall begin on the first day of the month following the later of (1) Executive's date of death or (2) the Retirement Date; provided, however, that if Executive was eligible to elect an Early Retirement Benefit as of the date of Executive's death, then Executive's surviving spouse shall be entitled to elect to receive the Spousal Lump-Sum Payment or commence to receive such survivor annuity as of the first day of the month next following the date of Executive's death, or as the first day of any subsequent month preceding the Retirement Date. Notice of such election must be received by Company not less than 15 days prior to the proposed date of commencement of the benefit or payment of the Spousal Lump-Sum Payment, as the case may be, and each payment of such survivor annuity, or the amount of the Spousal Lump-Sum Payment, as the case may be, shall be reduced based on the principles used for the reductions descri bed in clauses (2) and (3) of the proviso to the third sentence of paragraph 3.5(iii). If such surviving spouse fails to make an election to receive a Spousal Lump-Sum Payment, the surviving spouse will be deemed to have elected to receive the survivor annuity.

(vi) Unfunded Benefit. The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that Executive must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally-recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vii) Actuarial Equivalent. For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to Executive's spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP; provided, however, that with respect to the discount rate used to calculate a Lump-Sum Payment or a Spousal Lump-Sum Payment, the discount rate shall be the Aa Corporate Bond Rate. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse. The term "Aa Corporate Bond Rate" shall mean the average of the Moody's daily long-term corporate bond yield averages for Aa-rated corporate bonds published by Moody's Investors Service, for the three-month period ending on the last day of the second month preceding the date of the applicable election to receive a Lump-Sum Payment or a Spousal Lump-Sum Payment, as determined by the Actuary (or, if such yield information is no longer so published, then the average of the daily corporate bond yields for a comparable sample of Aa-rated corporate bonds of comparable tenor determined in good faith by the Actuary). Upon request, Company shall cause the Actuary to compute the Aa Corporate Bond Rate for a specified period and the amount of the applicable annuity, Lump-Sum Payment or Spousal Lump-Sum Payment for Executive (or, in the case of Executive's death, Executive's spouse) and shall deliver such information to Executive or such spouse.

(viii) Medicare Payroll Taxes. Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

3.6 **Relocation Matters.** Executive shall promptly relocate to Houston, Texas. Company shall pay the reasonable cost and expenses of relocating Executive's household effects from Guam and Hawaii to Houston, Texas

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 **By Expiration.** If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of Executive's employment, except that (A) the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (iii) provide Executive with Outplacement Services (as such term is defined in paragraph 4.7), and (iv) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

4.2 **By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except the benefits described in paragraph 3.5 shall continue to be payable, Executive and Executive's eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and

i. if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii) or (iv), then Company shall provide Executive with the payments and benefits described in clauses (i) through (iv) of paragraph 4.1, and Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime; and

ii. if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, and (2) if such termination shall be for a reason encompassed by paragraph 2.2(ii), provide Flight Benefits (as such term is defined in paragraph 4.7) to Executive for the remainder of Executive's lifetime.

4.3 **By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of employment, except Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, the benefits described in paragraph 3.5 shall continue to be payable, and if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv), (v), or (vi), then Company shall provide Executive with the payments and benefits described in clau ses (i) through (iv) of paragraph 4.1.

4.4 **Certain Additional Payments by Company**. Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decid es to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

4.5 **Payment Obligations Absolute**. Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against Executive or anyone else. All amounts payable by Company shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

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

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

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

(ii) "Change in Control" shall have the meaning assigned to such term in Company's Incentive Plan 2000 in effect on the date hereof;

(iii) "Continuation Coverage" shall mean the continued coverage of Executive and Executive's eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, vision care, accidental death and dismemberment, and prescription drug (but excluding disability), at no greater cost to Executive than that applicable to a similarly situated Company executive at the senior vice president level who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

(iv) "Flight Benefits" shall mean flight benefits on each airline operated by Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on the Effective Date), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determined by Executive, lifetime Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's, Executive's spouse and Executive's childrens' names for use on the CO system, lifetime membership (subject to the terms and conditions of membership, including minimum age requirements) for Executive, Executive's spouse and children in the Company's President's Club (or any successor program maintained in the CO system) and payment by Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits consistently with the methodology used by Company at the Effective Date (which methodology Company may ch ange from time to time in its sole discretion), or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of Company;

i. "Outplacement Services" shall mean outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld);

(vi) "Severance Period" shall mean:

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

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

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

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially $66,500), which amount shall be adjusted (i) annually (beginning with the year 2004) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 2004, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of the Effective Date), so as to preserve the benefit of $66,500 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of the Effective Date (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of the Effective Date, then the Annual Travel Limit would be increased by 15% to $76,475, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph. Notwithstanding the foregoing, any amounts of Executive's prior Annual Travel Limit (as in effect prior to August 12, 2004) unused and carried forward from years prior to 2004 shall continue to be available for usage by Executive.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially $13,300), which amount shall be adjusted (i) annually (beginning with the year 2004) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 2004, and (iii) after adjustments described in clauses (i) and (ii) above, automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of the Effective Date), so as to preserve the benefit of $13,300 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of the Effective Date (e. g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of the Effective Date, then the Annual Gross Up Limit would be increased by 15% to $15,295, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph. Notwithstanding the foregoing, any amounts of Executive's prior Annual Gross Up Limit (a s in effect prior to August 12, 2004) unused and carried forward from years prior to 2004 shall continue to be available for usage by Executive.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of the Effective Date for purposes of Flight Benefits for a year to commence on November 1 and end on the following October 31 (for example, the twelve-month period from November 1, 2003 to October 31, 2004 is considered the year 2004 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of Company means any entity controlled by, controlling, or under common control with Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, Executive will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse Company for all charges on Executive's UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.4(i) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive's UATP ca rd (or Similar Card) may be suspended if Executive does not timely reimburse Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income (calculated as described above) with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which Company is obligated to provide the tax gross up described above, Executive will provide to Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), lifetime Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's, Executive's spouse's and Executive's childrens' names, lifetime membership cards in Company's Presidents Club (or any successor program maintained in the CO system) for Executive, Executive's spouse and Executive's children (subject to the terms and conditions of membership, including minimum age requirements), and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits (or, with respect to such OnePass and Presidents Club cards, during the lifetime of the holder).

Upon Executive's death, Executive's surviving spouse and children will be permitted, in the aggregate, to continue to use (in the proportions specified in Executive's last will and testament or, if not so specified or if Executive dies intestate, in equal proportions) Executive's Flight Benefits on the CO system (out of any amounts unused by Executive at the date of Executive's death) for up to a total amount of $50,000 in value of flights (in any fare class) on the CO system, valued identically to the valuation of flights for purposes of Executive's Flight Benefits described herein, which amount shall adjust automatically upon any change in the valuation methodology, from and after the date hereof, for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by Company as of the date hereof), so as to preserve the benefit of $50,000 of flights relative to the valuations resulting from the valuation methodology used by Company as of the E ffective Date(e.g., if a change in the valuation methodology results, on average, in such flights being valued 10% higher than the valuation that would result using the valuation methodology used by Company as of the Effective Date, then such amount would be increased by 10% to $55,000). Company will promptly notify Executive in writing of any adjustments to such amount.

Executive agrees that Executive's Flight Benefits are intended to be used principally for personal reasons and may not be used for business purposes (other than business purposes on behalf of Company), and other than business usage that is incidental or de minimus, defined as amounting to less than 10% of the total value (valued in accordance with the valuation methodology described above) of flights on the CO System charged to Executive's UATP card (or any Similar Card) during any year), and that credit availability on Executive's UATP card (or any Similar Card) may be suspended if such UATP card (or any Similar Card) is used for business purposes other than as described above and, after receiving written notice from Company to cease such usage, Executive continues to use Executive's UATP card (or any Similar Card) for such business purposes.

ARTICLE 5: <u>MISCELLANEOUS</u>

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

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

If to Company to : Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: President

If to Executive to: Mark Erwin

Houston, Texas

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

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

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

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

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

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

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

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

5.10 **Successors.** This Agreement shall be binding upon and inure to the benefit of Company and any successor of the Company, including without limitation any person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Company by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

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

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.4(iii) and any awards under the Company's stock incentive plans or programs, Long Term Incentive Performance Award Program, Officer Retention and Incentive Award Program, Long Term Incentive and RSU Program, Annual Executive Bonus Program or similar plans or programs, and (ii) separate agreements, if any, governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect. Any modification of this Agreement shall be effective only if it is in writing a nd signed by the party to be charged.

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

****

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By: /s/ Michael H. Campbell____________________

Michael H. Campbell Senior Vice President

Human Resources and Labor Relations

"EXECUTIVE"

_/s/ Mark Erwin__________________________

Mark Erwin

COMPENSATION REDUCTION AGREEMENT

THIS COMPENSATION REDUCTION AGREEMENT (this "Agreement") is entered into effective as of December 31__, 2004, by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and **Mark A. Erwin** ("Executive").

W I T N E S S E T H:

WHEREAS, Company and Executive have heretofore entered into that certain Employment Agreement dated as of August 12, 2004; and

WHEREAS, Company has heretofore granted to Executive various awards under Company's Incentive Plan 2000, as amended (the "Incentive Plan 2000"), and the programs maintained under the Incentive Plan 2000, including Company's Annual Executive Bonus Program, as amended (the "Bonus Program"), and Company's Long Term Incentive and RSU Program, as amended (the "LTIP/RSU Program")(the Incentive Plan 2000, the Bonus Program, and the LTIP/RSU Program are collectively referred to herein as the "Compensation Programs"); and

WHEREAS, as part of Company's continuing efforts to reduce its costs of operation, Company desires to reduce the compensation it provides to Executive, and Executive is willing to accept such reduction, in an effort to enhance the financial health of Company and to preserve employment opportunities for Executive and others with Company.

NOW, THEREFORE, in consideration of the premises set forth above, the mutual agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and notwithstanding any provision to the contrary in the Employment Agreement, the Compensation Programs or the award notices issued to Executive under the Compensation Programs, Company and Executive hereby agree as follows:

1. **REDUCTION OF BASE SALARY:** Subject to Executive's continuous employment by Company from the date of this Agreement to February 28, 2005, commencing on February 28, 2005, and continuing until such time, if any, as the parties may agree to a different amount, Executive's annual base salary shall be reduced by 17.5% of the amount in effect on the date hereof (i.e., from Executive's current base salary of $400,000 to a reduced based salary of $330,000). Executive acknowledges that such reduction in annual base salary will also result in a reduction in certain compensation and other benefits provided by Company to Executive pursuant to the terms of Company's benefit plans and programs, including, without limitation, under the Bonus Program, the LTIP/RSU Program, and Executive's supplemental executive retirement plan.

2. **REDUCTION IN OUTSTANDING RSUs:** Set forth on Exhibit A attached hereto is a list of the RSUs (as such term is defined in the LTIP/RSU Program) that have been awarded to Executive by Company prior to the date of this Agreement and in which Executive will not have a 100% vested and nonforfeitable interest as of the close of business on February 28, 2005 (determined based on the terms of the LTIP/RSU Program and the applicable award notices issued thereunder, and assuming Executive's continuous employment by Company from the date of this Agreement until February 28, 2005). Subject to Executive's continuous employment by Company from the date of this Agreement through February 28, 2005, effective as of the close of business on February 28, 2005, Executive hereby surrenders and forfeits to Company 17.5% of the portion of each award that is listed on Exhibit A in which Executive will not have a 100% vested and nonforfeitable interest as of the close of business on February 28, 2005 (labeled on Exhibit A as "Nonvested"). The surrender and forfeiture of the applicable percentage of the nonvested portion of each such award shall be applied separately as of each vesting date under such award that will occur after February 28, 2005. If the provisions of this paragraph would result in the surrender and forfeiture of a fraction of an RSU, then, notwithstanding the preceding provisions of this paragraph, such fractional RSU shall not be surrendered and forfeited.

3. **EFFECT OF CERTAIN TERMINATIONS OF EMPLOYMENT**: Notwithstanding any other provision of this Agreement, if Executive's employment by Company shall be terminated between Feb. 28, 2005 and Feb. 28, 2007 as a result of Executive's death or incapacity (as defined in Section 2.2(ii) of the Employment Agreement) or under circumstances requiring Company to pay Executive the Termination Payment (as defined in the Employment Agreement as of the date hereof), then all amounts (including such Termination Payment) payable to Executive under the Employment Agreement or the Compensation Programs (other than under the Continental Retirement Plan) shall be calculated and made as if this Agreement were never in force, and all awards forfeited by Executive pursuant to Section 2 hereof shall be restored to Executive nunc pro tunc (or, if Company is unable to so restore such awards due to restrictions imposed by the Compensation Programs or applicable law, the then-fair market value thereof sh all be paid in cash to Executive or Executive's estate).

4. **NOTICES:** For purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be given in the same manner as indicated in the Employment Agreement.

5. **ASSIGNMENT:** This Agreement shall be binding upon and inure to the benefit of Company and any successor of Company, by merger or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit, or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

6. **AMENDMENT:** This Agreement may not be modified except by an agreement in writing executed by both Company and Executive.

7. **GOVERNING LAWS:** This Agreement shall be subject to and governed by the laws of the State of Texas, without giving effect to principles of conflicts of law.

8. **VALIDITY:** In the event that any portion or provision of this Agreement is found to be invalid or unenforceable, the other portions or provisions hereof shall not be affected thereby.

9. **COUNTERPARTS:** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

10. **EFFECT OF AGREEMENT:** Except as provided in any signed written agreement contemporaneously or hereafter executed by Company and Executive, this Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof. Without limiting the scope of the preceding sentence, all understandings and agreements preceding the date of execution of this Agreement and relating to the subject matter hereof are hereby null and void and of no further force and effect. This Agreement constitutes an amendment to the Employment Agreement and, to the extent applicable, the award notices that have been issued to Executive prior to the date hereof pursuant to the Compensation Programs. Neither this Agreement nor any action taken by Company in accordance with the terms of this Agreement shall give Executive any right to terminate Executive's employment under the Employment Agreement under circumstances that would give rise to the payment of a Termination Payment (or the payment or provision of related severance amounts and benefits) under the Employment Agreement. Further, nothing in this Agreement shall confer to Executive any right of future employment with Company or any of its affiliates.

[Signatures begin on next page.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"COMPANY"

CONTINENTAL AIRLINES, INC

By: /s/ Michael H. Campbell

Name: Michael H. Campbell

Title: Senior Vice President -

Human Resources and

Labor Relations

"EXECUTIVE"

/s/ Mark A. Erwin

Mark A. Erwin

EXHIBIT A

TO

COMPENSATION REDUCTION AGREEMENT

RSUs

Performance Period Relating to the Award	**Total Number of RSUs subject to Award (all Nonvested)**	**RSUs to be Surrendered and Forfeited as of February 28, 2005**
April 1, 2004 to June 30, 2005	40,000	7,000
April 1, 2004 to March 31, 2006	40,000	7,000
April 1, 2004 to December 31, 2007	50,000	8,750

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made by and between **CONTINENTAL AIRLINES, INC.**, a Delaware corporation ("Company"), and **James Compton** ("Executive"), and is dated and effective as of August 12, 2004 (the "Effective Date").

W I T N E S S E T H:

WHEREAS, Company and Executive are parties to that certain Employment Agreement dated February 6, 2001, as amended by letter agreements dated April 9, 2002 and March 12, 2004 (the "Existing Agreement"); and

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

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

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

ARTICLE 1: EMPLOYMENT AND DUTIES

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

1.2 **Positions**. From and after the Effective Date, Company shall employ Executive in the position of Executive Vice President Marketing, or in such other positions as the parties mutually may agree.

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

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

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

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

(i) upon Executive's death;

(ii) upon Executive's becoming incapacitated for a period of at least 180 days by accident, sickness or other circumstance that renders Executive mentally or physically incapable of performing the material duties and services required of Executive hereunder on a full-time basis during such period;

(iii) Executive's gross negligence or willful misconduct in the performance of, or Executive's abuse of alcohol or drugs rendering Executive unable to perform, the material duties and services required of Executive pursuant to this Agreement;

(iv) upon the conviction or plea of *nolo contendre* of Executive for a felony or any crime involving moral turpitude;

(v) upon Executive committing an act of deceit or fraud intended to result in personal and unauthorized enrichment of Executive at Company's expense;

(vi) upon Executive's material breach of a material obligation of Executive under this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Company to Executive; or

(vii) for any other reason whatsoever, in the sole discretion of the Board of Directors.

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

(i) the assignment to Executive by the Board of Directors or other officers or representatives of Company of duties materially inconsistent with the duties associated with the positions described in paragraph 1.2 as such duties are constituted as of the Effective Date, or the failure to elect or reelect Executive to any of the positions described in paragraph 1.2 or the removal of Executive from any such positions;

(ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to Executive as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Chief Executive Officer or President of Company;

(iii) Company requiring Executive to be permanently based anywhere outside a major urban center in Texas;

(iv) the taking of any action by Company that would materially reduce the corporate amenities enjoyed by Executive below the level of corporate amenities enjoyed by any other executive of Company other than Company's Chief Executive Officer and President;

(v) a material breach by Company of any provision of this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Executive to Company, it being agreed that any reduction in (a) Executive's then current annual base salary, or (b) Executive's annual cash bonus opportunity as a percentage of such base salary from that percentage in effect on the Effective Date (i.e., an annual cash bonus opportunity of 0%, if entry level goal is not met, and if entry level goal is met, between 50% and 150% of annual base salary, depending on achievement of entry, target and stretch goals), shall in each case constitute a material breach by Company of this Agreement; or

(vi) for any other reason whatsoever, in the sole discretion of Executive.

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

ARTICLE 3: COMPENSATION AND BENEFITS

3.1 **Base Salary.** During the period of this Agreement, Executive shall receive a minimum annual base salary equal to the greater of (i) $450,000 or (ii) such amount as the parties mutually may agree upon from time to time. Executive's annual base salary shall be paid in equal installments in accordance with Company's standard policy regarding payment of compensation to executives but no less frequently than semimonthly.

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

3.3 **Life Insurance**. During the period of this Agreement, Company shall maintain one or more policies of life insurance on the life of Executive providing an aggregate death benefit in an amount not less than the Termination Payment (as such term is defined in paragraph 4.7, and based on a Severance Period of thirty-six months). Executive shall have the right to designate the beneficiary or beneficiaries of the death benefit payable pursuant to such policy or policies up to an aggregate death benefit in an amount equal to the Termination Payment (based on a Severance Period of thirty-six months), and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executiv e an additional payment (the "Policy Payment") in an amount such that after payment by Executive of all taxes imposed on Executive with respect to the Policy Payment, Executive retains an amount of the Policy Payment equal to the taxes imposed upon Executive with respect to such purchase or the payment of such premiums. If for any reason Company fails to maintain the full amount of life insurance coverage required pursuant to the preceding provisions of this paragraph 3.3, Company shall, in the event of the death of Executive while employed by Company, pay Executive's designated beneficiary or beneficiaries an amount equal to the sum of (1) the difference between the Termination Payment (based on a Severance Period of thirty-six months) and any death benefit payable to Executive's designated beneficiary or beneficiaries under the policy or policies maintained by Company and (2) such additional amount as shall be required to hold Executive's estate, heirs, and such beneficiary or beneficiaries harmless from any additional tax liability resulting from the failure by Company to maintain the full amount of such required coverage.

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

3.5 **Supplemental Executive Retirement Plan.**

(i) Base Benefit. Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 26 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 2001 ("Actual Years of Service"), (2) an additional year of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on Janu ary 1, 2001 and ending on December 31, 2006, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), an additional three years of service. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) $450,000 or (B) the average of the five highest annual cash compensation amounts paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company (including RSUs awarded under Company's Long Term Incentive and RSU Program), and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

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

(iii) Normal and Early Retirement Benefits. Executive's benefit under the Plan shall be paid only in a lump sum payment in an amount that is the actuarial equivalent of a straight life annuity in the annual amount of the Base Benefit for the life of Executive paying equal monthly installments beginning on the first day of the month following the Retirement Date (the "Normal Retirement Benefit"). For purposes hereof, "Retirement Date" is defined as the later of (a) the date on which Executive attains (or in the event of Executive's earlier death, would have attained) age 60 or (b) the date of Executive's retirement from employment with Company. Notwithstanding the foregoing, if Executive's employment with Company is terminated, for a reason other than death, on or after the date Executive attains age 55 or is credited with 10 Actual Years of Service and prior to the Retirement Date, then Executive shall receive the Normal Retirement Benefit as of the first day of the month coin ciding with or next following Executive's termination of employment (an "Early Retirement Benefit"); provided, however, that the amount of the benefit shall be reduced to the extent necessary to cause the value of such Early Retirement Benefit to be the actuarial equivalent of the value of the Normal Retirement Benefit (in each case based on the actuarial assumptions set forth in paragraph 3.5(vi) and adjusted for the actual time of payment).

(iv) Death Benefit. In the event of Executive's death prior to payment of Executive's benefit pursuant to paragraph 3.5(iii), Executive's surviving spouse, if Executive is married on the date of Executive's death, will receive a death benefit payable only as a lump sum payment in an amount that is the actuarial equivalent of a single life annuity consisting of monthly payments for the life of such surviving spouse determined as follows: (a) if Executive dies on or before reaching the Retirement Date, the death benefit such spouse would have received had Executive terminated employment on the earlier of Executive's actual date of termination of employment or Executive's date of death, survived until the Retirement Date, been entitled to elect and elected a joint and 50% survivor annuity and began to receive Executive's Plan benefit beginning immediately at the Retirement Date, and died on the day after the Retirement Date; or (b) if Executive dies after reaching the Retirement Date, the death benefit such spouse would have received had Executive been entitled to elect and elected a joint and 50% survivor annuity and begun to receive Executive's Plan benefit beginning on the day prior to Executive's death.Payment of such benefit shall be made no later than the first day of the month following the Executive's date of death; provided, however, that if Executive was eligible to receive an Early Retirement Benefit as of the date of Executive's death, then the amount of such benefit shall be reduced based on the principles used for the reductions described in the proviso to the third sentence of paragraph 3.5(iii).

(v) Unfunded Benefit. The Plan is intended to constitute an unfunded, unsecured plan of deferred compensation. Further, it is the intention of Company that the Plan be unfunded for purposes of the Internal Revenue Code of 1986, as amended, and Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan constitutes a mere promise by Company to make benefit payments in the future. Plan benefits hereunder provided are to be paid out of Company's general assets, and Executive shall have the status of, and shall have no better status than, a general unsecured creditor of Company. Executive understands that Executive must rely upon the general credit of Company for payment of benefits under the Plan. Company shall establish a "rabbi" trust to assist Company in meeting its obligations under the Plan. The trustee of such trust shall be a nationally recognized and solvent bank or trust company that is not affiliated with Company. Company shall transfer to the trustee money and/or other property determined in the sole discretion of the HR Committee based on the advice of the Actuary (as defined below) on an as-needed basis in order to assure that the benefit payable under the Plan is at all times fully funded. The trustee shall pay Plan benefits to Executive and/or Executive's spouse out of the trust assets if such benefits are not paid by Company. Company shall remain the owner of all assets in the trust, and the assets shall be subject to the claims of Company creditors in the event (and only in the event) Company ever becomes insolvent. Neither Executive nor any beneficiary of Executive shall have any preferred claim to, any security interest in, or any beneficial ownership interest in any assets of the trust. Company has not and will not in the future set aside assets for security or enter into any other arrangement which will cause the obligation created to be other than a general corporate obligation of Company or will cause Executive to be more than a general creditor of Company.

(vi) Actuarial Equivalent. For purposes of the Plan, the terms "actuarial equivalent", or "actuarially equivalent" when used with respect to a specified benefit shall mean the amount of benefit of the referenced different type or payable at the referenced different age that can be provided at the same cost as such specified benefit, as computed by the Actuary and certified to Executive (or, in the case of Executive's death, to Executive's spouse) by the Actuary. The actuarial assumptions used under the Plan to determine equivalencies between different forms and times of payment shall be the same as the actuarial assumptions then used in determining benefits payable under the CARP; provided, however, that with respect to the discount rate used to calculate benefits under the Plan, the discount rate shall be the Aa Corporate Bond Rate. The term "Actuary" shall mean the individual actuary or actuarial firm selected by Company to service its pension plans generally or if no such indi vidual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse. The term "Aa Corporate Bond Rate" shall mean the average of the Moody's daily long-term corporate bond yield averages for Aa-rated corporate bonds published by Moody's Investors Service, for the three-month period ending on the last day of the second month preceding the date Executive) or, in the case of Executive's death, Executive's spouse) is to receive the lump-sum payment, as determined by the Actuary (or, if such yield information is no longer so published, then the average of the daily corporate bond yields for a comparable sample of Aa-rated corporate bonds of comparable tenor determined in good faith by the Actuary). Upon request, Company shall cause the Actuary to compute the Aa Corporate Bond Rate for a specified period and the amount of the lump-sum payment for Executive (or, in the case of Executive's death, Executive's spouse) and s hall deliver such information to Executive or such spouse.

(vii) Medicare Payroll Taxes. Company shall indemnify Executive on a fully grossed-up, after-tax basis for any Medicare payroll taxes (plus any income taxes on such indemnity payments) incurred by Executive in connection with the accrual and/or payment of benefits under the Plan.

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

(i) Automobile - Company will provide an automobile (including replacements therefor) of Executive's choice for Executive's use on the same terms as its current practices relating to the choice and use of automobiles by its Chief Executive Officer. If the automobile is leased, Company agrees to take such actions as may be necessary to permit Executive, at Executive's option, to acquire title to any automobile subject to such a lease at the completion of the lease term by Executive paying the residual payment then owing under the lease. If Executive's employment terminates (other than as a result of the reasons encompassed by paragraphs 2.2 (iii), (iv), (v) or (vi)), then Company (1) if the automobile is leased, will continue to make all payments under the lease and permit Executive (or Executive's estate, as applicable) to use the automobile during the remainder of such lease and will, at the conclusion of the lease, cause the title to the automobile to be transferred to Executive (or Executive's estate) without cost to Executive (or Executive's estate), or (2) if the automobile is owned by Company, transfer title to the automobile to Executive (or Executive's estate, as applicable), without cost to Executive (or Executive's estate).

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

(iii) Parking - Company shall provide at no expense to Executive a reserved parking place convenient to Executive's headquarters office and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice.

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

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

4.1 **By Expiration.** If Executive's employment hereunder shall terminate upon expiration of the term provided in paragraph 2.1 hereof, then all compensation and all benefits to Executive hereunder shall terminate contemporaneously with termination of Executive's employment, except that (A) the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage (as such term is defined in paragraph 4.7) for the remainder of Executive's lifetime, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i) and (B) if such termination shall result from Company's delivery of the written notice described in paragraph 2.1, then Company shall (i) cause all options and shares of restricted stock awa rded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days after such termination, (ii) cause all Awards made to Executive under Company's Officer Retention and Incentive Award Program ("Retention Program") to vest immediately upon such termination, (iii) cause Company to pay to Executive, at the same time as other Payment Amounts with respect to Awards are paid to other participants under Company's Long Term Incentive Performance Award Program ("LTIP") and Long Term Incentive and RSU Program ("NLTIP/RSU Program"), as the case may be, all Payment Amounts with respect to Awards made to Executive under the LTIP or the NLTUP/RSU Program having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in Executive's current position through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately prece ding such termination), less any amounts paid to Executive under the LTIP or the NLTIP/RSU Program, as the case may be, upon the occurrence of a Qualifying Event with respect to Executive in connection with a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP or in the NLTIP/RSU Program, as may be applicable to the relevant Awards), (iv) pay Executive on or before the effective date of such termination a lump-sum, cash payment in an amount equal to the Termination Payment, (v) provide Executive with Outplacement, Office and Related Services (as such term is defined in paragraph 4.7 and for the time periods described therein), and (vi) pay any amounts owed but unpaid to Executive under any plan, policy or program of Company as of the date of termination at the time provided by, and in accordance with the terms of, such plan, policy or program.

4.2 **By Company.** If Executive's employment hereunder shall be terminated by Company prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and all benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, and:

(i) if such termination shall be for any reason other than those encompassed by paragraphs 2.2(i), (ii), (iii), (iv), (v) or (vi), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1, and Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i); and

(ii) if such termination shall be for a reason encompassed by paragraphs 2.2(i) or (ii), then Company shall (1) cause all options and shares of restricted stock awarded to Executive to vest immediately upon such termination and, with respect to options, be exercisable in full for 30 days (or such longer period as provided for under the circumstances in applicable option awards) after such termination, (2) cause all Awards made to Executive under the Retention Program to vest immediately upon such termination, (3) cause Company to pay to Executive (or Executive's estate), at the same time as other Payment Amounts with respect to Awards are paid to other participants under the LTIP or NLTIP/RSU Program, as the case may be, all Payment Amounts with respect to Awards made to Executive under the LTIP or NLTIP/RSU Program having a Performance Period that has not been completed as of the date of Executive's termination, as if Executive had remained employed by Company in Executive's current p osition through the end of each such Performance Period (calculated using the Base Amount of Executive in effect on the day immediately preceding such termination), less any amounts paid to Executive under the LTIP or in the NLTIP/RSU Program upon the occurrence of Executive's death or Disability after a Change in Control (such capitalized terms to have the meanings ascribed thereto in the LTIP or in the NLTIP/RSU Program, as may be applicable to the relevant Awards), (4) if termination was due to Executive's death, provide Executive's designated beneficiary or beneficiaries with the benefits contemplated under paragraph 3.3 , and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i).

4.3 **By Executive.** If Executive's employment hereunder shall be terminated by Executive prior to expiration of the term provided in paragraph 2.1 hereof then, upon such termination, regardless of the reason therefor, all compensation and benefits to Executive hereunder shall terminate contemporaneously with the termination of such employment, except that the benefits described in paragraph 3.5 shall continue to be payable, Executive shall be provided Flight Benefits for the remainder of Executive's lifetime, Executive and Executive's eligible dependents shall be provided Continuation Coverage for the remainder of Executive's lifetime, Company shall perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.6(i) and, if such termination shall be pursuant to paragraphs 2.3(i), (ii), (iii), (iv) or (v), then Company shall provide Executive with the payments and benefits described in clauses (i) through (vi) of paragraph 4.1.

4.4 **Certain Additional Payments by Company**. Notwithstanding anything to the contrary in this Agreement, if any payment, distribution or provision of a benefit by Company to or for the benefit of Executive, whether paid or payable, distributed or distributable or provided or to be provided pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to an excise or other special additional tax that would not have been imposed absent such Payment (including, without limitation, any excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended), or any interest or penalties with respect to such excise or other additional tax (such excise or other additional tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), Company shall pay to Executive an additional payment (a "Gross-up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any income taxes and Excise Taxes imposed on any Gross-up Payment, Executive retains an amount of the Gross-up Payment (taking into account any similar gross-up payments to Executive under any stock incentive or other benefit plan or program of Company) equal to the Excise Tax imposed upon the Payments. Company and Executive shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. Executive shall notify Company in writing of any claim by the Internal Revenue Service which, if successful, would require Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by Company and Executive) within ten business days after the receipt of such claim. Company shall notify Executive in writing at least ten business days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If Company decid es to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

4.5 **Payment Obligations Absolute**. Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against Executive or anyone else; provided that all payments and other Company obligations under this Article 4 shall be subject to Executive's execution, promptly upon request by Company upon Executive's termination of employment, of a general release and waiver substantially in the form attached as Exhibit A to this Agreement, which has become irrevocable. Company agrees to execute such form of release and waiver concurrently with the execution thereof by Executive. All amounts payable by Company shall be paid without notice or demand. Executi ve shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Article 4, and, except as provided in paragraph 4.7 with respect to Continuation Coverage, the obtaining of any such other employment (or the engagement in any endeavor as an independent contractor, sole proprietor, partner, or joint venturer) shall in no event effect any reduction of Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Article 4.

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

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

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

ii. "Change in Control" shall have the meaning assigned to such term in Company's Incentive Plan 2000 in effect on the Effective Date;

(iii) "Continuation Coverage" shall mean the continued coverage of Executive and Executive's eligible dependents under Company's welfare benefit plans available to executives of Company who have not terminated employment (or the provision of equivalent benefits), including, without limitation, medical, health, dental, life insurance, vision care, accidental death and dismemberment, and prescription drug (but excluding disability), at no greater cost to Executive than that applicable to a similarly situated Company executive who has not terminated employment; provided, however, that the coverage to Executive (or the receipt of equivalent benefits) shall be provided under one or more insurance policies so that reimbursement or payment of benefits to Executive thereunder shall not result in taxable income to Executive, and provided further that the coverage to Executive under a particular welfare benefit plan (or the receipt of equivalent benefits) shall be suspended during any period that Executive receives comparable benefits from a subsequent employer, and shall be reinstated upon Executive ceasing to so receive comparable benefits and notifying Company thereof;

(iv) "Flight Benefits" shall mean flight benefits on each airline operated by the Company or any of its affiliates or any successor or successors thereto (the "CO system"), consisting of the highest priority space available flight passes for Executive and Executive's eligible family members (as such eligibility is in effect on the Effective Date), a Universal Air Travel Plan (UATP) card (or, in the event of discontinuance of the UATP program, a similar charge card permitting the purchase of air travel through direct billing to the Company or any successor or successors thereto (a "Similar Card")) in Executive's name for charging on an annual basis up to the applicable Annual Travel Limit (as hereinafter defined) with respect to such year in value (valued identically to the calculation of imputed income resulting from such flight benefits described below) of flights (in any fare class) on the CO system for Executive, Executive's spouse, Executive's family and significant others as determ ined by Executive, lifetime Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's and Executive's spouse's and children's names for use on the CO system, lifetime memberships for Executive and Executive's spouse and children (subject to the terms and conditions of membership, including minimum age requirements) in the Company's President's Club (or any successor program maintained in the CO system) and payment by the Company to Executive of an annual amount (not to exceed in any year the Annual Gross Up Limit (as hereinafter defined) with respect to such year) sufficient to pay, on an after tax basis (i.e., after the payment by Executive of all taxes on such amount), the U.S. federal, state and local income taxes on imputed income resulting from such flights (such imputed income to be calculated during the term of such Flight Benefits according to the methodology used by the Company as of the Effective Date or as otherwise required by law) or resulting from any other flight benefits extended to Executive as a result of Executive's service as an executive of the Company;

i. "Outplacement, Office and Related Services" shall mean (1) outplacement services, at Company's cost and for a period of twelve months beginning on the date of Executive's termination of employment, to be rendered by an agency selected by Executive and approved by the Board of Directors or HR Committee (with such approval not to be unreasonably withheld), (2) appropriate and suitable office space at the Company's headquarters (although not on its executive office floor) or at a comparable location in downtown Houston for use by Executive, together with appropriate and suitable secretarial assistance, at Company's cost and for a period of three years beginning on the date of Executive's termination of employment, (3) a reserved parking place convenient to the office so provided and a reserved parking place at George Bush Intercontinental Airport in Houston, Texas consistent with past practice, at Company's cost and for as long as Executive retains a residence in Houston, Texas, and (4) other incidental perquisites (such as free or discount air travel, car rental, phone or similar service cards) currently enjoyed by Executive as a result of Executive's position, to the extent then available for use by Executive, for a period of three years beginning on the date of Executive's termination of employment or a shorter period if such perquisites become unavailable to the Company for use by Executive;

(vi) "Severance Period" shall mean:

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

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

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

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Travel Limit" shall mean an amount (initially $66,500), which amount shall be adjusted (i) annually (beginning with the year 2004) by multiplying such amount by a fraction, the numerator of which shall be the Company's average fare per revenue passenger for its jet operations (excluding regional jets) with respect to the applicable year as reported in its Annual Report on Form 10-K (or, if not so reported, as determined by the Company's independent auditors) (the "Average Fare") for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 2004, and (iii) after adjustments described in clauses (i) and (ii) above (and after adding thereto, on a one-time basis on the Effective Date, the unused balance, as of the beginning of the year 2004, of Executive's Annual Travel Limit under Executive's Existing Agre ement), automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of the Effective Date), so as to preserve the benefit of $66,500 annually (adjusted in accordance with clauses (i) and (ii) above) of flights relative to the valuations resulting from the valuation methodology used by the Company as of the Effective Date (e.g., if a change in the valuation methodology results, on average, in such flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of the Effective Date, then the Annual Travel Limit would be increased by 15% to $76,475, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant ran dom sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Travel Limit described in this paragraph.

As used for purposes of Flight Benefits, with respect to any year, the term "Annual Gross Up Limit" shall mean an amount (initially $13,300), which amount shall be adjusted (i) annually (beginning with the year 2004) by multiplying such amount by a fraction, the numerator of which shall be the Average Fare for such year, and the denominator of which shall be the Average Fare for the prior year, (ii) annually to add thereto any portion of such amount unused since the year 2004, and (iii) after adjustments described in clauses (i) and (ii) above (and after adding thereto, on a one-time basis on the Effective Date, the unused balance, as of the beginning of the year 2004, of Executive's Annual Gross Up Limit under Executive's Existing Agreement), automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by the Company as of the Effective Date), so as to preserve the benefit of $1 3,300 annually (adjusted in accordance with clauses (i) and (ii) above) of tax gross up relative to the valuations resulting from the valuation methodology used by the Company as of the Effective Date (e.g., if a change in the valuation methodology results, on average, in flights being valued 15% higher than the valuation that would result using the valuation methodology used by the Company as of the Effective Date, then the Annual Gross Up Limit would be increased by 15% to $15,295, assuming no other adjustments pursuant to clauses (i) and (ii) above). In determining any adjustment pursuant to clause (iii) above, the Company shall be entitled to rely on a good faith calculation performed by its independent auditors based on a statistically significant random sampling of flight valuations compared with the applicable prior valuations of identical flights, which calculation (and the basis for any adjustments pursuant to clauses (i) or (ii) above) will be provided to Executive upon request. The Company will promptly notify Executive in writing of any adjustments to the Annual Gross Up Limit described in this paragraph.

As used for purposes of Flight Benefits, a year may consist of twelve consecutive months other than a calendar year, it being the Company's practice as of the Effective Date for purposes of Flight Benefits for a year to commence on November 1 and end on the following October 31 (for example, the twelve-month period from November 1, 2003 to October 31, 2004 is considered the year 2004 for purposes of Flight Benefits); provided that all calculations for purposes of clause (i) in the prior two paragraphs shall be with respect to fiscal years of the Company.

As used for purposes of Flight Benefits, the term "affiliates" of the Company means any entity controlled by, controlling, or under common control with the Company, it being understood that control of an entity shall require the direct or indirect ownership of a majority of the outstanding capital stock of such entity.

No tickets issued on the CO system in connection with the Flight Benefits may be purchased other than directly from the Company or its successor or successors (i.e., no travel agent or other fee or commission based distributor may be used), nor may any such tickets be sold or transferred by Executive or any other person, nor may any such tickets be used by any person other than the person in whose name the ticket is issued. Executive agrees that, after receipt of an invoice or other accounting statement therefor, Executive will promptly (and in any event within 45 days after receipt of such invoice or other accounting statement) reimburse the Company for all charges on Executive's UATP card (or Similar Card) which are not for flights on the CO system and which are not otherwise reimbursable to Executive under the provisions of paragraph 3.6(ii) hereof, or which are for tickets in excess of the applicable Annual Travel Limit. Executive agrees that the credit availability under Executive' s UATP card (or Similar Card) may be suspended if Executive does not timely reimburse the Company as described in the foregoing sentence or if Executive exceeds the applicable Annual Travel Limit with respect to a year; provided, that, immediately upon the Company's receipt of Executive's reimbursement in full (or, in the case of exceeding the applicable Annual Travel Limit, beginning the next following year and after such reimbursement), the credit availability under Executive's UATP card (or Similar Card) will be restored.

The sole cost to Executive of flights on the CO system pursuant to use of Executive's Flight Benefits will be the imputed income with respect to flights on the CO system charged on Executive's UATP card (or Similar Card), calculated throughout the term of Executive's Flight Benefits consistently with the methodology used by Company as of the Effective Date or as otherwise required by law, and reported to Executive as required by applicable law. With respect to any period for which the Company is obligated to provide the tax gross up described above, Executive will provide to the Company, upon request, a calculation or other evidence of Executive's marginal tax rate sufficient to permit the Company to calculate accurately the amount to be paid to Executive.

Executive will be issued a UATP card (or Similar Card), lifetime Platinum Elite OnePass Cards (or similar highest category successor frequent flyer cards) in Executive's, Executive's spouse's and Executive's children's names, lifetime membership cards in Company's Presidents Club (or any successor program maintained in the CO system) for Executive, Executive's spouse and Executive's children (subject to the terms and conditions of membership, including minimum age requirements), and an appropriate flight pass identification card, each valid at all times during the term of Executive's Flight Benefits.

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

Upon Executive's death, Executive's surviving spouse and children will be permitted, in the aggregate, to continue to use (in the proportions specified in Executive's last will and testament or, if not so specified or if Executive dies intestate, in equal proportions) Executive's Flight Benefits on the CO system (out of any amounts unused by Executive at the date of Executive's death) for up to a total amount of $100,000 in value of flights (in any fare class) on the CO system, valued identically to the valuation of flights as currently contained in Executive's Flight Benefits, which amount shall adjust automatically upon any change in the valuation methodology, from and after the date hereof, for imputed income from flights (as compared with the valuation methodology for imputed income from flights used by Company as of the date hereof), so as to preserve the benefit of $100,000 of flights relative to the valuations resulting from the valuation methodology used by Company as of the date h ereof (e.g., if a change in the valuation methodology results, on average, in such flights being valued 10% higher than the valuation that would result using the valuation methodology used by Company as of the date hereof, then such amount would be increased by 10% to $110,000). Company will promptly notify Executive in writing of any adjustments to such amount.

ARTICLE 5: MISCELLANEOUS

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

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

If to Company to: Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

If to Executive to: James Compton

2619 Albans

Houston, Texas 77005

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

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

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

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

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

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

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

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

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

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

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.6(iv) and any awards under the Company's stock incentive plans or programs, LTIP, Retention Program, Annual Executive Bonus Program, NLTIP/RSU Program or similar plans or programs, and (ii) separate agreements governing Executive's flight benefits relating to other airlines, this Agreement, as of the Effective Date, will constitute the entire agreement of the parties with regard to the subject matter hereof, and will contain all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by Company. Effective as of the Effective Date, the Existing Agreement is hereby terminated and without any further force or effect, and neither party shall have any rights or obligations thereunder. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charge d.

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

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

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

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on September 14, 2004, to be effective as of the Effective Date.

CONTINENTAL AIRLINES, INC.

By: /s/ Michael H. Campbell

Name: Michael H. Campbell

Title: Senior Vice President -

Human Resources and

Labor Relations

"EXECUTIVE"

/s/ James Compton

James Compton

APPROVED:

/s/ Charles A. Yamarone

Charles A. Yamarone

Chair, Human Resources Committee

Exhibit A

Form of Release Agreement

(to be executed by Company and Executive)

In consideration of the benefits provided by Company to Executive, Executive hereby releases Continental Airlines, Inc. ("Continental") and each of its subsidiaries and affiliates and their respective stockholders, officers, directors, employees, representatives, agents and attorneys (collectively, "Releasees") from any and all claims or liabilities, known or unknown, of any kind, including, without limitation, any and all claims and liabilities relating to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, or relating to the cessation of such employment or under the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 1981, the Texas Commission on Human Rights Act, and any other statutory, tort, contract or common law cause of action, other than claims or liabilities arising from a breach by Continental of (i) that certain Employment Agreement dated as of August 12, 2004 between Continental and Executive (the "Employment Agreement"), (ii) its obligations under the Continental Retirement Plan ("CARP"), under Executive's outstanding grants of stock options or restricted stock, under awards under the Continental Airlines, Inc. Annual Executive Bonus Program (the "Annual Bonus Program"), the Retention Program, the NLTIP/RSU Program, or under any other compensation plan or program of Continental (such capitalized but undefined terms having the meanings attributed to them in the Employment Agreement), or (iii) its obligations under existing agreements governing Executive's flight benefits relating to other airlines. Continental hereby releases Executive from any and all claims or liabilities, known or unknown, of any kind in any way relating to or pertaining to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, other than fraud or intentional malfeasance harmful to Continental or any Releasee or claims arising from a breach by Executive of the Employment Agreement or of Executive's obligations under the CARP, under Executive's outstanding grants of stock options or restricted stock, under awards under the Retention Program, the Annual Executive Bonus Program or the NLTIP/RSU Program, under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines. These releases are to be broadly construed in favor of the released persons. These releases do not apply to any rights or claims that may arise after the date of execution of this [Release Agreement] by Executive and Continental. Both parties agree that this [Release Agreement] is not and shall not be construed as an admission of any wrongdoing or liability on the part of either party. Notwithstanding the foregoing, the obligations created by the Employment Agreement, the CARP and Executive's outstanding option grants, grant s of restricted stock and awards under the Retention Program, the Annual Executive Bonus Program and the NLTIP/RSU Program, or under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines, are not released.

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

Executive acknowledges that Executive has received a copy of this Release Agreement on [date that Executive receives Release Agreement]. Executive understands that Executive may consider whether to agree to the terms contained herein for a period of twenty-one days after the date Executive has received this Release Agreement. Accordingly, Executive may execute this Release Agreement by [date 21 days after Release Agreement is given to Executive], to acknowledge Executive's understanding of and agreement with the foregoing. Executive acknowledges that Executive has been advised to consult with an attorney prior to executing this Release Agreement.

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

COMPENSATION REDUCTION AGREEMENT

THIS COMPENSATION REDUCTION AGREEMENT (this "Agreement") is entered into as of December 22, 2004, by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and **James E. Compton** ("Executive").

W I T N E S S E T H:

WHEREAS, Company and Executive have heretofore entered into that certain Employment Agreement dated as of August 12, 2004 (the "Employment Agreement"); and

WHEREAS, Company has heretofore granted to Executive various awards under Company's Incentive Plan 2000, as amended (the "Incentive Plan 2000"), and the programs maintained under the Incentive Plan 2000, including Company's Annual Executive Bonus Program, as amended (the "Bonus Program"), Company's Long Term Incentive and RSU Program, as amended (the "LTIP/RSU Program"), and Company's Officer Retention and Incentive Award Program, as amended (the "Retention Program") (the Incentive Plan 2000, the Bonus Program, the LTIP/RSU Program and the Retention Program are collectively referred to herein as the "Compensation Programs"); and

WHEREAS, as part of Company's continuing efforts to reduce its costs of operation, Company desires to reduce the compensation it provides to Executive, and Executive is willing to accept such reduction, in an effort to enhance the financial health of Company and to preserve employment opportunities for Executive and others with Company.

NOW, THEREFORE, in consideration of the premises set forth above, the mutual agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and notwithstanding any provision to the contrary in the Employment Agreement, the Compensation Programs or the award notices issued to Executive under the Compensation Programs, Company and Executive hereby agree as follows:

1. **REDUCTION OF BASE SALARY:** Subject to Executive's continuous employment by Company from the date of this Agreement to February 28, 2005, commencing on February 28, 2005, and continuing until such time, if any, as the parties may agree to a different amount, Executive's annual base salary shall be reduced by 20% of the amount in effect on the date hereof (i.e., from Executive's current base salary of $450,000 to a reduced based salary of $360,000). Executive acknowledges that such reduction in annual base salary will also result in a reduction in certain compensation and other benefits provided by Company to Executive pursuant to the terms of Company's benefit plans and programs, including, without limitation, under the Bonus Program, the LTIP/RSU Program, and Executive's supplemental executive retirement plan.

2. **REDUCTION IN OUTSTANDING AWARDS:** Set forth on Exhibit A attached hereto is a list of the stock options, restricted stock awards, RSUs (as such term is defined in the LTIP/RSU Program) and PARs (as such term is defined in the Retention Program) that have been awarded to Executive by Company prior to the date of this Agreement and in which Executive will not have a 100% vested and nonforfeitable interest as of the close of business on February 28, 2005 (determined based on the terms of the Compensation Programs and the applicable award notices issued thereunder, and assuming Executive's continuous employment by Company from the date of this Agreement until February 28, 2005). Subject to Executive's continuous employment by Company from the date of this Agreement through February 28, 2005, effective as of the close of business on February 28, 2005, Executive hereby surrenders and forfeits to Company 20% of the portion of each award that is listed on Exhibit A in which Executive will not have a 100% vested and nonforfeitable interest as of the close of business on February 28, 2005 (labeled on Exhibit A as "Nonvested"). The surrender and forfeiture of the applicable percentage of the nonvested portion of each such award shall be applied separately as of each vesting date under such award that will occur after February 28, 2005. For example, if, prior to the date of this Agreement, Executive has been granted a stock option with respect to 1,000 shares of Company's common stock and, as of the close of business on February 28, 2005, Executive has the vested right to exercise such option with respect to only 200 shares, then, as of the close of business on February 28, 2005, Executive shall surrender and forfeit to Company the right to purchase 160 shares of Company's common stock under such option (20% multiplied by 800 unvested option shares). Further, if the original terms of such stock option provide that it was to becom e exercisable with respect to 200 additional shares on each of four dates that will occur after February 28, 2005, then such stock option shall become exercisable with respect to only 160 additional shares on each of such dates as the right to exercise such option with respect to 40 shares on each such vesting date has been surrendered and forfeited to Company pursuant to this paragraph. If the provisions of this paragraph would result in the surrender and forfeiture of a fraction of a share or other unit subject to an award, then, notwithstanding the preceding provisions of this paragraph, such fractional share or unit shall not be surrendered and forfeited.

3. **NOTICES:** For purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be given in the same manner as indicated in the Employment Agreement.

4. **ASSIGNMENT:** This Agreement shall be binding upon and inure to the benefit of Company and any successor of Company, by merger or otherwise. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit, or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party.

5. **AMENDMENT:** This Agreement may not be modified except by an agreement in writing executed by both Company and Executive.

6. **GOVERNING LAWS:** This Agreement shall be subject to and governed by the laws of the State of Texas, without giving effect to principles of conflicts of law.

7. **VALIDITY:** In the event that any portion or provision of this Agreement is found to be invalid or unenforceable, the other portions or provisions hereof shall not be affected thereby.

8. **COUNTERPARTS:** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

9. **EFFECT OF AGREEMENT:** Except as provided in any signed written agreement contemporaneously or hereafter executed by Company and Executive, this Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof. Without limiting the scope of the preceding sentence, all understandings and agreements preceding the date of execution of this Agreement and relating to the subject matter hereof are hereby null and void and of no further force and effect. This Agreement constitutes an amendment to the Employment Agreement and, to the extent applicable, the award notices that have been issued to Executive prior to the date hereof pursuant to the Compensation Programs. Neither this Agreement nor any action taken by Company in accordance with the terms of this Agreement shall give Executive any right to terminate Executive's employment under the Employment Agreement under circumstances that would give rise to the payment of a Termination Payment (or the payment or provision of related severance amounts and benefits) under the Employment Agreement. Further, nothing in this Agreement shall confer to Executive any right of future employment with Company or any of its affiliates.

[Signatures begin on next page.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"COMPANY"

CONTINENTAL AIRLINES, INC

By: /s/ Michael H. Campbell

Name: Michael H. Campbell

Title: Senior Vice President -

Human Resources and

Labor Relations

"EXECUTIVE"

/s/ James E. Compton

JAMES E. COMPTON

EXHIBIT A

TO

COMPENSATION REDUCTION AGREEMENT

Stock Options

Date of Grant of Option	Nonvested Options as of February 28, 2005	Nonvested Options to be Surrendered and Forfeited as of February 28, 2005
6/28/2002	7,402	1,480

Restricted Stock Awards

Date of Grant of Award	Nonvested Shares as of February 28, 2005	Nonvested Shares to be Surrendered and Forfeited as of February 28, 2005
4/9/2002	3,124	625

RSUs

Performance Period Relating to the Award	Total Number of RSUs subject to Award (all Nonvested)	RSUs to be Surrendered and Forfeited as of February 28, 2005
April 1, 2004 to June 30, 2005	40,000	8,000
April 1, 2004 to March 31, 2006	40,000	8,000
April 1, 2004 to December 31, 2007	50,000	10,000

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PARs

Date of Grant of Award	Investment to which Award Relates	Nonvested PARs as of February 28, 2005	Nonvested PARs to be Surrendered and Forfeited as of February 28, 2005
11/1/2001	LastMinuteTravel.com, Inc.	1,102	220
2/24/2003	Patheo, Inc.	3,145	629
11/13/2003	Hotwire, Inc.	$9,649.00	$1,929.80
11/15/2004	Orbitz, Inc.	$31,625.48	$6,325.10

EARLY RETIREMENT AGREEMENT

This Early Retirement Agreement ("Agreement") is entered into between MICHAEL H. CAMPBELL ("Executive") and Continental Airlines, Inc. ("Continental" or the "Company"), and is effective on the Effective Date as defined below.

WHEREAS, Executive has advised the Company that he will retire at the end of 2004; and

WHEREAS, the Company wishes to retain the services of Executive for a period of time after his retirement to represent the Company in labor matters; and

WHEREAS, the Company and Executive are parties to that certain Employment Agreement dated as of July 25, 2000, as amended by letter agreements dated April 9, 2002, and March 12, 2004 between the Company and Executive (as amended, the "Employment Agreement"); and

WHEREAS, Executive is desirous of receiving additional consideration upon his retirement beyond that provided for in his Employment Agreement, and the Company is desirous of obtaining the services of Executive after his retirement and the releases and other agreements of Executive contained in this Agreement;

NOW, THEREFORE, IT IS AGREED between Executive and Continental as follows:

1. The terms of this Agreement are in addition to the terms contained in the Employment Agreement, and nothing herein shall affect any of Executive's or Continental's rights or obligations under the Employment Agreement, except as expressly set forth herein. Executive will retire from the Company on December 30, 2004 (the "Retirement Date"). Each of Executive and Continental agree that Executive's separation from employment with Continental is voluntary and shall be treated as a resignation by Executive pursuant to paragraph 2.3(vii) under the Employment Agreement, and as a retirement under Executive's outstanding stock option awards, with the date of such retirement being the Retirement Date, but not as a retirement under the Continental Retirement Plan or any other compensation program of the Company, unless Executive is otherwise eligible for retirement thereunder. Accordingly, pursuant to the Employment Agreement, Executive (and his spouse and eligible dependents, including future eligible dependents) shall, subject to the terms of the Employment Agreement, be provided Flight Benefits (as such term is defined in the Employment Agreement) and Continuation Coverage (as such term is defined in the Employment Agreement) for the remainder of Executive's lifetime.

2. In addition, Continental shall pay Executive the amount of his Annual Bonus (as such term is defined in the Company's Annual Executive Bonus Program (the "Bonus Program")) for the 2004 fiscal year under the Bonus Program payable if and when other participants in the Bonus Program are paid such bonus.

3. Executive hereby notifies the Company that Executive elects, pursuant to paragraph 3.5(iii) of the Employment Agreement, to take an Early Retirement Benefit under the supplemental executive retirement plan described in paragraph 3.5 of the Employment Agreement ("SERP") in the form of a Lump-Sum Payment (as such terms are defined in the SERP). The SERP benefit will be paid to Executive on the Retirement Date.

4. Executive agrees that all his outstanding stock option grants are listed on Exhibit A hereto. As provided in the applicable stock option grant documents upon a retirement of Executive, all options will vest effective on the Retirement Date and Executive will have until the close of business one year after the Retirement Date to exercise his options. At the close of business on the date that is one year after the Retirement Date, all of Executive's options will expire whether or not exercised.

5. As provided in the applicable grant documents with respect to Executive's restricted stock, all shares of Executive's restricted stock that are not vested as of the Retirement Date will be forfeited on the Retirement Date.

6. Executive agrees that, effective as of the Retirement Date, all of Executive's nonvested PARs granted to Executive under the Officer Retention and Incentive Award Program ("Retention Program") will be cancelled and Executive will have no rights to receive any further payments with respect to such PARs.

7. As provided in the applicable award documents and terms of the respective programs, all of Executive's outstanding awards under the Company's Long Term Incentive Performance Award Program and the Company's Long Term Incentive and RSU Program will be forfeited on the Retirement Date.

8. Executive agrees to represent the Company in labor matters as requested by the Company, including, without limitation, the negotiation of the Company's collective bargaining agreements, for a period of at least one year from the Retirement Date (the "Services"). Executive agrees to use his best efforts to obtain an Of Counsel position with the law firm of Ford & Harrison, through which he will provide the Services. The Company agrees to compensate Executive or, if Executive is employed by Ford & Harrison, Ford & Harrison for the Services at an hourly rate consistent with the senior partner rates charged by Ford & Harrison to its other airline clients. Further, the Company agrees to reimburse Executive or, if Executive is employed by Ford & Harrison, Ford & Harrison for all reasonable out-of-pocket expenses incurred by Executive and Ford & Harrison in providing the Services to extent such expenses would typically be reimbursed by a client of Ford & Harr ison. In addition to the fees described above, and as further consideration of Executive's agreement to so represent the Company, the Company will pay Executive $1,200,000, payable on the Retirement Date.

9. Executive agrees, upon reasonable notice, to furnish such information and assistance, including but not limited to the provision of informal information, testimony at deposition and/or at trial, to Continental and its affiliates as Continental reasonably requests in connection with any potential or actual litigation in which it or any of its affiliates is, or may become, a party. Continental shall pay Executive an amount per day of assistance as the parties may reasonably agree, not to exceed an amount equal to Executive's base salary at Continental at December 30, 2004 divided by 250, and shall reimburse Executive for his reasonable expenses incurred in connection with rendering such assistance.

10. Executive agrees not to make any public statement concerning Continental or its subsidiaries or affiliates or its or their respective stockholders, officers, directors, employees or agents unless the statement is approved in advance in writing by Continental's public relations and legal departments. Executive agrees not to make any derogatory comments or references about Continental or its subsidiaries or affiliates, or their respective stockholders, officers, directors, employees or agents.

11. Executive acknowledges and agrees that Executive would not be entitled to certain of the payments and benefits provided for in this Agreement, including paragraph 4 of this Agreement (the "Separation Benefits"), upon Executive's voluntary termination of employment with the Company on the Retirement Date in the absence of this Agreement.

12. In consideration of the Separation Benefits, Executive hereby releases Continental and each of its subsidiaries and affiliates and their respective stockholders, officers, directors, employees, representatives, agents and attorneys (collectively, "Releasees") from any and all claims or liabilities, known or unknown, of any kind, including, without limitation, any and all claims and liabilities relating to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, or relating to the cessation of such employment or under the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 1981, the Texas Commission on Human Rights Act, and any other statutory, tort, contract or common law cause of action, other than claims or liabilities arising from a breach by Continental of this Agreement or the Employment Agreement or of its ob ligations under Executive's outstanding grants of stock options or restricted stock or awards under the Retention Program (in each case as modified by this Agreement). Continental hereby releases Executive from any and all claims or liabilities, known or unknown, of any kind in any way relating to or pertaining to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, other than fraud or intentional malfeasance harmful to Continental or any Releasee or claims arising from a breach by Executive of this Agreement or the Employment Agreement or Executive's obligations under Executive's outstanding grants of stock options or restricted stock or awards under the Retention Program (in each case as modified by this Agreement). These releases are to be broadly construed in favor of the released persons. The releases in this paragraph do not apply to any rights

or claims that may arise after the date of execution of this Agreement by Executive. Both partie s agree that this Agreement is not and shall not be construed as an admission of any wrongdoing or liability on the part of either party.

13. Except as specifically set forth herein, the obligations created by this Agreement, the Employment Agreement, and Executive's outstanding option grants, grants of restricted stock and awards under the Retention Program (PARs) are not released. Executive further agrees that the amounts and covenants contained herein are of greater value than anything to which Executive is already entitled, and Executive will not file or permit to be filed on his behalf any claim or lawsuit relating to his employment or its termination, other than to enforce the provisions of this Agreement, the Employment Agreement, the option grants, grants of restricted stock or the awards to Executive under the Retention Program (in each case as modified by this Agreement). Executive understands and agrees that, except for any vested benefits he may have pursuant to the Employee Retirement Income Security Act, he will not be entitled to any other compensation beyond that which Continental has agreed to provide here in, in the Employment Agreement or pursuant to the option grants.,.

14. Executive has twenty-one (21) days to review and consider this Agreement. This Agreement will become effective, enforceable and irrevocable seven days after the date on which Executive signs it (the "Effective Date"). During the seven-day period after Executive signs this Agreement, Executive may revoke this Agreement in writing addressed to the undersigned. Of course, if Executive exercises his right to revoke, this Agreement shall be null and void and he will forfeit his right to receive amounts or other benefits that would otherwise be paid or provided to him hereunder.

15. Executive represents and agrees that he has been advised to and had the opportunity to thoroughly discuss all aspects of this Agreement with his private attorney, that he has carefully read and fully understands all of the provisions of this Agreement, and that he is knowingly and voluntarily entering into this Agreement.

16. The parties acknowledge that, in the event of a breach of this Agreement, damages would not provide an adequate remedy and that the non-breaching party may seek specific performance of any provision contained herein. If any party to this Agreement brings legal action to enforce the terms of this Agreement, the party which prevails in such legal action, in addition to the remedy or relief obtained in such action, shall be entitled to recover its or his expenses incurred in connection with such legal action, including without limitation, costs of court and attorneys' fees.

17. The Company may withhold all applicable taxes from payments to be made hereunder.

18. Executive agrees to hold in confidence and not disclose to any person or otherwise misuse business plans, trade secrets, financial information, or any other Confidential or Proprietary Information of Continental or its subsidiaries or affiliates. "Confidential or Proprietary Information" means any information not generally known in the relevant trade or industry which was learned, discovered, developed, conceived, originated or prepared during Executive's employment with Continental or its subsidiaries or affiliates.

19. The terms and conditions of this Agreement constitute the entire agreement and understanding of the parties with respect to the subject matter hereof, and supersede any and all prior agreements and understandings, written or oral, between the parties with respect thereto. This Agreement shall be governed by the laws of the State of Texas.

****

IN WITNESS WHEREOF, the undersigned have executed this Agreement, to be effective on the Effective Date.

Date of execution by Executive: EXECUTIVE

October 29, 2004 /s/ Michael H. Campbell

Michael H. Campbell

CONTINENTAL AIRLINES, INC.

By: /s/ Jeffrey J. Misner

Jeffrey J. Misner

Executive Vice President &

Chief Financial Officer

FIRST AMENDMENT TO
CONTINENTAL AIRLINES, INC.
ANNUAL EXECUTIVE BONUS PROGRAM

WHEREAS, the Continental Airlines, Inc. Annual Executive Bonus Program (the "Program") has heretofore been adopted by the Human Resources Committee (the "Committee") of the Board of Directors of Continental Airlines, Inc. (the "Company") to implement in part the Performance Award provisions of the Continental Airlines, Inc. Incentive Plan 2000; and

WHEREAS, the Committee is authorized to amend the Program; and

WHEREAS, the Committee desires to amend the Program in certain respects;

NOW, THEREFORE, the Program shall be amended as follows, effective as of November 30, 2004:

1. The first paragraph of Section 5 of the Program shall be deleted and the following shall be substituted therefor:

> "The Program will be administered by the Committee, which at all times will consist of not less than two persons, each of whom is an "outside director" within the meaning of section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The action of a majority of the members of the Committee will be the act of the Committee. The Committee shall, promptly upon adoption of the Program in the case of the period from April 1, 2004 to December 31, 2004, and within 90 days after the beginning of the fiscal year in the case of each fiscal year of the Company beginning on or after January 1, 2005, establish in writing the Entry ROBIC Margin, the Target ROBIC Margin, the Stretch ROBIC Margin, the Target Incentive Percentage, the Stretch Incentive Percentage and the Cash Hurdle for such fiscal year for purposes of this Program."

2. As amended hereby, the Program is specifically ratified and reaffirmed.

IN WITNESS WHEREOF, the undersigned officer of the Company acting pursuant to authority granted to him by the Committee has executed this instrument on this 30th day of November 2004.

CONTINENTAL AIRLINES, INC.

By: /s/ Jeffery A. Smisek

Jeffery A. Smisek

 Executive Vice President

FIRST AMENDMENT TO
CONTINENTAL AIRLINES, INC.
LONG TERM INCENTIVE AND RSU PROGRAM

WHEREAS, the Continental Airlines, Inc. Long Term Incentive and RSU Program (the "Program") has heretofore been adopted by the Human Resources Committee (the "Committee") of the Board of Directors of Continental Airlines, Inc. (the "Company") to implement in part the Performance Award provisions of the Continental Airlines, Inc. Incentive Plan 2000; and

WHEREAS, the Committee is authorized to amend the Program; and

WHEREAS, the Committee desires to amend the Program in certain respects;

NOW, THEREFORE, the Program shall be amended as follows, effective as of November 30, 2004:

1. The second paragraph of Section 3.1 of the Program shall be deleted and the following shall be substituted therefor:

> "The Committee shall, promptly upon adoption of the Program in the case of all Performance Periods commencing on April 1, 2004, and within 90 days after the first day of each Performance Period commencing on or after January 1, 2005, establish in writing (for NLTIP Awards) the applicable Target EBITDAR Margin and Stretch EBITDAR Margin (such that at all times the Stretch EBITDAR Margin shall be higher than the Target EBITDAR Margin, which in turn shall be higher than the Entry EBITDAR Margin) and the Cash Hurdle for each such Performance Period, and (for RSU Awards) the applicable Target Price for each such Performance Period, in each case for purposes of this Program."

2. The first sentence of Section 4.2 of the Program shall be deleted and the following shall be substituted therefor:

> "The Company shall provide an Award Notice to each Eligible Employee who becomes a Participant with respect to a Performance Period within 90 days after such Eligible Employee becomes such a Participant; provided, however, that Award Notices for the Performance Periods that begin on April 1, 2004 shall be provided on or before May 15, 2004."

3. The first sentence of Section 7.1 of the Program shall be deleted and the following shall be substituted therefor:

> "Subject to the terms of this Section 7.1, the Committee may amend the Program at any time and from time to time, and the Committee may at any time terminate the Program (in its entirety or as it applies to one or more specified Subsidiaries) with respect to Performance Periods that have not commenced as of the date of such Committee action; provided, however, that, except as provided in the following sentence, the Program may not be amended in a manner that would impair the rights of any Participant with respect to any outstanding Award without the consent of such Participant. Notwithstanding anything in the Program or an Award Notice to the contrary, if the Committee determines that the provisions of new Section 409A of the Code apply to the Program and that the terms of the Program and/or any Award Notice do not, in whole or in part, satisfy the requirements of such section, then the Committee, in its sole discretion, may unilaterally modify the Program and any such Award Notice with r espect to Awards for Performance Periods beginning on or after January 1, 2005, in such manner as it deems appropriate to comply with such section and any regulations or guidance issued thereunder."

4. As amended hereby, the Program is specifically ratified and reaffirmed.

IN WITNESS WHEREOF, the undersigned officer of the Company acting pursuant to authority granted to him by the Committee has executed this instrument on this 30th day of November 2004.

CONTINENTAL AIRLINES, INC.

By: /s/ Jeffery A. Smisek

Jeffery A. Smisek

Executive Vice President

Exhibit 10.19

CONTINENTAL AIRLINES, INC.

Non-Employee Director Compensation Summary

Effective February 28, 2005, members of our board of directors who are not full-time employees of Continental Airlines, Inc. receive the following compensation:

- $24,500 per year, plus an additional $25,000 for members of the Audit Committee ($40,000 for the chairperson of the Audit Committee);
- $1,400 ($2,100 for the chairperson) for each board and committee meeting physically attended (other than an Audit Committee meeting);
- $2,000 ($3,000 for the chairperson) for each Audit Committee meeting physically attended;
- $700 for each board meeting attended by telephone;
- $350 for each committee meeting attended by telephone ($500 for each Audit Committee meeting attended by telephone);
- stock options to purchase 5,000 shares of common stock at the grant date fair market value following each annual stockholders meeting and upon election to the board if they are first elected to the board other than at an annual stockholders meeting; and
- lifetime flight benefits, comprised of space-available personal and family flight passes, a travel card permitting positive space travel by the director, the director's family and certain other individuals (which is taxable to the director, subject to the reimbursement of certain of such taxes by the company), frequent flyer cards and airport lounge cards ("Flight Benefits").

As previously reported, the non-employee members of the Board of Directors have elected to forego their annual grant of 5,000 stock options that would otherwise be awarded in connection with their re-election to the board at the Company's 2005 Annual Meeting of Shareholders to be held on June 16, 2005.

In addition, non-employee directors who conduct Continental business in their capacities as directors on Continental's behalf at the request of the board or the Chairman of the Board are paid (i) for telephone participation in board and committee meetings as if they were physically present, if their conducting that business makes it impractical for them to attend the meeting in person, and (ii) $3,000 per day spent outside the United States while conducting that business.

All directors, including those who are full-time employees who serve as directors, receive reimbursement of expenses incurred in attending meetings. Directors also receive travel privileges on some other airlines through arrangements entered into between Continental and such airlines.

EXHIBIT 10.21(ag)

Supplemental Agreement No. 32

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

December 29, 2004, 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. 32.

2. Letter Agreements:

2.1 Remove and replace, in its entirety, Letter Agreement 1951-3R18, "Option Aircraft - Model 737-824 Aircraft", with the revised Letter Agreement 1951-3R19 attached hereto, **CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] .**

2.2 Remove and replace, in its entirety, Letter Agreement 1951-12R6, "Option Aircraft - Model 737-924 Aircraft", with the revised Letter Agreement 1951-12R7 attached hereto, **CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

3. Distribution of Fund:

3.1 Upon execution of this Supplemental Agreement 32 and purchase agreement 2484, 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/Jeffrey J. Misner

Its: Attorney-In-Fact Its: Executive Vice President and

Chief Financial Officer

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1951-3R19

December 29,2004

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Letter Agreement No. 1951-3R19 to Purchase Agreement No. 1951 - Option Aircraft - Model 737-824 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 737-824 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-3R18 dated November 4, 2003.

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 737-824 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.
3. 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).

In the event 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 canceling 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: December 29 , 2004

CONTINENTAL AIRLINES, INC.,

By /S/ Jeffrey J. Misner

Its Executive Vice President and Chief Financial Officer

Attachment

Model 737-824 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D6-38808-43 Revision D, dated October 2, 2001, 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 737-800 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 Airplane and Special Features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D 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.

3. Advance Payments.

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.

1951-12R7

December 29, 2004

Continental Airlines, Inc.

1600 Smith Street

Houston, TX 77002

Subject: Option Aircraft - Model 737-924 Aircraft

Reference: Purchase Agreement No. 1951 dated July 23, 1996 (the Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Buyer) relating to Model 737-924 aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-12R6 dated August 20, 2004.

Boeing shall **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** manufacture or sell to Buyer **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** Model 737-924 aircraft (the Option Aircraft). The Advance Payment Base Price per aircraft and advance payment schedule are listed in the Attachment to this Letter Agreement (the Attachment). If in the future Buyer agrees to acquire and Boeing agrees to manufacture and sell to Buyer any additional Option Aircraft, then the following provisions shall apply.

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 737 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the supplemental agreement to purchase the Option Aircraft;

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

(iii)Changes mutually agreed upon.

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.

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

2.2 Price Adjustments.

2.2.1 Special Features. The price for Special Features selected for the Option Aircraft will be adjusted to Boeing's current prices as of the date of execution of the supplemental agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. The Base Airplane Price and the price of Special Features for Option Aircraft delivering before **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, will be escalated on the same basis as the Aircraft.

2.2.3 Base Price Adjustments. The Base Airplane Price of the Option Aircraft delivering before **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, will be adjusted to Boeing's then current prices as of the date of execution of the supplemental agreement for the Option Aircraft.

3. Payment.

3.1 Buyer has paid a deposit to Boeing in the amount shown in the Attachment for each Option Aircraft (the Option Deposit) prior to the date of this Letter Agreement. If Buyer exercises an option, the Option Deposit applicable to such aircraft will be credited against the first advance payment due for such aircraft. If Buyer does not exercise an option, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].**

3.2 Following option exercise, advance payments in the amounts and at the times listed in the Attachment 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.

4.1 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]

4.2 If Boeing must make production decisions which are dependent on Buyer exercising an option earlier than the Option Exercise Date, Boeing may accelerate the Option Exercise Date in which case Boeing shall give Buyer prior written notice thereof and such acceleration shall be subject to Buyer's agreement. If Boeing and Buyer fail to agree to a revised Option Exercise Date, either party may terminate the option **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].**

5. Contract Terms.

Boeing and Buyer will use their best efforts to reach a definitive agreement for the purchase of an Option Aircraft, including the terms and conditions contained in this Letter Agreement, in a supplemental agreement to the Agreement, and other terms and conditions as may be agreed upon. In the event the parties have not entered into a supplemental 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].**

6. 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.

Very truly yours,

THE BOEING COMPANY

By /S/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 29, 2004

CONTINENTAL AIRLINES, INC.

By /S/ Jeffrey J. Misner

Its Executive Vice President and Chief Financial Officer

Attachment

ATTACHMENT TO

LETTER AGREEMENT 1951-12R7 OPTION AIRCRAFT DELIVERY,

DESCRIPTION, PRICE AND ADVANCE PAYMENTS

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

EXHIBIT 10.21(ah)

Supplemental Agreement No. 33

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

December 29, 2004, 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 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 this Supplemental Agreement 33 shall go into effect March 1, 2005.

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. 33.

1.2 Remove and replace, in its entirety, page T-3-4 and page T-3-5 of Table 1 entitled, "Aircraft Deliveries and Descriptions, Model 737-800 Aircraft", with revised page T-3-4 and page T-3-5 of Table 1, attached hereto, to reflect the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

2. Letter Agreements:

2.1 Remove and replace, in its entirety, Letter Agreement 1951-3R19, "Option Aircraft - Model 737-824 Aircraft", with the revised Letter Agreement 1951-3R20 attached hereto, to reflect the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

3. Conditions of Incorporation:

3.1 Boeing and Buyer agree the changes of this Supplemental Agreement 33 shall be effective March 1, 2005, including Buyer's obligation to be current on Advance Payments at that time. **[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 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/ Jeffrey J. Misner

Its: Attorney-In-Fact   Its: Executive Vice President and

Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION

PURSUANT TO A REQUEST FOR CONFIDENTIAL

TREATMENT]

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

AND FILED SEPARATELY WITH THE

SECURITIES AND EXCHANGE COMMISSION

PURSUANT TO A REQUEST FOR CONFIDENTIAL

TREATMENT]

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

AND FILED SEPARATELY WITH THE

SECURITIES AND EXCHANGE COMMISSION

PURSUANT TO A REQUEST FOR CONFIDENTIAL

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

6-1162-CHL-195 Restructure Agreement for Model

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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

Table 1 to Purchase Agreement 1951

Aircraft Deliveries and Descriptions

Model 737-800 Aircraft

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

1951-3R20

December 29,2004

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Letter Agreement No. 1951-3R20 to Purchase Agreement No. 1951 - Option Aircraft - Model 737-824 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 737-824 aircraft (the Aircraft). This Letter Agreement supersedes and replaces in its entirety Letter Agreement 1951-3R19 dated December 29, 2004.

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 737-824 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).

In the event 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 canceling 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: December 29 , 2004

CONTINENTAL AIRLINES, INC.,

By /S/ Jeffrey J. Misner

Its Executive Vice President and Chief Financial Officer

Attachment

Model 737-824 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft are described by Boeing Detail Specification D6-38808-43 Revision D, dated October 2, 2001, 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 737-800 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 Airplane and Special Features price will be escalated according to the applicable airframe and engine manufacturer escalation provisions contained in Exhibit D 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.

3. Advance Payments.

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 10.27

PURCHASE AGREEMENT NUMBER 2484

between

THE BOEING COMPANY

and

ContinenTal airlines, inc.

-

Relating to Boeing Model 7E7 Aircraft

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

Purchase Agreement No. 2484

between

The Boeing Company

and

Continental Airlines, Inc.

This Purchase Agreement No. 2484 dated as of December 29, 2004 between The Boeing Company (**Boeing**) and Continental Airlines, Inc. (**Customer**) relating to the purchase and sale of Model 7E7 aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, **(Purchase Agreement)** incorporates and amends the terms and conditions of the Aircraft General Terms Agreement dated as of October 10, 1997 between the parties, identified as AGTA-CAL (AGTA).

Article 1. Quantity, Model, Description and Inspection.

The aircraft to be delivered to Customer will be designated as Model 7E7-8 aircraft (the **Aircraft**). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A in the quantities listed in Table 1 to this Purchase Agreement. Twelve (12) months prior to delivery of Customer's first Aircraft, Boeing will provide Customer a Boeing document defining a customer inspection process appropriate to the 7E7 manufacturing process (**7E7 Inspection Process**) which will apply in lieu of inspection processes traditionally applicable to other models of aircraft and will supersede the provisions of Article 5.2 of the AGTA.

Article 2. Delivery Schedule.

The scheduled months of delivery of the Aircraft are listed in the attached Table 1. Exhibit B 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 Table 1 in subject to escalation dollars. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

3.2 Advance Payment Base Prices. The Advance Payment Base Prices listed in Table 1 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.

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

4.2 The standard advance payment schedule for the Model 7E7 Aircraft requires Customer to make certain advance payments, expressed as a percentage of the Advance Payment Base Price of each Aircraft beginning with a payment of **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**%, less the Deposit, on the effective date of the Purchase Agreement for the Aircraft. Additional advance payments for each Aircraft are due as specified in and on the first business day of the months listed in the attached Table 1.

4.3 For any Aircraft whose scheduled month of delivery is less than 24 months 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 paragraph 4.2 above.

4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery.

Article 5. Additional Terms.

5.1 Excusable Delay. Article 7.1 of the basic articles of the AGTA in so far as it applies to the Aircraft only is revised to read as follows:

7.1 General. Boeing will not be liable for any delay in the scheduled delivery month of an aircraft or other performance under a purchase agreement caused by (i) acts of God; (ii) war or armed hostilities; (iii) government acts or priorities; (iv) fires, floods, or earthquakes; (v) strikes or labor troubles causing cessation, slowdown, or interruption of work; (vi) inability, after due and timely diligence, to procure materials, systems, accessories, equipment or parts; (vii) inability, after due and timely diligence, to obtain type certification; or (viii) any other cause to the extent such cause is beyond Boeing's control and not occasioned by Boeing's fault or negligence. A delay resulting from any such cause is defined as an **Excusable Delay**.

5.2 Aircraft Information Table. Table 1 consolidates information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification for the Aircraft, (iii) month and year of scheduled deliveries of the Aircraft, (iv) Aircraft Basic Price, (v) escalation factors applicable to the Aircraft and (vi) Advance Payment Base Prices and advance payments applicable to the Aircraft and their schedules.

5.3 Escalation Adjustment/Airframe and Optional Features. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula for the Aircraft.

5.4 Customer Support Variables. Information, training, services and other things furnished by Boeing in support of introduction of the Aircraft into Customer's fleet are described in Supplemental Exhibit CS1. Supplemental Exhibit CS1 supersedes in its entirety Exhibit B to the AGTA with respect to the Aircraft but not with respect to any other aircraft.

5.5 Engine Escalation Variables. Supplemental Exhibit EE1 contains the applicable engine escalation formula, the engine warranty and the engine patent indemnity for the Aircraft.

5.6 Service Life Policy Component Variables. Supplemental Exhibit SLP1 lists the airframe and landing gear components covered by the Service Life Policy for the Aircraft **(Covered Components)**.

5.7 Public Announcement. Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval of Boeing's press release by Customer's public relations department or other authorized representative.

5.8 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 12 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, and may be changed only in writing signed by authorized representatives of the parties.

DATED AS OF December 29, 2004

CONTINENTAL airlines, inc.

By: /s/ Jeffrey J. Misner

Its: Executive Vice President and Chief Financial Officer

THE BOEING COMPANY

By: /s/ Michael S. Anderson

ITS: Attorney-In-Fact

Table 1

Purchase Agreement 2484

Aircraft Delivery, Description, Price and Advance Payments

(7E7-8 / **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] /** 2004 $s **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

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

Table 1

Purchase Agreement 2484

Aircraft Delivery, Description, Price and Advance Payments

(7E7-8 / **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] /** 2004 $s **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

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

@PA/EXA#

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

CONTINENTAL AIRLINES, INC.

Exhibit A to Purchase Agreement Number 2484

AIRCRAFT CONFIGURATION

Dated ________________

relating to

BOEING MODEL 7E7-8 AIRCRAFT

The Airframe Price in Table 1 was established utilizing the 7E7 Airplane Description and Selections 7E7B1-0227 Revision D dated November 2004 and YS4382-d dated November 2004 for 270 passenger interior. The content of this Exhibit A will be defined pursuant to the provisions of Letter Agreement 6-1162-MSA-546, Open Configuration Matters, to the Purchase Agreement.

December 29, 2004

6-1162-MSA-546

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Open Configuration Matters

Reference: Purchase Agreement No. 2484 (the Purchase Agreement)between The Boeing Company (Boeing) and Continental Airlines, Inc. (Customer) relating to Model 7E7-8 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 have the same meaning as in the Purchase Agreement.

1. Aircraft Configuration.

Due to the developing design of the 7E7 Aircraft and the long period of time between the Purchase Agreement signing and delivery of Customer's first Aircraft, the configuration of Customer's Aircraft has not yet been defined. The parties agree to complete defining the configuration of the Aircraft no later than **[CONFIDENTIAL MATERIAL OMITTED**

AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months prior to delivery of the first Aircraft, using the configuration elements defined in 7E7 Airplane Description and Selections 7E7B1-0227, which includes available Optional Features for selection (Configuration).

2. Effect on Purchase Agreement.

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

months prior to delivery of first Aircraft, Boeing will provide Customer a written amendment to the Purchase Agreement reflecting the Configuration, including, without limitation, the effects of the Configuration on those portions of the Purchase Agreement described in Articles 2.1 through 2.4, below.

2.1 Exhibit A. The Configuration will be incorporated into Exhibit A of the Purchase Agreement.

2.2 Basic Specification. Changes applicable to the basic Model 7E7 aircraft which are developed by Boeing between the date of signing of the Purchase Agreement and completion of the Configuration will be incorporated into Exhibit A of the Purchase Agreement.

2.3 Performance Guarantees. Boeing will provide to Customer revisions to Letter Agreement 6-1162-MSA-551, "Aircraft Performance Guarantees," dated (to be released by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**) between Boeing and Customer to reflect the effects of the Configuration, if any, on Aircraft performance.

2.4 Price Adjustments. The Aircraft Basic Price and Advance Payment Base Price of each Aircraft set forth on Table 1 to the Purchase Agreement is based in part on an estimate of the value of the Optional Features and any related Seller Purchased Equipment. The Aircraft Basic Price and the Advance Payment Base Price of each Aircraft will be adjusted as required and agreed by the parties in a supplemental agreement to the Purchase Agreement to reflect the difference between such estimate and the actual price of such elements of the Configuration.

3. Other Letter Agreements.

Boeing and Customer acknowledge that as the definition of the Aircraft progresses, there will be a need to execute letter agreements addressing one or more of the following subjects:

3.1 Customer Software. Additional provisions relating to the loading of software owned by or licensed to Customer on the Aircraft at delivery.

3.2 Installation of Cabin Systems Equipment. Additional provisions relating to the terms on which Boeing will offer and install in-flight entertainment systems and cabin communications systems in the Aircraft.

3.3 Buyer Furnished Equipment (BFE) and Seller Purchased Equipment (SPE). Provisions relating to the terms on which Boeing may offer or install BFE and SPE in the Aircraft.

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 29 , 2004

CONTINENTAL AIRLINES, INC.

By /s/ Jeffrey J. Misner

Its Executive Vice President and Chief Financial Officer

December 29, 2004

6-1162-MSA-552

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Special Matters

Reference: Purchase Agreement No. 2484 (the Purchase

Agreement)between The Boeing Company (Boeing) and Continental Airlines, Inc. (Customer)

relating to Model 7E7-8 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 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. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

3. **[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]**

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

6. Aircraft Invoices.

Upon Customer request, at time of Aircraft delivery Boeing agrees to provide a separate invoice addressed to the owner/trustee of such Aircraft specifying the dollar amount to be received at the time of delivery. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

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

8. 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: December 29 , 2004

CONTINENTAL AIRLINES, INC.

By /s/ Jeffrey J. Misner

Its Executive Vice President and Chief Financial Officer

December 29, 2004

6-1162-MSA-553

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Open Matters

Reference: Purchase Agreement No. 2484 (the Purchase

Agreement)between The Boeing Company (Boeing)

and Continental Airlines, Inc. (Customer)

relating to Model 7E7-8 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 have the same meaning as in the Purchase Agreement.

Boeing and Customer agree that at execution of the Purchase Agreement certain terms remain open. This Letter Agreement defines the terms for closure of such open terms.

1. Open Documents.

As of its date of execution, the Purchase Agreement contains certain Exhibits, Supplemental Exhibits and Letter Agreements (collectively, the "Additional Documents") that remain subject to negotiation, as described below. Consistent with the parties' long history of course of business dealings, Boeing and Customer agree to negotiate these documents in good faith with the target to execute such documents by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** unless otherwise as noted below. To the extent the Additional Documents are not executed or any of the conditions described below or other contracting conditions that arise specific to the 7E7 Aircraft prior to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATM ENT]** are not satisfied by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**(or such earlier date as may be specified below), unless otherwise as noted below, Section 2 of this Letter Agreement shall apply. The Additional Documents include the following:

1.1 Exhibit A - Aircraft Configuration

As defined in Exhibit A, at execution of the Purchase Agreement, Customer's Aircraft configuration has not been fully defined. Per Open Configuration Matters Letter Agreement 6-1162-MSA-546 paragraph 1, Aircraft configuration is to be completed no later than **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** months prior to delivery of first Aircraft.

1.2 Exhibit B - Aircraft Delivery Requirements and Responsibilities

Exhibit B - Aircraft Delivery Requirements and Responsibilities shall be defined as the parties mutually agree to.

1.3 Supplemental Exhibit AE1 - Escalation Adjustment/Airframe and Optional Features

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

1.4 Supplemental Exhibit CS1 - Customer Support Document

Among other things, this Supplemental Exhibit shall contain such provisions relating to technical, training, maintenance and operational support as the parties shall agree to.

1.5 Supplemental Exhibit EE1 - Engine Escalation/Engine Warranty and Patent Indemnity

The Aircraft is offered to Customer powered by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**. Customer shall notify Boeing by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** of its engine selection. Supplemental Exhibit EE1 will be finalized by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** based on such engine selection. If no engine selection is made by Customer, Section 2 below shall apply. The engine price will be subject to escalation on the same terms and conditions as are applicable to the airframe; pro vided that nothing herein shall limit any separate agreement Customer may enter into with the engine manufacturer.

1.6 Supplemental Exhibit SLP1 - Service Life Policy Components

Supplemental Exhibit SLP1 - Service Life Policy Components shall be defined as the parties mutually agree to.

1.7 Letter Agreement 6-1162-MSA-549 - Spares Initial Provisioning

Letter Agreement 6-1162-MSA-549 - Spares Initial Provisioning shall be defined as the parties mutually agree to.

1.8 Letter Agreement 6-1162-MSA-551 - Aircraft Performance Guarantees

At execution of the Purchase Agreement, Customer's Aircraft configuration has not been fully defined. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].** Boeing acknowledges that Customer has not accepted the substance of such Boeing-provided performance guarantees.

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

1.10 Letter Agreement 6-1162-MSA-555 - Promotional Support

Letter Agreement 6-1162-MSA-555 - Promotional Support shall be defined as the parties mutually agree to.

1.11 Product Assurance Document Differences

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

2. Parties' Inability to Resolve Open Matters and Additional Conditions.

If (a) Boeing and Customer do not reach agreement on the provisions described in section 1, above on or before **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, or (b) Customer's Board of Directors does not approve the transaction contemplated by this Purchase Agreement on or before **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, or (c) Customer has not made an engine selection on or before **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** then, unless otherwise mutually agreed, neither party will have any further obligations under this Purchase Agreement 2484.

3. Parties' Ability to Resolve Open Matters and Additional Conditions.

3.1 If all of the conditions described in Section 2 are resolved on or prior to the relevant dates set forth therein, Customer shall have the option (but not the obligation) to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].** If Customer exercises its option under the preceding sentence, Customer shall provide written notice to Boeing prior to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** of Customer's election to do so, and Boeing and Customer will mutually agree to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

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

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

4. Confidential Treatment.

Boeing and Customer understand that certain information contained in this Letter Agreement, including any attachments hereto, is 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: December 29 , 2004

CONTINENTAL AIRLINES, INC.

By /s/ Jeffrey J. Misner

Its Executive Vice President and Chief Financial Officer

Attachments

ESCALATION ADJUSTMENT

AIRFRAME AND OPTIONAL FEATURES

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 1

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 1 of this

Purchase Agreement)

P = Airframe Price plus Optional Features

Price (as set forth in Table 1 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 **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** 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 **[CONFIDENTI AL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** 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 **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**-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 **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** 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 **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**-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 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 Utilized in the Event of Unavailability.

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 12 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 (this does not include those values noted as preliminary by the Bureau of Labor Statistics). 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 (including those noted as preliminary by the Bureau of Labor Statistics) 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.

Attachment B to

Open Matters Letter Agreement 6-1162-MSA-553

Price

(7E7-9, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** 2004 $s)

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

For the avoidance of doubt the Attachment is subject to Confidential Treatment of section 3 of this 6-1162-MSA-553 Open Matters Letter Agreement. Should this Attachment become separated from the concerned Letter Agreement, Customer agrees to treat this accordance with Confidential terms of section 4.

Attachment B to

Open Matters Letter Agreement 6-1162-MSA-553

Price

(7E7-9, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** 2004 $s)

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

For the avoidance of doubt the Attachment is subject to Confidential Treatment of section 3 of this 6-1162-MSA-553 Open Matters Letter Agreement. Should this Attachment become separated from the concerned Letter Agreement, Customer agrees to treat this accordance with Confidential terms of section 4.

EXHIBIT 10.28

December 29, 2004

Gerry Laderman

Senior Vice President Finance and Treasurer

Continental Airlines

1600 Smith Street

Houston, TX 77002

Dear Gerry:

Boeing Capital Corporation is pleased to present the following lease proposal (this "Proposal") to Continental Airlines based on the following summary of principal terms and conditions, which proposal replaces the proposal set forth in our letter dated December 8, 2004:

1. Lessor:	Boeing Capital Corporation ("BCC") or any of its affiliates, successors or assigns that has a net worth (determined in accordance with U.S. generally accepted accounting principles ("GAAP")) of $**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** million or more (or whose obligations are guaranteed by an affiliate with such net worth) or a grantor trust, that is not a commercial airline or an affiliate of a commercial airline and is a "citizen of the United States" under the Federal Aviation Act ("Lessor"). If BCC is not the Lessor, BCC shall guarantee all obligations of Lessor in connection with the delivery of the Aircraft, including Section 8 below.
2. Lessee:	Continental Airlines, Inc. ("Lessee").
3. Equipment:	Not less than eight (8) or more than twelve (12) used Boeing ("Manufacturer") model 757-300 airframes (each an "Airframe"), each equipped with two Rolls-Royce model RB211-535E4-C engines (the "Engines") (collectively, together with all records, logs and manuals required by applicable Federal Aviation Regulations ("FARS"), and parts, accessories and equipment thereon or attached thereto as delivered from the prior operator, each an "Aircraft" and collectively the "Aircraft"). Each Airframe, Engine, auxiliary power unit ("APU"), landing gear, or other part or accessory delivered to Lessee on the Lease Commencement Date may be individually or collectively referred to herein as the "Equipment".
4. Delivery and Lease Commencement Date:	The term of each lease agreement (each a "Lease") shall commence upon delivery of an Aircraft to Lessee ("Delivery Date"), which shall be scheduled to occur on or about the dates listed in Schedule A hereto under the column heading "Lease Commencement Date", with one Aircraft to be delivered approximately every two weeks after the first Aircraft is delivered (each, a "Lease Commencement Date"), provided that the seventh and eighth Aircraft shall be scheduled to be delivered in January 2006, not October 2005. The anticipated Delivery Date for each Aircraft set forth herein is an approximation only. Lessor shall use reasonable efforts to tender delivery of the Aircraft on or before the scheduled Delivery Date, but Lessor shall bear no liability for delivery of an Aircraft after the anticipated Delivery Date therefor; provided, however, that if BCC is unable to deliver one or more of the Aircraft to Lessee within **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** days of the scheduled Delivery Date, it shall notify the Lessee promptly in writing of its inability to do so, and in such case, Lessee shall have the right to terminate its obligation to take delivery of such Aircraft, in which case BCC (and not the Lessee) shall be responsible for paying Boeing Commercial Airplane Services ("BCAS") for the engineering costs incurred by BCAS in connection with the reconfiguration of the cancelled Aircraft. Basic rent under each Lease shall begin to accrue and be payable on the earlier to occur of (a) the first date on which the Aircraft covered by such Lease

	enters Lessee's revenue service and (b) the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFID ENTIAL TREATMENT]** day after Lessor delivers such Aircraft under the Lease to Lessee or Lessee's designee for modification and induction (the "Initial Rent Payment Date"); provided that no Aircraft may be delivered prior to the date which is six months following the earlier of (i) the date that Lessor and Lessee mutually agree that it is reasonably certain that Lessor will be able to deliver the Aircraft to Lessee and (ii) the date **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** provided further, that no more than one Aircraft may be delivered in any two-week period unless mutually agreed.
5. Lease Term:	The term of the Lease for each Aircraft shall begin on the Delivery Date therefor and continue until the approximate date shown on Schedule A for such Aircraft under the column heading "Estimated Base Lease Expiration Date" ("Base Lease Term"). Unless Lessor receives irrevocable written notice no less than **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** months prior to expiration of the Base Lease Term for the first Aircraft to be delivered to the effect that Lessee does not wish to renew all of the Leases, then all the Leases will be automatically renewed for the period ending on the approximate dates shown on Schedule A under the column heading "Renewal Term Lease Expiration Date" ("Renewal Lease Term") (Base Lease Term plus Renewal Lease Term, "Le ase Term"). If Lessee provides the written notice mentioned above that it does not wish to renew all the Leases, the term of the Leases shall expire at the end of the Base Lease Term. For the avoidance of doubt, the dates shown on Schedule A on which the Base Lease Term and Renewal Lease Term for each Aircraft shall expire are estimated based on the expected Aircraft utilization, anticipated check due dates and check interval for the Aircraft. To the extent that actual utilitzation, check due dates and check intervals vary from those anticipated, then upon no less than **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** notice from Lessee, the Base Lease Term and Renewal Lease Term for each Aircraft may be adjusted accordingly, subject to the following limitations: (1) Lessee shall provide written notice to Lessor not less than < **FONT FACE="CG Times"**> **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** prior to the then scheduled expiration date of the Base Lease Term or the Renewal Lease Term (as the case may be) of the approximate date on which the last major check to be performed on the Aircraft prior to return shall be performed, (2) Lessee may not unilaterally accelerate the timing of any C check for any given Aircraft by more than **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** and (3) the aggregate number of months in the Base Lease Terms or Renewal Lease Terms (as the case may be) for all of the Aircraft shall not be reduced as a result of all such adjustments.
6. Lease Rental Payments:	Commencing on the Initial Rent Payment Date and continuing during the Base Lease Term, Lessee shall be required to make consecutive monthly lease payments of basic rent ("Lease Rental Payments"), in advance, in the amount of **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** per Aircraft, plus an amount to be agreed equal to the cost of reconfiguring the relevant Aircraft, not to exceed **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR**

	CONFIDENTIAL TREATMENT] on average per Aircraft (it being understood that Lessee will be responsible for any reconfiguration costs in excess of $**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WIT H THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** per Aircraft on average) plus $**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** per Aircraft for the first eight Aircraft, divided by the number of months in the Base Lease Term for such Aircraft. During the Renewal Lease Term, Lessee shall be required to make monthly Lease Rental Payments per Aircraft in the amount of $300,000. Provided all reconfiguration costs paid for by Lessor (plus $125,000 per Aircraft for the first eight Aircraft) have been amortized during the Base Lease Term, no additional payments shall be made under the Renewal Lease Term with respect to the reconfiguration costs.
7. Delivery Location:	Each Aircraft shall be delivered to Lessee at Victorville, CA or such other location in the continental United States as Lessor and Lessee shall mutually agree.
8. Delivery Condition:	At Delivery, each Aircraft shall be **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**
9. Inspections:	Lessee shall be permitted a reasonable **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**-day inspection of each Aircraft and a **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**-day inspection of the Aircraft records and documents to be completed not less than **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** days prior to the Delivery Date therefor (the "Inspection") which may include, at Lessee's option, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** and an operational test flight using Lessee's criteria conducted by Lessor or its designee not to exceed **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** hours in duration. All costs of the Inspection, other than the test flight (which shall be paid for by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**), shall be paid by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**. All in spections shall be coordinated by the Lessor. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].** During the Inspection, Lessee and Lessor shall document the condition of the Aircraft on Delivery and incorporate a description of the condition and technical status of the Aircraft into an aircraft delivery receipt that will be signed and delivered under the Lease when the Aircraft is delivered. All Engines delivered with the Aircraft shall be **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.
10. Title and Registration:	Lessee shall at all times cause the Aircraft to remain duly registered in the name of the Lessor with the FAA pursuant to and as permitted by the Federal Aviation

Act, subject to (a) the Lessor continuing to be a "citizen of the United States" (as defined in the Federal Aviation Act) and (b) the Lessor providing to Lessee all documents and information required from them to continue such registration. The Leases shall contain customary remedies, including the right of the Lessor to repossess the Aircraft if an event of default has occurred and is continuing under the Lease. In addition, the Lease documentation shall contain a customary quiet enjoyment covenant on behalf of the Lessor and any other financing party.

11. Maintenance: Lessee will

(a) Maintain the Aircraft in as good operating condition as delivered, ordinary wear and tear excepted, and in accordance with an FAA (or equivalent) approved maintenance program, so as to maintain the FAA standard Certificate of Airworthiness for the Aircraft and the Aircraft's qualification for commercial operations in accordance with Part 121of the FARs.

(b) Maintain the Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].**

(c) In the case of any maintenance work performed on the Aircraft by a third party, use only FAA-approved repair facilities (and Lessee will return to Lessor at the expiration of the Lease all records from such providers that Lessee is required to possess and maintain under the FARs as part of the Aircraft records).

(d) Maintain all records, logs and other materials in English and in a form consistent with FAA requirements.

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

13. Insurance: Each Lease will contain insurance requirements that are substantially the same as those contained in that certain Mortgage and Security Agreement **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** dated as of **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**; provided, however, that the initial amount of coverage under the hull policy shall be $**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].**

14. Redelivery Conditions:

(a) Return: On the expiration of the Lease or upon return of the Aircraft for any other reason, Lessee, at its own expense, shall return the Aircraft to Lessor, at such location in the United States as designated by Lessee, in the same operating order, repair and condition as when originally delivered to Lessee, except for (1) ordinary wear and tear and (2) modifications performed at the induction of the Aircraft and other modifications performed subsequent to induction in accordance with the terms of the Lease. Upon the technical acceptance of the Aircraft, Lessee shall ferry the Aircraft to a location in the continental United States selected by Lessor.

(b) Legal Status Upon Return: Upon return, the Aircraft (i) will be free and clear of all liens and/or other encumbrances except for "Lessor Liens" (as customarily defined), and (ii) will be duly certificated as an airworthy aircraft by the FAA, have a currently valid standard Certificate of Airworthiness issued by the FAA and be qualified for operations under Part 121 of the FARs.

(c) Replacement Engines: If an engine not owned by Lessor is installed on the Aircraft at redelivery, such engine shall be the same or an improved model of the Engine it replaces and shall have a value, utility and performance at least equal to, and be in operating condition at least as good as, the Engine it replaces, ordinary wear and tear excepted, assuming the Engine replaced was in the condition required by the terms of the Lease; **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**. Lessee shall provide Lessor with such documentation, in form and substance satisfactory to Lessor, and evidence as may be necessary to transfer full and unencumbered title to such engine to the Lessor.

(d) Records: Lessee shall deliver to Lessor all documents, logs, manuals, and all other records pertaining to the Aircraft, Engines, components and equipment related thereto required to be maintained by Lessee under applicable FARs. Such documentation shall be in English and shall be current through redelivery and shall be furnished to Lessor at redelivery, at Lessee's expense.

(e) Inspection: At least **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** days before redelivery of each Aircraft, Lessee shall provide a detailed, computerized status report for such Aircraft to the Lessor, including but not limited to AD status of the Aircraft and an installed items report. During the C check performed immediately prior to redelivery of the Aircraft, Lessee shall make the Aircraft and records available to Lessor for a detailed inspection, which shall also include ground functional checks, Engine and APU borescopes and an operational test flight of the Aircraft conducted by Lessee of not less than **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** hours using Lessee's recommended flight test procedures, as mutually agreed by Lessee and BCC. Lessee shall correct all discrepancies which are discovered during such inspections which exceed the limits under the Lessee's maintenance manual at its expense. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].**

(f) Conditions and Life Remaining:

i. If an Aircraft is returned at the end of the Base Lease Term, the following return conditions shall be satisfied:
    1. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

ii. If an Aircraft is returned at the end of the Renewal Lease Term, the following return conditions shall be satisfied:
    1. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

(g) General Conditions on Return:

(i) The Aircraft shall be clean by airline standards and have no deferred maintenance items. Lessee will paint over the Lessee's logos and distinctive markings in a workmanlike manner.

(ii) The Aircraft shall have installed the full complement of Engines and other equipment, parts, accessories, galley inserts and loose equipment as delivered to Lessee, excepting modifications, additions and replacements made in accordance with the Lease, and be in a condition suitable for immediate operation in commercial passenger service under FAR Part 121. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**

(iii) The Aircraft will be in compliance with Lessee's maintenance program, including **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**. The Aircraft will be in compliance with all applicable FAA Airworthiness Directives and Regulations requiring compliance **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

(iv) Each Engine and APU shall **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

15. Net Lease: Each Lease will be net, whereby Lessee will be obligated to pay all costs, charges, fees, expenses, imposts, duties and taxes (including any and all trade, value-added, or withholding taxes) associated with the delivery of the Aircraft to Lessee under the Lease, use, possession, control, maintenance, repair, lease, sublease, insurance, storage or operation of the applicable Aircraft except Lessor Taxes.

15A. Tax Matters: To be separately negotiated by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, including taxes that might be incurred as a result of an engine exchange or a sublease.

16. Covenants: Lessee shall:

(a) not assign any of its rights under the Lease without the prior written consent of Lessor (other than in connection with a merger, consolidation or similar transaction); **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

(b) provide Lessor with (i) fiscal year-end audited financial statements within 120 days following the end of its fiscal year and (ii) quarterly financial statements within 90 days after the end of each quarter during the Lease Term. Lessee may satisfy this requirement by providing to Lessor (1) a copy of its report on Form 10-K for such fiscal year or its report on Form 10-Q for such fiscal quarter, as the case may be, or (2) an e-mail notice that such report has been filed with the Securities and Exchange Commission and providing a website address at which such report may be accessed, in each case so long as Lessee is subject to the reporting requirements of the Securities Exchange Act of 1934.

(c) permit Lessor or its designee at reasonable times upon reasonable notice to inspect the Aircraft; provided, however, that such inspection shall not unreasonably interfere with the Lessee's maintenance and use of the Aircraft, and Lessee agrees to provide Lessor with a summary of the technical status of the Aircraft when requested to do so by Lessor, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

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

18. Assignment:	Lessor shall have the right to transfer its entire ownership interest in an Aircraft and the related Lease documentation to a third party on substantially the same terms and conditions and subject to the same limitations as set forth in Section 9.1 of that certain Participation Agreement **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** dated as of **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** among Lessee, U.S. Bank Trust National Association, Lessee and BCC. In determining whether a proposed third party transferee meets the minimum net worth requirement contained in the definition of "Permitted Institution", net worth shall be determined i n accordance with GAAP. Lessor may also arrange third party debt or lease-in/lease-out financing on substantially the same terms and conditions, and subject to the same limitations as set forth in Section 9.3 of P.A. **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**. Lessee shall cooperate with Lessor in complying with reasonable documentation and insurance/indemnity requirements.
19. Documentation:	Documentation for this transaction will be prepared by **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** and will be governed by the laws of the State of New York. The definitive documentation will contain conditions precedent comparable to those in recent transactions negotiated between Lessee and Lessor, such as opinions of counsel, insurance documentation, delivery of various certificates, inspections, government approvals (if any are required), etc. as well as representations, warranties, indemnities, covenants, events of default, cross default, remedies, events of loss and other provisions customary for transactions of this nature.
20. Transaction Expenses:	**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**
21. Prior Disposition:	The Aircraft are subject to sale, lease or other disposition or removal from the market without notice until Lessee returns a copy of this Proposal signed by Lessee to Lessor and Lessor's Investment Committee approves the transaction. If Lessee does not obtain final Board approval for this transaction prior to the close of business on February 28, 2005, Lessee at its option may terminate its obligation to take delivery of and lease all of the Aircraft as contemplated hereunder by notifying Lessor in writing of its election to so terminate prior to the start of business on March 1, 2005, in which case **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].** Nothing in this section is intended to vitiate the Lessor conditions precedent set forth below. In addition to Lessee's foregoing termination option, BCC hereby exercises its unilateral right to reduce the number of Aircraft to be delivered hereunder from 12 to 8 Aircraft, as BCC has decided to keep such Aircraft on lease to the current operator. BCC will determine which 8 Aircraft are delivered to Lessee. BCC and Lessee shall each have the option to cause the other on **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** months notice delivered on or before **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR**

CONFIDENTIAL TREATMENT] to lease any of the 4 Aircraft that may subsequently become available for lease by BCC to anyone other than the current operator, and if BCC or Lessee exercises the foregoin g option, the lease and other documents covering such Aircraft shall be on the same terms and conditions as those set forth herein. BCC agrees to notify Lessee promptly if any of the 4 Aircraft subsequently become available for lease.

22. Lessor Conditions Precedent

The terms of this Proposal and obligation of Lessor to close this transaction for any Aircraft are subject to the following:

(a) Receipt of Lessee's signature on this Proposal no later than the close of business (Seattle time) on December 29, 2004.

(b) Execution and delivery of transaction documentation satisfactory in form and substance to Lessor on or before February 28, 2005.

(c) No event of default shall exist under any material agreement between Lessee or any of its affiliates and Lessor or any of its affiliates.

(d) Return of the Aircraft to Lessor by the current operator of the Aircraft.

(e) Lessee shall not have filed a voluntary petition in bankruptcy or shall have had an involuntary petition in bankruptcy filed against it that remains undismissed after **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** days, nor shall the Lessee be insolvent or not be paying its debts generally as they become due; and no event of default shall have occurred and be continuing under any aircraft financing transaction between BCC or its affiliates and Lessee and Lessee shall not be in default of any aircraft purchase agreement with BCC or its affiliates.

(f) Lessee shall have entered into Purchase Agreement No. 2484 with The Boeing Company relating to model 7E7 aircraft.

23. Lessee Conditions

Precedent

(a) Execution and delivery of transaction documentation satisfactory in form and substance to Lessee on or before February 28, 2005.

(b) Lessee shall have received the final engineering documentation to reconfigure the Aircraft from BCAS at least two months prior to the Lease Commencement Date for the first Aircraft to be delivered.

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

NOTE: This Proposal and the above terms are subject to the approval by the Investment Committee. The Investment Committee may (i) approve the Proposal as written, (ii) reject the Proposal, or (iii) approve the Proposal subject to additional terms and conditions. If either (ii) or (iii) occurs, this Proposal as originally written shall be null and void. Continental Airlines shall be informed of the decision of the Investment Committee and any additional conditions or terms imposed by the Investment Committee. If the Investment Committee seeks to impose such additional conditions or terms, Continental Airlines may, in its sole discretion, reject them.

This Proposal, and the information set forth herein, is confidential and shall not be disclosed by either party to any third party without the prior written consent of the other party, except as may be required by law or compelled by judicial process. Notwithstanding the foregoing, either party may disclose this Proposal to its attorneys and auditors.

This Proposal shall be governed by the laws of the State of New York.

This Proposal is a summary only and is not an exhaustive discussion of the issues arising from the proposed transaction. If the terms and conditions of this Proposal meet with your approval, please indicate your acceptance by signing two copies of this Proposal in the space provided below and returning one signed copy to the undersigned. If BCC has not received Lessee acceptance of this Proposal by December 29, 2004, this Proposal shall expire.

If you have any questions, please do not hesitate to call the undersigned at (425) 965-4052. BCC looks forward to this opportunity to be of service to Continental Airlines.

Best regards,

/s/ Jordan Weltman

Managing Director, Aircraft Financial Services

Boeing Capital Corporation

AGREED AND ACCEPTED:

Continental Airlines

By: /s/ Jeffrey J. Misner

Its: Executive Vice President and

Chief Financial Officer

Date: ________________________

Schedule A

#	Aircraft Number	MSN *	Lease Commencement Date	Estimated Base Lease Expiration Date	Renewal Term Lease Expiration Date
1	**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**		July 1, 2005	July 2009	July 2012
2	**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**				
3					
4					
5					
6					
7					
8			January 15, 2006	**[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**	
9			TBD		
10			TBD		
11			TBD		
12			TBD	August 2010	August 2013

* BCC will determine which aircraft are delivered to Lessee no later than January 30, 2005.

EXHIBIT 21.1

SUBSIDIARIES OF CONTINENTAL AIRLINES

As of February 28, 2005

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Air Micronesia, Inc.	Delaware
Calair Capital Corporation	Delaware
CALFINCO Inc.	Delaware
Continental Micronesia, Inc.	Delaware
Presidents Club of Guam, Inc.	Delaware
Century Casualty Company	Vermont
Rubicon Indemnity, Ltd.	Bermuda
Calair L.L.C.	Delaware
Caljet LLC	Delaware
Continental Airlines Purchasing Services LLC	Delaware
Continental Airlines Purchasing Holdings LLC	Delaware
Expressprop LLC	Delaware

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Continental Airlines, Inc. and each related Prospectus of our reports dated March 14, 2005, with respect to the consolidated financial statements and schedule of Continental Airlines, Inc., Continental Airlines, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Continental Airlines, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

Form Description

S-8 1997 Stock Incentive Plan (No. 333-23165)

S-8 1998 Stock Incentive Plan (No. 333-57297)

S-8 2000 Incentive Plan (No. 333-39762)

S-8 2004 Employee Stock Purchase Plan (No. 333-113444)

S-8 Supplemental Saving Plan for Management Pilots (No. 333-50938)

S-3 Registration Statement relating to Warrants, Class A Common Stock and Class B Common Stock and sales by certain Selling Security holders and the related Prospectus (No. 333-09739)

S-3 Registration Statement relating to $250,000,000 of the Company's Pass Through Certificates and the related Prospectus (No. 333-31285)

S-3 Registration Statement relating to $1,800,000,000 of the Company's Pass Through Certificates and the related Prospectus (No. 333-67886)

S-3 Registration Statement relating to $500,000,000 of the Company's Debt Securities (Debt Shelf) and the related Prospectus (No. 333-79827)

S-3 Registration Statement relating to $500,000,000 of the Company's Debt Securities, Class B Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Depositary Shares, Warrants, Junior Subordinated Trust Debentures and Guarantee of Trust Preferred Securities and Trust Preferred Securities of Continental Airlines Finance Trust III (Universal Shelf) and the related Prospectus (No. 333-71906)

S-3 Registration Statement relating to $250,000,000 of Term Income Deferrable Equity Securities (TIDES) of Continental Airlines Finance Trust II, and Convertible Junior Subordinated Debentures, a Preferred Securities Guarantee of the TIDES and Class B Common Stock of the Company (No. 333-55144)

S-3 Registration Statement relating to $175,000,000 of the Company's 5% Convertible Notes due 2023 (No. 333-108576)

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/s/ Ernst & Young LLP

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Houston, Texas
March 14, 2005

EXHIBIT 24.1

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Thomas J. Barrack, Jr.

(Signature)

Printed Name: Thomas J. Barrack, Jr.

Dated and effective as of February 11, 2005

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Kirbyjon H. Caldwell

(Signature)

Printed Name: Kirbyjon H. Caldwell

Dated and effective as of February 11, 2005

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Lawrence W. Kellner

(Signature)

Printed Name: Lawrence W. Kellner

Dated and effective as of February 11, 2005

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Douglas K. McCorkindale

(Signature)

Printed Name: Douglas K. McCorkindale

Dated and effective as of February 11, 2005

POWER OF ATTORNEY

-

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

-

/s/ Henry L. Meyer III

(Signature)

Printed Name: Henry L. Meyer III

Dated and effective as of February 11, 2005

POWER OF ATTORNEY

-

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

-

/s/ Oscar Munoz

(Signature)

Printed Name: Oscar Munoz

Dated and effective as of February 11, 2005

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POWER OF ATTORNEY

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KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

-

/s/ George G.C. Parker

(Signature)

Printed Name: George G.C. Parker

Dated and effective as of February 11, 2005

-

POWER OF ATTORNEY

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KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

-

/s/ Jeffery A. Smisek

(Signature)

Printed Name: Jeffery A. Smisek

Dated and effective as of February 11, 2005

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POWER OF ATTORNEY

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KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Karen Hastie Williams

(Signature)

Printed Name: Karen Hastie Williams

Dated and effective as of February 11, 2005

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Ronald B. Woodard

(Signature)

Printed Name: Ronald B. Woodard

Dated and effective as of February 11, 2005

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Allan R. Conge or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Charles A. Yamarone

(Signature)

Printed Name: Charles A. Yamarone

Dated and effective as of February 11, 2005

EXHIBIT 31.1

CERTIFICATION

I, Lawrence W. Kellner, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 15, 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 annual report on Form 10-K 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: March 15, 2005

Jeffrey J. Misner

Jeffrey J. Misner

ExecutiveVice 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the "Form 10-K") 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-K 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: March 15, 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