

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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 (I.R.S. Employer  
of incorporation or organization) Identification No.)

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

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

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

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

As of October 15, 2004, 66,465,374 shares of Class B common stock were outstanding.

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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements.

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

	Three Months		Nine Months	
	<u>Ended September 30,</u>		<u>Ended September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Operating Revenue:				
Passenger (excluding fees and taxes of \$280, \$228, \$787 and \$677) (B)	\$2,377	\$2,186	\$6,795	\$6,083
Cargo, mail and other	<u>187</u>	<u>179</u>	<u>552</u>	<u>539</u>
	<u>2,564</u>	<u>2,365</u>	<u>7,347</u>	<u>6,622</u>
Operating Expenses:				
Wages, salaries and related costs	703	778	2,102	2,319
Aircraft fuel and related taxes	414	333	1,134	1,013
ExpressJet capacity purchase, net	347	-	992	-
Aircraft rentals	224	225	666	671
Landing fees and other	169	165	488	469

rentals				
Commissions, booking fees, credit card fees and other distribution costs	139	131	416	396
Maintenance, materials and repairs	107	135	321	395
Depreciation and amortization	104	110	312	336
Passenger servicing	84	81	229	224
Special charges	22	-	107	79
Security fee reimbursement	-	-	-	(176)
Other	<u>227</u>	<u>233</u>	<u>648</u>	<u>708</u>
	<u>2,540</u>	<u>2,191</u>	<u>7,415</u>	<u>6,434</u>

Operating Income (Loss)	<u>24</u>	<u>174</u>	<u>(68)</u>	<u>188</u>
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Nonoperating Income (Expense):

Interest expense	(97)	(100)	(292)	(296)
Interest capitalized	3	6	11	19
Interest income	8	5	19	13
Equity in the income of affiliates	15	4	46	10
Gain on dispositions of ExpressJet Holdings shares	-	173	-	173
Other, net	<u>31</u>	<u>(1)</u>	<u>50</u>	<u>(1)</u>
	<u>(40)</u>	<u>87</u>	<u>(166)</u>	<u>(82)</u>

Income (Loss) before Income Taxes and Minority Interest	(16)	261	(234)	106
Income Tax Benefit (Expense)	-	(113)	77	(75)
Minority Interest	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>(40)</u>
Net Income (Loss)	<u>\$ (16)</u>	<u>\$ 133</u>	<u>\$ (157)</u>	<u>\$ (9)</u>

Earnings (Loss) per Share:

Basic	<u>\$ (0.24)</u>	<u>\$ 2.04</u>	<u>\$ (2.38)</u>	<u>\$ (0.14)</u>
Diluted	<u>\$ (0.24)</u>	<u>\$ 1.83</u>	<u>\$ (2.38)</u>	<u>\$ (0.14)</u>

Shares Used for Computation:

Basic	66.3	65.4	66.1	65.4
Diluted	66.3	74.6	66.1	65.4

A. 2003 amounts include the consolidation of ExpressJet Holdings, Inc. while 2004 amounts do not. See Note 6 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 (A)**  
**(In millions, except for share data)**

ASSETS	September 30, <u>2004</u> (Unaudited)	December 31, <u>2003</u> (Unaudited)	September 30, <u>2003</u> (Unaudited)
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Current Assets:

Cash and cash equivalents	\$ 1,173	\$ 999	\$ 1,115
Restricted cash and cash equivalents	192	170	139
Short-term investments	<u>366</u>	<u>431</u>	<u>359</u>
Total cash, cash equivalents and short-term investments	1,731	1,600	1,613
Accounts receivable, net	541	403	466
Spare parts and supplies, net	213	191	231
Deferred income taxes	176	157	185
Note receivable from ExpressJet Airlines, Inc.	54	67	-

Prepayments and other	<u>247</u>	<u>168</u>	<u>197</u>
Total current assets	<u>2,962</u>	<u>2,586</u>	<u>2,692</u>
Property and Equipment:			
Owned property and equipment:			
Flight equipment	6,745	6,574	6,648
Other	<u>1,251</u>	<u>1,195</u>	<u>1,310</u>
	7,996	7,769	7,958
Less: Accumulated depreciation	<u>1,959</u>	<u>1,784</u>	<u>1,806</u>
	<u>6,037</u>	<u>5,985</u>	<u>6,152</u>
Purchase deposits for flight equipment	<u>113</u>	<u>225</u>	<u>257</u>
Capital leases:			
Flight equipment	106	107	117
Other	<u>290</u>	<u>297</u>	<u>272</u>
	396	404	389
Less: Accumulated amortization	<u>135</u>	<u>126</u>	<u>128</u>
	<u>261</u>	<u>278</u>	<u>261</u>
Total property and equipment	<u>6,411</u>	<u>6,488</u>	<u>6,670</u>
Routes	615	615	615
Airport operating rights, net	242	259	267
Intangible pension asset	124	124	144
Investment in affiliates	236	173	95
Note receivable from ExpressJet Airlines, Inc.	45	126	-
Other assets, net	<u>231</u>	<u>278</u>	<u>288</u>
Total Assets	<u>\$10,866</u>	<u>\$10,649</u>	<u>\$10,771</u>

(continued on next page)

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

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	September 30, <u>2004</u> (Unaudited)	December 31, <u>2003</u> (Unaudited)	September 30, <u>2003</u> (Unaudited)
Current Liabilities:			
Current maturities of long-term debt and capital leases	\$ 382	\$ 422	\$ 543
Accounts payable	815	840	854
Air traffic liability	1,182	957	997
Accrued payroll	299	281	278
Accrued other liabilities	<u>409</u>	<u>366</u>	<u>357</u>
Total current liabilities	<u>3,087</u>	<u>2,866</u>	<u>3,029</u>
Long-Term Debt and Capital Leases	<u>5,463</u>	<u>5,558</u>	<u>5,602</u>
Deferred Income Taxes	<u>411</u>	<u>446</u>	<u>506</u>
Accrued Pension Liability	<u>895</u>	<u>678</u>	<u>588</u>
Other	<u>325</u>	<u>309</u>	<u>308</u>
Commitments and Contingencies			
Minority Interest	<u>-</u>	<u>-</u>	<u>(26)</u>
Stockholders' Equity:			
Preferred Stock - \$.01 par, 10,000,000 shares authorized; one share of Series B issued and outstanding, stated at par value	-	-	-
Class B common stock - \$.01 par, 200,000,000 shares authorized; 91,937,192, 91,507,192 and 91,223,610 issued	1	1	1
Additional paid-in capital	1,409	1,401	1,396
Retained earnings	791	948	901
Accumulated other comprehensive loss	(375)	(417)	(393)
Treasury stock - 25,471,881 shares, at cost	<u>(1,141)</u>	<u>(1,141)</u>	<u>(1,141)</u>
Total stockholders' equity	<u>685</u>	<u>792</u>	<u>764</u>
Total Liabilities and Stockholders' Equity	<u>\$ 10,866</u>	<u>\$ 10,649</u>	<u>\$ 10,771</u>

A. September 30, 2003 amounts include the consolidation of ExpressJet Holdings, Inc. while September 30, 2004 and December 31, 2003 amounts do not. See Note 6 for further discussion.

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

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

	Nine Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
	(Unaudited)	
Net cash provided by operations	\$ <u>488</u>	\$ <u>181</u>
Cash Flows from Investing Activities:		
Capital expenditures	(134)	(135)
Purchase deposits paid in connection with future aircraft deliveries	(19)	(22)
Purchase deposits refunded in connection with aircraft delivered	124	44
Sale (purchase) of short-term investments, net	65	(62)
Other	<u>14</u>	<u>38</u>
Net cash provided by (used in) investing activities	<u>50</u>	<u>(137)</u>
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations	(357)	(369)
Proceeds from issuance of long-term debt, net	-	534
Increase in restricted cash	(22)	(77)
Other	<u>15</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(364)</u>	<u>88</u>
Net Increase in Cash and Cash Equivalents	174	132
Cash and Cash Equivalents - Beginning of Period	<u>999</u>	<u>983</u>
Cash and Cash Equivalents - End of Period	<u>\$1,173</u>	<u>\$1,115</u>
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through the issuance of debt	\$ 214	\$ -
Contribution of ExpressJet stock to pension plan	\$ -	\$ 100

A. 2003 amounts include the consolidation of ExpressJet Holdings, Inc. while 2004 amounts do not. See Note 6 for further discussion.

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

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

In our opinion, the unaudited consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the periods indicated. Such adjustments, other than nonrecurring adjustments that have been separately disclosed, are of a normal, recurring nature. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2003 (the "2003 10-K"). 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. ExpressJet Holdings, Inc. ("Holdings") is accounted for as an equity investment in our September 30, 2004 and December 31, 2003 balance sheets and statements of operations for the three and nine months ended September 30, 2004, and was consolidated in our financial statements prior to November 12, 2003 (see Note 6). We directly own a 30.8% interest in Holdings as of September 30, 2004. Holdings wholly owns ExpressJet Airlines, Inc. ("ExpressJet"), which operates regional jets. We purchase all the seat capacity of ExpressJet. See Note 6 for further discussion.

Certain reclassifications have been made in the prior period's financial statements to conform to the current year presentation.

**NOTE 1 - EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share for the period presented in which we reported net income (in millions):

	Three Months Ended <u>September 30, 2003</u>
Numerator:	
Numerator for basic earnings per share - net income	\$ <u>133</u>
Effect of dilutive securities - interest expense on:	
Convertible Junior Subordinated Debentures held by Subsidiary Trust	2
4.5% Convertible Notes	<u>1</u>
Numerator for diluted earnings per share - net income after assumed conversions	\$ <u>136</u>
Denominator:	

Denominator for basic earnings per share - weight average shares 65.4

Effect of dilutive securities - assumed shares upon conversion of:

Convertible Junior Subordinated Debentures held by	
Subsidiary Trust	4.1
4.5% Convertible Notes	5.0
Employee stock options	<u>0.1</u>
Dilutive potential common shares	<u>9.2</u>

Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions 74.6

Weighted average options to purchase approximately 6.2 million, 6.7 million, 6.3 million and 6.8 million shares of our Class B common stock were not included in the computation of diluted earnings (loss) per share for the three months ended September 30, 2004 and 2003 and the nine months ended September 30, 2004 and 2003, respectively, because the options' exercise prices were greater than the average market price of the common shares or the effect of including the options would have been antidilutive. Because we recorded net losses during the three and nine months ended September 30, 2004 and the nine months ended September 30, 2003, our Convertible Junior Subordinated Debentures Held by Subsidiary Trust and 4.5% Convertible Notes were also antidilutive. As a result, there was no difference between basic loss per share for the three and nine months ended September 30, 2004 and the nine months ended September 30, 2003 on the one hand, and diluted loss per share for the same periods, on the other hand.

On September 30, 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 04-08, "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 new consensus, most issuers, including us, excluded the potential dilutive effect of the conversion feature from diluted earnings per share until the contingency threshold is met. EITF Issue No. 04-08 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 on net income (loss), but it will affect the related per share amounts. The new rules will be effective for reporting periods ending after December 15, 2004.

We will adopt EITF Issue No. 04-08 as of December 31, 2004 and will restate the computations of earnings (loss) per share for prior periods. We will include (if dilutive) the assumed conversion of our 5% Convertible Notes issued in June 2003 in our diluted earnings per share calculations. This will increase the denominator in our diluted earnings per share calculations by approximately 8.7 million shares, resulting in lower diluted earnings per share in periods in which we report net income. Additionally, we will adjust 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. We expect this change to have an immaterial impact on our diluted earnings (loss) per share calculations.

## NOTE 2 - STOCK PLANS AND AWARDS

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

The following table illustrates the pro forma effect on net income (loss) and earnings (loss) per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-based Compensation" (in millions except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net income (loss), as reported	\$ (16)	\$ 133	\$(157)	\$ (9)
Deduct total stock-based employee compensation expense determined under SFAS 123, net of tax	<u>_(1)</u>	<u>_(1)</u>	<u>_(4)</u>	<u>_(5)</u>
Net income (loss), pro forma	<u>\$(17)</u>	<u>\$ 132</u>	<u>\$(161)</u>	<u>\$(14)</u>
Earnings (loss) per share:				
Basic, as reported	\$(0.24)	\$2.04	\$(2.38)	\$(0.14)
Basic, pro forma	<u>\$(0.26)</u>	<u>\$2.02</u>	<u>\$(2.44)</u>	<u>\$(0.22)</u>
Diluted, as reported	\$(0.24)	\$1.83	\$(2.38)	\$(0.14)
Diluted, pro forma	<u>\$(0.26)</u>	<u>\$1.82</u>	<u>\$(2.44)</u>	<u>\$(0.22)</u>

## NOTE 3 - COMPREHENSIVE INCOME (LOSS)

We include changes in minimum pension liabilities and changes in the fair value of derivative financial instruments that qualify for hedge accounting in other comprehensive income (loss). For the third quarter of 2004 and 2003, total comprehensive income amounted to \$8 million and \$130 million, respectively. For the nine months ended September 30, 2004 and 2003, total comprehensive income (loss) amounted to \$(116) million and \$7 million, respectively. The difference between the net income (loss) and total comprehensive income (loss) for each period was attributable to changes in the fair value of derivative financial instruments.

At September 30, 2004, our derivative financial instruments which qualified for hedge accounting consisted of petroleum call options contracts to provide short-term protection against a sharp increase in jet fuel prices and option and forward contracts to hedge foreign currency-denominated net cash flows.

#### NOTE 4 - FLEET INFORMATION

As shown in the following table, our operating aircraft fleet consisted of 352 mainline jets and 240 regional jets at September 30, 2004, excluding aircraft out of service. The regional jets are leased by ExpressJet from us and are operated by ExpressJet. Our and ExpressJet's purchase commitments (firm orders) for aircraft, as well as options to purchase additional aircraft as of September 30, 2004 are also shown below.

Aircraft Type	Total Aircraft	Owned	Leased	Firm Orders	Options
777-200ER	18	6	12	-	1
767-400ER	16	14	2	-	-
767-200ER	10	9	1	-	-
757-300	9	9	-	-	-
757-200	41	13	28	-	-
737-900	12	8	4	3	24
737-800	90	26	64	31	35
737-700	36	12	24	15	24
737-500	63	15	48	-	-
737-300	50	15	35	-	-
MD-80	<u>7</u>	<u>2</u>	<u>5</u>	=	=
Mainline jets	<u>352</u>	<u>129</u>	<u>223</u>	<u>49</u>	<u>84</u>
ERJ-145XR	70	-	70	34	100
ERJ-145	140	18	122	-	-
ERJ-135	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>	<u>-</u>
Regional jets	<u>240</u>	<u>18</u>	<u>222</u>	<u>34</u>	<u>100</u>
Total	<u>592</u>	<u>147</u>	<u>445</u>		

As of September 30, 2004, we had 11 owned and 13 leased MD-80 aircraft and one leased DC-10-30 aircraft out of service.

The 11 owned out-of-service MD-80 aircraft are being carried at an aggregate fair value of \$22 million, and the remaining rentals and obligations for return conditions on the 14 leased aircraft have been accrued. As of September 30, 2004, we subleased the one DC-10-30 aircraft and one leased MD-80 aircraft to third parties.

Additionally, we have 12 Embraer 120 turboprop aircraft and 13 ATR 42 turboprop aircraft out of service. We lease 17 and own eight of these aircraft. The eight owned aircraft are being carried at an aggregate fair value of \$11 million, and the remaining rentals and obligations for return conditions on those leased 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 the stabilization of the economic environment in the airline industry as well as our ability to find purchasers, lessees or sublessees for the aircraft. We cannot predict when or if such stabilization will occur 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.

During the first nine months of 2004, we removed from service one leased 737-300 aircraft in conjunction with its lease expiration, four owned MD-80 aircraft and 12 leased MD-80 aircraft with leases expiring between 2004 and 2007. We recorded charges of \$70 million associated with future obligations for rent and return conditions, net of estimated sublease income, on the 12 leased MD-80 aircraft. Three of these removals occurred in the third quarter, resulting in a charge of \$21 million. Continuing with our previously announced plans to remove all remaining MD-80 aircraft from service over the next three months, we will record a charge of approximately \$17 million in the fourth quarter of 2004 as the five remaining leased MD-80 aircraft exit revenue service and are permanently grounded.

Also during the first nine months of 2004, we took delivery of five 757-300 aircraft and nine 737-800 aircraft, of which three 737-800s were delivered in the third quarter. As of September 30, 2004, we had firm purchase commitments for 49 aircraft from Boeing, with an estimated cost of approximately \$1.9 billion, and options to purchase an additional 84 Boeing aircraft. We currently expect to take delivery of two 737-800 aircraft during the final three months of 2004, seven Boeing aircraft in the second half of 2005 and none in 2006 and 2007. Delivery of the remaining 40 firm order aircraft is expected to occur in 2008 and 2009.

We currently have agreements for the financing of the two Boeing aircraft scheduled for delivery during the final three months of 2004, subject to customary conditions. We do not have backstop financing or any other financing currently in place for the remainder of the Boeing aircraft on firm order. Further financing will be needed to satisfy our capital commitments for our firm aircraft scheduled for delivery beyond 2004. We can provide no assurance that sufficient financing will be available for the aircraft on order or other related capital expenditures.

ExpressJet took delivery of 16 ERJ-145XR aircraft during the first nine months of 2004, including five in the third quarter. As of September 30, 2004, ExpressJet had firm commitments for 34 regional jets from Empresa Brasileira de Aeronautica S.A. ("Embraer"), with an estimated cost of approximately \$700 million, and options to purchase an additional 100 Embraer aircraft. ExpressJet currently anticipates taking delivery of an additional five regional jets during the remainder of 2004. 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 delivered to ExpressJet. We cannot predict whether passenger traffic levels will enable us to utilize fully regional jets scheduled for future delivery to ExpressJet.

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

#### NOTE 5 - SPECIAL CHARGES

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

In the first quarter of 2003, we recorded special charges of \$65 million. These charges consisted primarily of a \$44 million additional impairment of our fleet of owned MD-80s, which was initially determined to be impaired and written down to fair value in 2002. The remainder of the charges consisted primarily of the write-down to fair value of spare parts inventory for permanently grounded fleets. These write-downs were necessary because the fair values of the MD-80 fleet and spare parts inventory had declined as a result of the difficult financial environment and further reductions in capacity by U.S. airlines.

During the second quarter of 2003, we agreed to defer firm deliveries of 36 Boeing 737 aircraft that were originally scheduled for delivery in 2005, 2006 and 2007. These aircraft will now be delivered in 2008 and beyond. In connection with the deferrals, we recorded a charge of \$14 million.

Activity related to the accruals for future lease payments and return condition and closure/under-utilization of facilities for the nine months ended September 30, 2004 is as follows (in millions):

	December 31, <u>2003</u>	<u>Accrual</u>	<u>Payments</u>	September 30, <u>2004</u>
Allowance for future lease payments and return condition	\$83	\$75	\$(44)	\$114
Closure/under-utilization of facilities	17	-	(3)	14

#### NOTE 6 - INVESTMENT IN EXPRESSJET AND EXPRESSJET CAPACITY PURCHASE AGREEMENT

**Investment in ExpressJet.** During the third quarter of 2003, we sold approximately 9.8 million shares of our Holdings common stock to Holdings, reducing our ownership interest in Holdings from 53.1% to 44.6%. In a subsequent transaction in the third quarter of 2003, we contributed approximately 7.4 million shares of Holdings common stock to our defined benefit pension plan, further reducing our direct ownership of Holdings to below 31%. We recognized gains totaling \$173 million in the third quarter of 2003 as a result of the sale of Holdings shares to Holdings and the contribution of Holdings shares to our defined benefit pension plan.

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 FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). However, we adopted FIN 46 on July 1, 2003 and elected to restate prior period financial statements for retroactive application.

Under FIN 46, 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%. Furthermore, 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.

The independent trustee for our defined benefit pension plan subsequently sold to unrelated parties a portion of the shares of Holdings that we had contributed to the plan. As a result of these sales by the 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 were no longer 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. 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 expenses under the capacity purchase agreement reflected as a separate operating expense. The primary effects of deconsolidation of Holdings from our financial statements were a decrease in individual operating expense line items and an increase in the "ExpressJet capacity purchase, net" expense line item. Additional changes include a decrease in current assets, primarily due to the elimination of Holdings' cash, an increase in non-current assets resulting from the inclusion of our note receivable from Holdings (previously eliminated in consolidation) and a decrease in long-term debt. 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.

For the quarter and nine months ended September 30, 2003, expenses under the capacity purchase agreement were eliminated in consolidation and the portion of Holdings' net income attributable to the equity of Holdings that we did not own was reported as minority interest in our consolidated statement of operations.

As of September 30, 2004, we directly owned 16.7 million shares of Holdings common stock with a market value of \$167 million, which represented a 30.8% interest in Holdings. 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.

In addition to the Holdings shares we own, our defined benefit pension plan owned 1.2 million shares of Holdings common stock at September 30, 2004, which represented a 2.3% interest in Holdings. The independent trustee for our defined benefit pension plan sold 3.3 million shares to third parties during the nine months ended September 30, 2004. The combined interest in Holdings of our direct ownership and our pension plan at September 30, 2004 was 17.9 million shares, or 33% of Holdings' outstanding shares.

**Capacity Purchase Agreement.** Our capacity purchase agreement with Holdings and ExpressJet provides that we generally purchase all of ExpressJet's capacity for a negotiated price, and we are at risk for selling all of the seat inventory at market prices. The rates we pay ExpressJet for scheduled block hours are subject to adjustment effective January 1, 2005 and each year thereafter. On July 1, 2004, we began negotiating with ExpressJet to adjust the scheduled block hour rates for calendar year 2005 as required by the capacity purchase agreement. We have substantially completed the rate negotiations for 2005 and anticipate reducing our scheduled block hour rates for calendar year 2005 approximately two percent when compared to our cost in 2004. In addition, we have an agreement in principle with ExpressJet to amend the capacity purchase agreement with respect to certain other matters, including to cap ExpressJet's prevailing margin at 10%.

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 \$347 million and \$992 million in the three and nine months ended September 30, 2004 and \$288 million and \$821 million in the three and nine months ended September 30, 2003. The 2004 amounts are reported as "ExpressJet capacity purchase, net" and the 2003 amounts were eliminated in our consolidated financial statements.

**Tax Sharing Agreement.** We recognized nonoperating income related to our tax sharing agreement with Holdings of \$14 million and \$37 million for the three and nine months ended September 30, 2004, respectively. There was no such income in the first nine months of 2003.

**Note Receivable from ExpressJet.** At December 31, 2003, we had a \$193 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, 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 payments are scheduled to be made under the note on these dates. The remaining balance of the note at September 30, 2004 was \$99 million.

#### NOTE 7 - EMPLOYEE BENEFIT PLANS

**Pension Plan.** Net periodic defined benefit pension expense included the following components (in millions):

Three Months Ended September 30,		Nine Months Ended September 30,	
<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>



Service cost	\$ 38	\$ 39	\$113	\$117
Interest cost	38	33	114	101
Expected return on plan assets	(29)	(18)	(87)	(54)
Amortization of prior service cost	5	5	15	15
Amortization of unrecognized net actuarial loss	<u>18</u>	<u>21</u>	<u>62</u>	<u>68</u>
Net periodic benefit expense	<u>\$ 70</u>	<u>\$ 80</u>	<u>\$217</u>	<u>\$247</u>

Due to record high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we have elected to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we are not required to make any contributions to our pension plan in 2004 and thus do not intend to do so. Based on current legislation and current assumptions, we will be required to contribute in excess of \$1.5 billion to our pension plan over the next five years, including approximately \$300 million in 2005, to meet our minimum funding obligations. 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.

At September 30, 2004, our defined benefit pension plan held 1.2 million shares of Holdings common stock with a market value of \$12 million.

**Employee Stock Purchase Plan.** On March 12, 2004, our stockholders voted to adopt the 2004 Employee Stock Purchase Plan. All of our employees (including Continental Micronesia, Inc. employees) are eligible to participate in this program beginning 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. Through September 30, 2004, 249,160 shares were issued under this plan at a price of \$10 per share. Because the price of our stock at September 30, 2004 was below the threshold level for the minimum purchase price permitted by the plan, no shares were issued under the plan for the third quarter of 2004.

#### NOTE 8 - PENDING SALE OF INVESTMENT IN ORBITZ

We own approximately 9% of the outstanding shares of Orbitz, an internet travel website. On September 29, 2004, Cendant Corp. announced a tender offer for all outstanding shares of Orbitz. The transaction, which has been approved by the boards of both companies but is subject to regulatory approvals and other customary conditions, is expected to close during the fourth quarter of 2004. The market value of our Orbitz shares at September 30, 2004 was \$27.20 per share. Based on this market value, we recognized as nonoperating income a fair value adjustment of \$15 million (net of related compensation expense) in the third quarter of 2004.

#### NOTE 9 - 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. carriers as of the date of enactment of the legislation, together with other items.

#### NOTE 10 - INCOME TAXES

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 loss for the third quarter of 2004 was 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.

#### NOTE 11 - 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. Under that agreement, we handle all of the scheduling and are responsible for setting prices and selling all 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 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 income or loss because (1) our flight schedules are designed to maximize the passengers flying on both segments, (2) many operations of the two segments are substantially integrated (for example, airport operations, sales and marketing, scheduling and ticketing), and (3) management decisions are based on their anticipated impact on the overall network, not on one individual segment.

Financial information for the three and nine months ended September 30 by business segment is set forth below (in millions):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Operating Revenue:				
Mainline	\$2,160	\$2,011	\$6,175	\$5,668
Regional	<u>404</u>	<u>354</u>	<u>1,172</u>	<u>954</u>
Total Consolidated	<u>\$2,564</u>	<u>\$2,365</u>	<u>\$7,347</u>	<u>\$6,622</u>
Operating Income (Loss):				
Mainline	\$ 82	\$ 159	\$ 89	\$ 208
Regional	<u>(58)</u>	<u>15</u>	<u>(157)</u>	<u>(20)</u>
Total Consolidated	<u>\$ 24</u>	<u>\$ 174</u>	<u>\$ (68)</u>	<u>\$ 188</u>

Net Income (Loss):

Mainline	\$ 45	\$ 147	\$ (40)	\$ 72
Regional	_(61)	_(14)	_(117)	_(81)
Total Consolidated	\$_(16)	\$ 133	\$_(157)	\$_(9)

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

**Financings and Guarantees.** We are the guarantor of approximately \$1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon (inclusive of \$271 million of bonds issued by the City of Houston, but exclusive of 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 principal and interest on the bonds that becomes partially effective (based on a pro rata share of bond proceeds) upon completion of construction of the terminal or the international ticketing facility. The corporate guaranty could also become effective during construction in other limited circumstances. The guaranty 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. We expect completion of the international ticketing facility during the first quarter of 2005, at which time our corporate guaranty would become effective for the remaining portion of the bonds issued by the City of Houston in the amount of \$53 million.

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 \$174 million at September 30, 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. As of September 30, 2004, 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 at September 30, 2004 in the amount of \$50 million with expiration dates through June 2008.

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

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

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 \$1.5 billion of floating rate debt at September 30, 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 September 30, 2004.

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

**Employees.** Approximately 41% of our employees are covered by collective bargaining agreements. Of these, substantially all have contracts under negotiation or that become amendable in 2004.

The collective bargaining agreement between us and our pilots, represented by the Air Line Pilots Association ("ALPA"), became amendable in October 2002. After being deferred due to the economic uncertainty following the September 11, 2001 terrorist attacks, negotiations are continuing.

Our mechanics, represented by the International Brotherhood of Teamsters ("Teamsters"), ratified a new four-year collective bargaining agreement in December 2002 that made an adjustment to pay and recognized industry conditions. The agreement became amendable with respect to wages, pension and health insurance provisions on December 31, 2003. Negotiations commenced with the Teamsters regarding these subjects in December 2003 and are continuing. Work rules and other contractual items are established through 2006.

The collective bargaining agreement between us and our dispatchers, represented by the Transport Workers Union ("TWU"), became amendable in October 2003. Negotiations commenced with the TWU in September 2003 and are continuing.

The collective bargaining agreement between us and our flight attendants, represented by the International Association of Machinists and Aerospace Workers ("IAM"), became amendable on October 1, 2004. Negotiations commenced with the IAM in September 2004 and are continuing.

We continue to believe that mutually acceptable agreements can be reached with all of these employee groups, although the ultimate outcome of the negotiations is unknown at this time.

In September 2004, we announced a cost-savings initiative of \$200 million in pre-tax cost-savings measures that included the elimination of approximately 425 positions through layoffs, attrition and the elimination of unfilled positions. We also eliminated approximately 250 reservation agent positions during the third quarter of 2004. Given the current adverse environment in which we operate, we may be required to seek material wage and benefit reductions and workrule changes in the near future. Such action could lead to labor disruptions, which could have a material adverse impact on our results of operations and financial condition.

ExpressJet and its pilot union have reached a tentative agreement for a new collective bargaining agreement. The agreement is subject to ratification by the ExpressJet pilots. A labor disruption at ExpressJet resulting in a prolonged significant reduction in their flights would have a material adverse impact on our results of operations and financial condition.

**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 receivables related to insurance recoveries at September 30, 2004.

We expect our total losses from all environmental matters to be \$51 million, for which we were fully accrued at September 30, 2004. Although we believe, based on currently available information, that our reserves for potential environmental remediation costs are adequate, 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 our 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. Plaintiffs' appeal of this judgment is pending oral argument on October 27, 2004 before the Fourth Circuit Court of 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 Airlines, 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 not yet commenced involving 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. Plaintiffs' motion for class certification is pending.

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 of 1999, but was dismissed. Plaintiffs then filed a Second Amended Consolidated Complaint in January 2001, which was dismissed with prejudice in June of 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. On September 27, 2004, the Court granted full summary judgment in favor of Continental. We are uncertain whether plaintiffs will appeal this ruling.

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.

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

The following discussion contains forward-looking statements that are not limited to historical facts, but reflect our current beliefs, expectations or intentions regarding future events. In connection therewith, please see the risk factors set forth in our 2003 10-K, which identify important factors such as terrorist attacks and international hostilities, our recent losses, our high leverage and significant financing needs, the significant cost of aircraft fuel, labor costs, competition and industry conditions including the growth of low cost carriers, demand for airline travel, airline pricing environment and industry capacity decisions, security requirements, regulatory matters, the seasonal nature of the airline business (the second and third quarters are generally stronger than the first and fourth quarters), certain tax matters and the Japanese economy and currency risk, that could cause actual results to differ materially from those in the forward-looking state ments. In addition to the foregoing risks, there can be no assurance that we will be able to achieve the pre-tax contributions from the revenue-generating and cost-reducing initiatives discussed below, or even if achieved, that these initiatives will be sufficient to allow us to operate profitably in the current environment. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

General information about us can be found at [www.continental.com/company/investor](http://www.continental.com/company/investor). Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the SEC.

### **OVERVIEW**

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 and expect to incur a substantial loss in 2004. If the current adverse environment does not improve, we expect to incur a significant loss in 2005 as well. Losses of the magnitude incurred by us since September 11, 2001 are not sustainable over the long term. 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, many of our network competitors 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 (including the \$200 million cost-cutting program described below) that we have implemented in recent years have proven insufficient to return us to profitability in the current environment. In such an environment, we must achieve significant further cost reductions, which may require us to furlough additional employees and may require us to seek material wage and benefit reductions and workrule changes in the near future. Other network carriers, such as American Airlines, United Airlines and US Airways, were able to achieve such reductions and changes only through bankruptcy or the threat of bankruptcy. US Airways sought and obtained further wage reductions in its second bankruptcy case, which commenced in September 2004. Delta Air Lines has threatened bankruptcy unless it achieves significant wage and benefit concessions from its pilot group.

Absent additional 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 liquidity will be sufficient to fund our current operations and other financial obligations through 2005. However, we have significant financial obligations due in 2006 and thereafter, and we may have inadequate liquidity to meet those obligations if the current financial environment for network carriers continues and we are unable to decrease our costs considerably. In addition, it has become increasingly difficult for us to obtain financing in the face of significant losses and the current revenue and cost outlook. As a result, we may not be able to complete future financings that we may need to maintain adequate liquidity.

In September 2004, we announced an initiative to achieve \$200 million in pre-tax cost savings that included the elimination of approximately 425 positions through layoffs, attrition and the elimination of unfilled positions. The cost-savings measures are expected to provide approximately \$125 million of pre-tax benefits in 2005 and will be fully implemented by 2007. We also eliminated approximately 250 reservation agent positions during the third quarter of 2004. We will need to continue to implement additional revenue-generating, cost-cutting and other cash-generating measures beyond those previously announced in order to maintain adequate liquidity for our operations and other financial obligations beyond 2005. Given the current adverse environment in which we operate, we may be required to seek material wage and benefit reductions and workrule changes in the near future.

Among the many factors that threaten us and the network airline industry generally are the continued rapid growth of low-cost carriers and resulting downward pressure on domestic yields, high fuel costs, increased security costs, high labor costs, unpredictable labor negotiations and significant pension liabilities. These factors are discussed in the "Overview" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2003 10-K.

## RESULTS OF OPERATIONS

The following discussion provides an analysis of our results of operations and reasons for material changes therein for the three and nine months ended September 30, 2004 as compared to the corresponding periods ended September 30, 2003.

### Comparison of Three Months Ended September 30, 2004 to Three Months Ended September 30, 2003

#### Consolidated Results of Operations

We recorded a consolidated net loss of \$16 million for the third quarter of 2004 as compared to consolidated net income of \$133 million for the three months ended September 30, 2003. The primary reasons for the change were increased fuel costs in 2004 and a \$173 million gain on the disposition of Holdings shares in third quarter 2003. We consider the key measure of our performance to be consolidated operating income, which was \$24 million for the third quarter of 2004, as compared to \$174 million for the third quarter of 2003. As discussed in Note 6 to our consolidated financial statements, except for passenger revenue, the deconsolidation of ExpressJet in 2003 affected the comparability of our quarter-to-quarter financial results. Accordingly, the expense variance explanations discussed below exclude the effect of ExpressJet in 2003 unless the context indicates 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):

	<u>Components of Increase (Decrease)</u>				
	<u>As Reported</u> Three Months Ended September 30,		Increase (Decrease) related to ExpressJet	All Other Increase	% Increase (Decrease) Excluding
	<u>2004</u>	<u>2003</u>	<u>Deconsolidation (A)</u>	<u>(Decrease)</u>	<u>ExpressJet</u>
Operating Revenue:					
Passenger	\$2,377	\$2,186	\$ -	\$ 191	8.7 %
Cargo, mail and other	<u>187</u>	<u>179</u>	<u>(1)</u>	<u>9</u>	5.1 %
	<u>2,564</u>	<u>2,365</u>	<u>(1)</u>	<u>200</u>	8.5 %
Operating Expenses:					
Wages, salaries and related costs	703	778	(92)	17	2.5 %
Aircraft fuel and related taxes	414	333	(50)	131	46.3 %
ExpressJet capacity purchase, net	347	-	288	59	20.5 %
Aircraft rentals	224	225	-	(1)	(0.4)%
Landing fees and other rentals	169	165	(28)	32	23.4 %
Commissions, booking fees, credit card fees and other distribution costs	139	131	--	8	6.1 %
Maintenance, materials and repairs	107	135	(33)	5	4.9 %
Depreciation and amortization	104	110	(5)	(1)	(1.0)%
Passenger servicing	84	81	(3)	6	7.7 %
Special charges	22	-	-	22	NM
Other	<u>227</u>	<u>233</u>	<u>(31)</u>	<u>25</u>	12.4 %
	<u>2,540</u>	<u>2,191</u>	<u>46</u>	<u>303</u>	13.5 %
Operating Income (Loss)	24	174	(47)	(103)	(81.1)%
Nonoperating Income (Expense)	<u>(40)</u>	<u>87</u>	<u>15</u>	<u>(142)</u>	NM
Income (Loss) before Income Taxes and Minority Interest	(16)	261	(32)	(245)	NM
Income Tax Benefit (Expense)	-	(113)	17	96	NM

Minority Interest						
						NM
Net Income (Loss)	\$ (16)	\$ 133	\$ --	\$ (149)		NM

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

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

**Operating Revenue.** Total passenger revenue increased 8.7% during the third quarter of 2004 due to higher traffic and capacity on international destinations and an increase in regional flights. The higher revenue from international flights was primarily the result of new destinations and depressed activity in 2003 due to the hostilities in Iraq and SARS. Mainline passenger revenue increased 7.3% and regional passenger revenue increased 16.4%. Passenger revenue for the third quarter of 2004 and period to period comparisons of passenger revenue, revenue per available seat mile (RASM) and available seat miles (ASMs) by geographic region for our mainline and regional operations are shown below:

Passenger Revenue	_____(in millions)____	Percentage Increase (Decrease) in _____ <u>Third Quarter 2004 vs. Third Quarter 2003</u> _____		
		_____ <u>Passenger Revenue</u> ____	_____ <u>RASM</u> ____	_____ <u>ASMs</u> ____
Domestic	\$1,116	(0.5)%	(0.5)%	-
Trans-Atlantic	433	26.6%	0.8%	25.6%
Latin America	253	8.8%	(4.7)%	14.1%
Pacific	<u>170</u>	19.9%	15.0%	4.3%
Total Mainline	1,972	7.3%	0.3%	7.0%
Regional	<u>405</u>	16.4%	(2.1)%	18.8%
Total System	<u>\$2,377</u>	8.7%	0.5%	8.1%

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 \$3.10 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. Various U.S. fees and taxes are also assessed on international flights that can result in additional fees and taxes of up to \$43 per international round trip, not counting fees and taxes imposed by foreign governments. Certain of these assessments must be included in the fares we advertise or quote to our customers. In many instances, increases in these fees and taxes have been absorbed by the airline industry rather than being passed on to the passenger. As a result, passenger revenue can decrease when these fees and taxes increase. These fees and taxes, which are not included in our reported passenger revenue, increased to \$280 million for the three months ended September 30, 2004, compared to \$228 million for the same period in 2003, and to \$787 million for the nine months ended September 30, 2004, compared to \$677 million for the same period in 2003. As a percentage of passenger revenues, these fees and taxes increased from 10.4% to 11.8% for the three months ended September 30, 2004 compared to the same period in 2003 mainly as the result of the temporary suspension of the \$10 per round trip security fee from June 1, 2003 to September 30, 2003.

Cargo, mail and other revenue increased slightly primarily due to higher freight volumes and revenue-generating initiatives offset by decreased military charter flights.

**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 39.9% from 85.65 cents in the third quarter of 2003 to 119.85 cents in the third quarter of 2004. Based on our expected fuel volume for 2004, for every one dollar increase in the price of a barrel of crude oil, our fuel expense increases by approximately \$38 million on an annual basis.

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 the third quarter of 2004 than in the corresponding quarter of 2003 due to ExpressJet's larger fleet and increased regional flights.

Landing fees and other rentals were higher due to increased flights at certain airports and fixed rent increases combined with Continental 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. Maintenance, materials and repair expenses increased primarily due to increases in the engine cost per hour contract rates associated with a maturing fleet. Other operating expenses increased primarily due to higher air navigation fees, lodging costs associated with an increase in international flights and the temporary suspension of security costs from June 1, 2003 to September 30, 2003.

In the third quarter of 2004, we recorded a special charge of \$22 million, primarily associated with future obligations for rent and return conditions related to three leased MD-80 aircraft which were permanently grounded.

**Nonoperating Income (Expense).** Equity in the income of affiliates included our equity in the earnings of Holdings and Copa Airlines in 2004 and Orbitz and Copa Airlines in 2003. Other nonoperating income (expense) in the three months ended September 30, 2004 included a gain of \$15 million related to the adjustment to fair value of our investment in Orbitz, after associated compensation expense, and income of \$14 million related to our tax sharing agreement with Holdings. Nonoperating income for the third quarter of 2003 included a \$173 million gain on the dispositions of Holdings shares.

**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 loss for the third quarter of 2004 was 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.

**Minority Interest.** In 2003, minority interest represented the portion of Holdings' net income attributable to the equity of Holdings that we did not own.

#### **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. The rates we pay ExpressJet for scheduled block hours are subject to adjustment effective January 1, 2005 and each year thereafter. On July 1, 2004, we began negotiating with ExpressJet to adjust the scheduled block hour rates for calendar year 2005 as required by the capacity purchase agreement. We have substantially completed the rate negotiations for 2005 and anticipate reducing our scheduled block hour rates for calendar year 2005 approximately two percent when compared to our cost in 2004. In addition, we have an agreement in principle with ExpressJet to amend the capacity purchase agreement with respect to certain other matters, including to cap ExpressJet's prevailing margin at 10%.

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

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

	Three Months			
	<u>Ended September 30,</u>		Increase	
	<u>2004</u>	<u>2003</u>	<u>(Decrease)</u>	<u>% Increase</u>
Operating Revenue:				
Passenger	\$1,972	\$1,838	\$134	7.3 %
Cargo, mail and other	<u>188</u>	<u>173</u>	<u>15</u>	8.7 %
	<u>2,160</u>	<u>2,011</u>	<u>149</u>	7.4 %
Operating Expenses:				
Wages, salaries and related costs	692	676	16	2.4 %
Aircraft fuel and related taxes	414	283	131	46.3 %
Aircraft rentals	158	167	(9)	(5.4)%
Landing fees and other rentals	161	137	24	17.5 %
Commissions, booking fees, credit card fees and other distribution costs	119	113	6	5.3 %
Maintenance, materials and repairs	107	102	5	4.9 %
Depreciation and amortization	101	102	(1)	(1.0)%
Passenger servicing	81	75	6	8.0 %
Special charges	22	-	22	NM
Other	<u>223</u>	<u>197</u>	<u>26</u>	13.2 %
	<u>2,078</u>	<u>1,852</u>	<u>226</u>	12.2 %
Operating Income	\$ <u>82</u>	\$ <u>159</u>	\$ (77)	(48.4)%

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. Mainline aircraft rental expense decreased primarily due to lease expirations, lower rates on renewal leases and aircraft rent on permanently grounded leased MD-80 aircraft no longer requiring accrual since such amounts have been previously recognized, partially offset by new aircraft deliveries.

Regional. The deconsolidation of ExpressJet in 2003 affected the comparability of our regional segment's quarter-to-quarter 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):

	<u>Components of Increase (Decrease)</u>				
	<u>As Reported</u>	Increase		% Increase	
		Three Months	Related to		(Decrease)
<u>Ended September 30,</u>	ExpressJet	Increase	Excluding		
<u>2004</u>	<u>2003</u>	<u>Deconsolidation (A)</u>	<u>(Decrease)</u>	<u>ExpressJet</u>	
Operating Revenue:					
Passenger	\$405	\$348	\$ -	\$ 57	16.4 %
Cargo, mail and other	<u>(1)</u>	<u>6</u>	<u>(1)</u>	<u>(6)</u>	NM
	<u>404</u>	<u>354</u>	<u>(1)</u>	<u>51</u>	14.4 %
Operating Expenses:					

Wages, salaries and related costs	11	102	(92)	1	10.0 %
Aircraft fuel and related taxes	-	50	(50)	-	-
ExpressJet capacity purchase, net	347	-	288	59	20.5 %
Aircraft rentals	66	58	-	8	13.8 %
Landing fees and other rentals	8	28	(28)	8	NM
Commissions, booking fees, credit card fees and other distribution costs	20	18	--	2	11.1 %
Maintenance, materials and repairs	-	33	(33)	-	-
Depreciation and amortization	3	8	(5)	-	-
Passenger servicing	3	6	(3)	-	-
Other	<u>4</u>	<u>36</u>	<u>(31)</u>	<u>(1)</u>	(20.0)%
	<u>462</u>	<u>339</u>	<u>46</u>	<u>77</u>	20.0 %
Operating Income (Loss)	\$ <u>(58)</u>	\$ <u>15</u>	\$ <u>(47)</u>	\$ <u>(26)</u>	(81.3)%

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

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 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):

	Three Months			
	<u>Ended September 30,</u>			
	<u>2004</u>	<u>2003 (A)</u>	<u>Increase</u>	<u>% Increase</u>
Capacity purchase expenses	\$386	\$343	\$43	12.5%
Fuel and fuel taxes in excess of 71.2 cents per gallon cap	33	9	24	266.7%
Sublease income	<u>(72)</u>	<u>(64)</u>	<u>8</u>	12.5%
ExpressJet capacity purchase, net	<u>\$347</u>	<u>\$288</u>	<u>\$59</u>	20.5%

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

### **Comparison of Nine Months Ended September 30, 2004 to Nine Months Ended September 30, 2003**

#### **Consolidated Results of Operations**

We recorded a consolidated net loss of \$157 million for the first nine months of 2004 as compared to a consolidated net loss of \$9 million for the nine months ended September 30, 2003. The primary reasons for the change were increased fuel costs in 2004 and a \$176 million security fee reimbursement received from the federal government under a supplemental appropriations bill and a \$173 million gain on the disposition of Holdings shares, both of which occurred in 2003. 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):

	<u>Components of Increase (Decrease)</u>				
	<u>As Reported</u>	<u>Increase</u>	<u>Increase</u>	<u>%</u>	<u>%</u>
	<u>Nine Months Ended</u>				
<u>September 30,</u>	<u>ExpressJet</u>	<u>Excluding</u>	<u>ExpressJet</u>		
<u>2004</u>	<u>2003</u>	<u>Deconsolidation (A)</u>	<u>(Decrease)</u>	<u>ExpressJet</u>	
Operating Revenue:					
Passenger	\$6,795	\$6,083	\$ -	\$ 712	11.7 %
Cargo, mail and other	<u>552</u>	<u>539</u>	<u>(3)</u>	<u>16</u>	3.0 %
	<u>7,347</u>	<u>6,622</u>	<u>(3)</u>	<u>728</u>	11.0 %
Operating Expenses:					
Wages, salaries and related costs	2,102	2,319	(261)	44	2.1 %
Aircraft fuel and related taxes	1,134	1,013	(145)	266	30.6 %
ExpressJet capacity purchase, net	992	-	821	171	20.8 %
Aircraft rentals	666	671	-	(5)	(0.7)%
Landing fees and other rentals	488	469	(75)	94	23.9 %

Commissions, booking fees, credit card fees and other distribution costs	416	396	--	20	5.1 %
Maintenance, materials and repairs	321	395	(97)	23	7.7 %
Depreciation and amortization	312	336	(15)	(9)	(2.8)%
Passenger servicing	229	224	(9)	14	6.5 %
Special charges	107	79	-	28	35.4 %
Security fee reimbursement	-	(176)	3	173	NM
Other	<u>648</u>	<u>708</u>	<u>(90)</u>	<u>30</u>	4.9 %
	<u>7,415</u>	<u>6,434</u>	<u>132</u>	<u>849</u>	12.9 %
Operating Income (Loss)	(68)	188	(135)	(121)	NM
Nonoperating Income (Expense)	<u>(166)</u>	<u>(82)</u>	<u>45</u>	<u>(129)</u>	NM
Income (Loss) before Income Taxes and Minority Interest	(234)	106	(90)	(250)	NM
Income Tax Benefit (Expense)	77	(75)	50	102	NM
Minority Interest	<u>-</u>	<u>(40)</u>	<u>40</u>	<u>-</u>	NM
Net Loss	<u>\$(157)</u>	<u>\$ (9)</u>	<u>\$ -</u>	<u>\$(148)</u>	NM

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

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

**Operating Revenue.** Total passenger revenue increased 11.7% during the first nine months of 2004 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. Mainline passenger revenue increased 9.2% and regional passenger revenue increased 25.2%. Passenger revenue for the nine months ended September 30, 2004 and period to period comparisons of passenger revenue, revenue per available seat mile (RASM) and available seat miles (ASMs) by geographic region for our mainline and regional operations are shown below:

Passenger Revenue	Percentage Increase (Decrease) in			
	September 30, 2004 YTD vs. September 30, 2003 YTD			
<u>(in millions)</u>	<u>Passenger Revenue</u>	<u>RASM</u>	<u>ASMs</u>	
Domestic	\$3,367	2.8%	(1.0)%	3.9%
Trans-Atlantic	1,036	25.9%	4.6 %	20.3%
Latin America	753	9.0%	(2.9)%	12.2%
Pacific	<u>468</u>	30.3%	17.3 %	11.1%
Total Mainline	5,624	9.2%	0.6 %	8.5%
Regional	<u>1,171</u>	25.2%	(0.6)%	26.0%
Total System	<u>\$6,795</u>	11.7%	1.4 %	10.2%

Cargo, mail and other revenue increased primarily due to higher freight volumes and revenue-generating initiatives, partially offset by decreased military charter flights.

**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 22.4% from 92.01 cents in the first nine months of 2003 to 112.64 cents in the first nine months of 2004.

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, 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 the first nine months of 2004 than in the corresponding period of 2003 due to ExpressJet's larger fleet and increased flight activity at ExpressJet.

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. Maintenance, materials and repair expenses increased primarily due to increases in the engine cost per hour contract rates associated with a maturing fleet.

In the first nine months of 2004, we recorded special charges of \$107 million. Included in these charges were \$70 million associated with future obligations for rent and return conditions related to 12 leased MD-80 aircraft which were permanently grounded, a non-cash charge of \$34 million related to the termination of a 1993 service agreement with United Micronesian Development Association and charges related to the write-off of leasehold improvements and other items. Special charges in the first



nine months of 2003 included a \$44 million additional impairment of our owned MD-80s and \$14 million related to the deferral of aircraft deliveries. The remainder of the 2003 charges consisted primarily of a write-down to fair value of spare parts inventory for aircraft types that we had grounded or sold.

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.

**Nonoperating Income (Expense).** Equity in the income of affiliates included our equity in the earnings of Holdings and Copa Airlines in 2004 and Orbitz and Copa Airlines in 2003. Other nonoperating income (expense) in the nine months ended September 30, 2004 included a gain of \$11 million related to the adjustment to fair value of our investment in Orbitz, after associated compensation expense, and income of \$37 million related to our tax sharing agreement with Holdings. The nine months ended September 30, 2003 included \$173 million gain on the dispositions of Holdings shares.

**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 loss for the third quarter of 2004 was 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.

**Minority Interest.** In 2003, minority interest represented the portion of Holdings' net income attributable to the equity of Holdings that we did not own.

## Segment Results of Operations

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

	Nine Months			
	<u>Ended September 30,</u>		Increase	
	<u>2004</u>	<u>2003</u>	<u>(Decrease)</u>	<u>% Increase</u>
<b>Operating Revenue:</b>				
Passenger	\$5,624	\$5,148	\$ 476	9.2 %
Cargo, mail and other	<u>551</u>	<u>520</u>	<u>31</u>	6.0 %
	<u>6,175</u>	<u>5,668</u>	<u>507</u>	8.9 %
<b>Operating Expenses:</b>				
Wages, salaries and related costs	2,067	2,029	38	1.9 %
Aircraft fuel and related taxes	1,134	868	266	30.6 %
Aircraft rentals	474	506	(32)	(6.3)%
Landing fees and other rentals	464	394	70	17.8 %
Commissions, booking fees, credit card fees and other distribution costs	356	345	11	3.2 %
Maintenance, materials and repairs	321	298	23	7.7 %
Depreciation and amortization	304	313	(9)	(2.9)%
Passenger servicing	221	209	12	5.7 %
Special charges	107	70	37	52.9 %
Security fee reimbursement	-	(173)	173	NM
Other	<u>638</u>	<u>601</u>	<u>37</u>	6.2 %
	<u>6,086</u>	<u>5,460</u>	<u>626</u>	11.5 %
Operating Income	\$ <u>89</u>	\$ <u>208</u>	\$ (119)	(57.2)%

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. Mainline aircraft rental expense decreased primarily due to lease expirations, lower rates on renewal leases and aircraft rent on permanently grounded leased MD-80 aircraft no longer requiring accrual since such amounts have been previously recognized, 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 million, except percentage changes):

<u>Components of Increase (Decrease)</u>				
Increase				
<u>As Reported</u>	(Decrease)		% Increase	
Nine Months	Related to	All Other	(Decrease)	
<u>Ended September 30,</u>	ExpressJet	Increase	Excluding	
<u>2004</u>	<u>2003</u>	<u>Deconsolidation (A)</u>	<u>(Decrease)</u>	<u>ExpressJet</u>

Operating Revenue:

Passenger	\$1,171	\$935	\$ -	\$236	25.2 %
Cargo, mail and other	<u>1</u>	<u>19</u>	<u>(3)</u>	<u>(15)</u>	(93.8)%
	<u>1,172</u>	<u>954</u>	<u>(3)</u>	<u>221</u>	23.2 %
Operating Expenses:					
Wages, salaries and related costs	35	290	(261)	6	20.7 %
Aircraft fuel and related taxes	-	145	(145)	-	NM
ExpressJet capacity purchase, net	992	-	821	171	20.8 %
Aircraft rentals	192	165	-	27	16.4 %
Landing fees and other rentals	24	75	(75)	24	NM
Commissions, booking fees, credit card fees and other distribution costs	60	51	--	9	17.6 %
Maintenance, materials and repairs	-	97	(97)	-	NM
Depreciation and amortization	8	23	(15)	-	-
Passenger servicing	8	15	(9)	2	33.3 %
Special charges	-	9	-	(9)	-
Security fee reimbursement	-	(3)	3	-	NM
Other	<u>10</u>	<u>107</u>	<u>(90)</u>	<u>(7)</u>	(41.2)%
	<u>1,329</u>	<u>974</u>	<u>132</u>	<u>223</u>	20.2 %
Operating Loss	\$ <u>(157)</u>	\$ <u>(20)</u>	\$ <u>(135)</u>	\$ <u>(2)</u>	(1.3)%

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

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. We recorded a special charge of \$9 million in the nine months ended September 30, 2003 to write down to fair value our spare parts inventory for grounded turboprop aircraft.

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):

	Nine Months			
	<u>Ended September 30,</u>		Increase	
	<u>2004</u>	<u>2003 (A)</u>	<u>(Decrease)</u>	<u>% Increase</u>
Capacity purchase expenses	\$1,121	\$ 970	\$151	15.6%
Fuel and fuel taxes in excess of 71.2 cents per gallon cap	80	34	46	135.3%
Sublease income	<u>(209)</u>	<u>(183)</u>	<u>26</u>	14.2%
ExpressJet capacity purchase, net	\$ <u>992</u>	\$ <u>821</u>	\$ <u>171</u>	20.8%

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

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

	Three Months Ended		Net Increase/ (Decrease)
	<u>September 30,</u>	<u>2003</u>	
	<u>2004</u>	<u>2003</u>	
<b>Mainline Statistics:</b>			
Onboard passengers (thousands) (1)	11,182	10,826	3.3 %
Revenue passenger miles (millions) (2)	17,923	16,436	9.0 %
Available seat miles (millions) (3)	21,979	20,550	7.0 %
Cargo ton miles (millions)	250	221	13.1 %
Passenger load factor (4)	81.5%	80.0%	1.5 pts.
Passenger revenue per available seat mile (cents)	8.97	8.94	0.3 %
Total revenue per available seat mile (cents)	9.83	9.79	0.4 %
Operating cost per available seat mile including special charges (cents) (5)	9.45	9.01	4.9 %
Average yield per revenue passenger mile (cents) (6)	11.00	11.18	(1.6)%
Average price per gallon of fuel, including fuel taxes (cents)	119.85	85.65	39.9 %
Fuel gallons consumed (millions)	345	330	4.5 %
Average fare per revenue passenger	\$179.55	\$173.16	3.7 %

Average length of aircraft flight (miles)	1,358	1,299	4.5 %
Average daily utilization of each aircraft (hours) (7)	10:05	9:38	4.7 %
Actual aircraft in fleet at end of period (8)	352	352	-

**Regional Statistics:**

Onboard passengers (thousands) (1)	3,680	3,133	17.5 %
Revenue passenger miles (millions) (2)	1,999	1,605	24.5 %
Available seat miles (millions) (3)	2,695	2,269	18.8 %
Passenger load factor (4)	74.2%	70.8%	3.4 pts.
Passenger revenue per available seat mile (cents)	15.01	15.33	(2.1)%
Actual aircraft in fleet at end of period (8)	240	218	10.1 %

**Consolidated Statistics (Mainline and Regional):**

Onboard passengers (thousands) (1)	14,862	13,959	6.5 %
Passenger load factor (4)	80.7%	79.1%	1.6 pts.
Breakeven passenger load factor (9)	81.4%	69.8%	11.6 pts.
Passenger revenue per available seat mile (cents)	9.63	9.58	0.5 %

	Nine Months Ended		Net
	<u>September 30,</u>		Increase/ (Decrease)
	<u>2004</u>	<u>2003</u>	

**Mainline Statistics:**

Onboard passengers (thousands) (1)	32,119	30,560	5.1 %
Revenue passenger miles (millions) (2)	49,466	44,383	11.5 %
Available seat miles (millions) (3)	63,796	58,794	8.5 %
Cargo ton miles (millions)	748	679	10.2 %
Passenger load factor (4)	77.5%	75.5%	2.0 pts.
Passenger revenue per available seat mile (cents)	8.81	8.76	0.6 %
Total revenue per available seat mile (cents)	9.68	9.64	0.4 %
Operating cost per available seat mile including special charges (cents) (5)	9.54	9.30	2.6 %
Average yield per revenue passenger mile (cents) (6)	11.37	11.60	(2.0)%
Average price per gallon of fuel, including fuel taxes (cents)	112.64	92.01	22.4 %
Fuel gallons consumed (millions)	1,007	943	6.8 %
Average fare per revenue passenger	\$178.36	\$171.72	3.9 %
Average length of aircraft flight (miles)	1,326	1,269	4.5 %
Average daily utilization of each aircraft (hours) (7)	9:58	9:20	6.8 %
Actual aircraft in fleet at end of period (8)	352	352	-

**Regional Statistics:**

Onboard passengers (thousands) (1)	10,110	8,368	20.8 %
Revenue passenger miles (millions) (2)	5,447	4,139	31.6 %
Available seat miles (millions) (3)	7,697	6,109	26.0 %
Passenger load factor (4)	70.8%	67.8%	3.0 pts.
Passenger revenue per available seat mile (cents)	15.22	15.31	(0.6)%
Actual aircraft in fleet at end of period (8)	240	218	10.1 %

**Consolidated Statistics (Mainline and Regional):**

Onboard passengers (thousands) (1)	42,229	38,928	8.5 %
Passenger load factor (4)	76.8%	74.8%	2.0 pts.
Breakeven passenger load factor (9)	80.0%	75.0%	5.0 pts.
Passenger revenue per available seat mile (cents)	9.50	9.37	1.4 %

1. Revenue passengers measured by each flight segment flown.
2. The number of scheduled miles flown by revenue passengers.
3. The number of seats available for passengers multiplied by the number of scheduled miles that those seats are flown.
4. Revenue passenger miles divided by available seat miles.
5. Includes special charges and security fee reimbursement per available seat mile, as follows: 0.10 cents for the three months ended September 30, 2004, 0.17 cents for the nine months ended September 30, 2004 and (0.16) cents for the nine months ended September 30, 2003.
6. The average revenue received for each revenue passenger mile flown.
7. The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).
8. Excludes aircraft that were removed from service.
9. The percentage of seats that must be occupied by revenue passengers for us to break even on a net income basis. Includes pretax fleet special charges, security fee reimbursement and gain on dispositions of Holdings shares, as follows:

Three Months		Nine Months	
<u>Ended September 30,</u>		<u>Ended September 30,</u>	
<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>

Expense (Income) (in millions):

Special charges	\$22	\$ -	\$107	\$ 79
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Security fee reimbursement	-	-	-	(176)
Gain on dispositions of Holdings shares	—	(173)	—	(173)
Total	\$22	\$(173)	\$107	\$(270)
Increase in (reduction to) consolidated Breakeven passenger load factor	0.9 pts.	(7.3) pts.	1.4 pts.	(4.2) pts.

## LIQUIDITY AND CAPITAL COMMITMENTS

As of September 30, 2004, we had \$1.7 billion in consolidated cash, cash equivalents and short-term investments, which is \$131 million higher than at December 31, 2003. At September 30, 2004, we had \$192 million of restricted cash, which is primarily collateral for estimated future workers' compensation claims, credit card processing agreements, letters of credit, performance bonds and interest rate swap agreements.

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 liquidity will be sufficient to fund our current operations and other financial obligations through 2005. We will need to continue to implement additional revenue-generating, cost-cutting and other cash-generating measures beyond those previously announced in order to maintain adequate liquidity for our operations beyond 2005.

**Operating Activities.** Cash flows provided by operations for the nine months ended September 30, 2004 were \$488 million compared to cash flows provided by operations of \$181 million in the comparable period of 2003. Cash flows from operations increased primarily due to our election to use deficit contribution relief under the Pension Funding Equity Act of 2004 and make no contributions to our pension plan in the nine months ended September 30, 2004, compared to contributions of \$272 million in the comparable 2003 period. Cash flows from operations were also favorably impacted by an increase in advance ticket sales and payments of \$94 million on our note receivable from ExpressJet, including a \$54 million advance payment of future principal payments. Payments on the note receivable from ExpressJet were eliminated in our consolidated financial statements for the nine months ended September 30, 2003.

**Investing Activities.** Cash flows provided by investing activities, primarily capital expenditures, were \$50 million for the nine months ended September 30, 2004, compared to cash flows used in investing activities of \$137 million for the nine months ended September 30, 2003. The delivery of mainline aircraft in 2004 resulted in higher purchase deposit refunds than we received in 2003. We took delivery of 14 mainline aircraft (of which five were owned and nine were leased) and 16 leased regional jets in the first nine months of 2004, compared to 30 leased regional jets in the first nine months of 2003. Net sales of short-term investments were also a significant factor in our cash flows from investing activities.

We have substantial commitments for capital expenditures, including the acquisition of new aircraft. Net capital expenditures for 2004 are expected to be \$191 million, or \$82 million when reduced by purchase deposits to be refunded, net of purchase deposits paid. Projected net capital expenditures consist of \$64 million of fleet expenditures, \$85 million of non-fleet expenditures and \$42 million for rotatable parts and capitalized interest. Through September 30, 2004, our net capital expenditures totaled \$134 million and net purchase deposits refunded totaled \$105 million.

We own approximately 9% of the outstanding shares of Orbitz, an internet travel website. On September 29, 2004, Cendant Corp. announced a tender offer for all outstanding shares of Orbitz. The transaction, which has been approved by the boards of both companies but is subject to regulatory approvals and other customary conditions, is expected to close during the fourth quarter of 2004. Upon closing of the transaction, we expect to receive cash proceeds of approximately \$80 million (net of related compensation expenses). These estimated net proceeds represent a return in excess of 270% on our initial investment in Orbitz.

**Financing Activities.** We have significant financial obligations due in 2006 and thereafter, and we may have inadequate liquidity to meet those obligations if the current network carrier financial environment continues and we are unable to decrease our costs considerably. It has become increasingly difficult for us to obtain financing in the face of significant losses and the current revenue and cost outlook. As a result, we may not be able to complete future financings that we may need to maintain adequate liquidity.

Cash flows used in financing activities, primarily the payment of long-term debt and capital lease obligations, were \$364 million for the nine months ended September 30, 2004, compared to cash provided of \$88 million in the nine months ended September 30, 2003. During the first nine months of 2004, we issued \$214 million of new debt related to aircraft acquisitions.

At September 30, 2004, we had approximately \$5.8 billion (including current maturities) of long-term debt and capital lease obligations. We do not currently have any undrawn lines of credit or revolving credit facilities, and substantially all of our otherwise readily financeable assets are encumbered. We were in compliance with all debt covenants at September 30, 2004.

On several occasions subsequent to September 11, 2001, Moody's Investors Service and Standard & 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. At September 30, 2004, our senior unsecured debt ratings were Caa2 (Moody's) and CCC+ (Standard & 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 \$75 million under our credit card processing agreement if our debt rating falls below Caa3 as rated by Moody's or CCC- as rated by Standard & Poor's.

Our credit card processing agreement also contains certain financial covenants which require, among other things, that we maintain a minimum EBITDAR (generally, earnings before interest, taxes, depreciation, amortization and rentals, adjusted for certain special charges) to fixed charges (generally, interest and total rentals) ratio of 1.1 to 1.0 for the five-year term of the agreement. The liquidity covenant requires us to maintain a minimum level of \$1.0 billion of unrestricted cash and short-term investments. While we are currently in compliance with all of the covenants, we are in negotiations to modify the covenants through early 2006. Failure to maintain compliance would result in our being required to post up to an additional \$350 million of cash collateral, which could 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. If we are unable to modify the covenants by December 31, 2004, it is likely that we will not be in compliance at that date and will be required to post additional cash collateral of approximately \$150 million (which would increase restricted cash).

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 a separate financing secured by aircraft spare parts, 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: Landesbank Hessen-Thüringen Girozentrale, Morgan Stanley Capital Services, Westdeutsche Landesbank Girozentrale, AIG Matched Funding Corp., ABN AMRO Bank N.V., Credit Suisse First Boston, Caisse des Depots et Consignations, Bayerische Landesbank Girozentrale, ING Bank N.V. and De Nationale Investeringsbank N.V.

We have also utilized proceeds from the issuance of pass-through certificates to finance the acquisition of 68 leased regional jet aircraft. The liquidity providers for these certificates include the following: Citicorp North America, Inc., West LB AG, Credit Lyonnais, New York Branch and ABN AMRO Bank N.V.

We currently utilize policy providers to provide credit support on three separate financings with an outstanding principal balance of \$551 million at September 30, 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.) and Financial Security Assurance, Inc. (a subsidiary of Financial Security Assurance Holdings Ltd.). Financial information for the parent companies of these 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.

**Deferred Tax Assets.** As of December 31, 2003, we had a net deferred tax liability of \$289 million including gross deferred tax assets aggregating \$1.5 billion, \$1.1 billion related to net operating losses ("NOLs"), and a valuation allowance of \$219 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. During the third quarter of 2004, our losses caused our aggregate deferred tax assets (primarily composed of net operating loss carryovers) to exceed our deferred tax liabilities (primarily composed of cumulative tax accelerated depreciation). 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 quarter 2004 net loss was 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.

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 4.72% for September 2004). Any unused annual limitation may be carried over to later years. The amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by us at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, our annual NOL utilization would be limited to approximately \$27 million per year other than through the recognition of future built-in gain transactions.

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.

**Cleveland Airport Lease.** 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, which is subject to approval by our Board of Directors, 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.

**Pension Plan.** We have a noncontributory defined benefit plan covering substantially all of our employees. Funding requirements for defined benefit pension plans are determined by government regulations. Due to record high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we have elected to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we are not required to make any contributions to our pension plan in 2004 and thus do not intend to do so. Based on current legislation and current assumptions, we will be required to contribute in excess of \$1.5 billion to our pension plan over the next five years, including approximately \$300 million in 2005, to meet our minimum funding obligations. 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.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our 2003 10-K except as follows:

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 protection (generally three to six months) against a sharp increase in jet fuel prices. Depending upon the hedging method employed, our strategy may limit our ability to benefit from declines in fuel prices. As of September 30, 2004, we had hedged approximately 46% of our remaining 2004 projected fuel requirements. We have hedged 26% of our estimated remaining 2004 fuel requirements with petroleum call options at a strike price of \$40 per barrel. An additional 20% of our estimated remaining 2004 fuel requirements are hedged with petroleum call options at a strike price of \$32 per barrel. We estimate that a 10% increase in the price per gallon of aircraft fuel at September 30, 2004 would increase the fair value of petroleum call options existing at September 30, 2004 by \$20 million.

Also, as of September 30, 2004, we had entered into option and forward contracts to hedge approximately 67% and 21% of our projected yen-denominated net cash flows for the remainder of 2004 and the year 2005, respectively, forward contracts to hedge approximately 92% and 30% of our projected British pound-denominated net cash flows for the remainder of 2004 and the first six months of 2005, respectively, and forward contracts to hedge approximately 85% and 20% of our projected euro-denominated net cash flows for the remainder of 2004 and the first six months of 2005, respectively. We estimate that at September 30, 2004, a 10% strengthening in the value of the U.S. dollar relative to the yen, pound and euro would have increased the fair value of the existing option and/or forward contracts by \$8 million, \$8 million and \$2 million, respectively, offset by a corresponding loss on the underlying exposure of \$13 million, \$10 million and \$4 million, respectively, resulting in a net loss of \$5 million, \$2 million and \$2 million.

### **Item 4. 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 September 30, 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. During the three months ended September 30, 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.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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 of 1999, but was dismissed. Plaintiffs then filed a Second Amended Consolidated Complaint in January 2001, which was dismissed with prejudice in June of 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. On September 27, 2004, the Court granted full summary judgment in favor of Continental. We are uncertain whether plaintiffs will appeal this ruling.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

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

None.

### **Item 5. Other Information.**

Continental's 2005 Annual Meeting of Stockholders will be held on May 17, 2005.

## Item 6. Exhibits.

- 10.1 Supplemental Agreement No. 20 to the Agreement of Lease dated as of January 11, 1985, between the Port Authority of New York and New Jersey, People Express Airlines, Inc. and Continental.
- 10.2\* Employment Agreement between Continental and Jeffery A. Smisek, dated as of August 12, 2004.
- 10.3\* Amendment to Employment Agreement between Continental and J. David Grizzle, dated as of September 3, 2004.
- 10.4 Supplemental Agreement No. 31 dated August 20, 2004 to Purchase Agreement No. 1951 between Continental and The Boeing Company, dated July 23, 1996, relating to the purchase of Boeing 737 aircraft. (1)
- 10.5 Third Amendment to the Capacity Purchase Agreement dated September 28, 2004 among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc.
- 31.1 Rule 13a-14 (a)/15d-14 (a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14 (a)/15d-14 (a) Certification of Chief Financial Officer.
- 32 Section 1350 Certifications.

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

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

## SIGNATURES

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

CONTINENTAL AIRLINES, INC.

Registrant

Date: October 19, 2004

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

Date: October 19, 2004

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

## INDEX TO EXHIBITS OF CONTINENTAL AIRLINES, INC.

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- 32 Section 1350 Certifications.

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

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

THIS SUPPLEMENT SHALL NOT BE BINDING UPON  
THE PORT AUTHORITY UNTIL DULY EXECUTED BY  
AN EXECUTIVE OFFICER THEREOF AND DELIVERED  
TO THE LESSEE BY AN AUTHORIZED REPRESENTATIVE  
OF THE PORT AUTHORITY

Port Authority Lease No. ANA-170

Supplement No. 20

Facility: Newark Liberty International Airport

SUPPLEMENTAL AGREEMENT

THIS SUPPLEMENTAL AGREEMENT, dated as of November 1, 2002, by and between THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY (hereinafter called the "Port Authority") and CONTIENTAL AIRLINES, INC. (hereinafter called the "Lessee");

WITNESSETH, that

WHEREAS, the Port Authority and People Express Airlines, Inc. (hereinafter called "People Express") as of January 11, 1985 entered into an agreement of lease (which agreement of lease as heretofore supplemented and amended is hereinafter called the "Lease"), covering certain premises, rights and privileges at and in respect to Newark Liberty International Airport (hereinafter called the "Airport") as therein set forth; and

WHEREAS, the Lease was thereafter assigned by said People Express to the Lessee pursuant to an Assignment of Lease with Assumption and Consent Agreement entered into among the Port Authority, the Lessee and People Express and dated August 15, 1987; and

WHEREAS, a certain Stipulation between the parties hereto was submitted for approval of the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") covering the Lessee's assumption of the Lease as part of the confirmation of its reorganization plan in its Chapter 11 bankruptcy proceedings and as debtor and debtor in possession pursuant to the applicable provisions of the United States Bankruptcy Code as set forth in and subject to the terms and conditions of said Stipulation (said Stipulation being hereinafter referred to as the "Stipulation"); and

WHEREAS, the Stipulation and the Lessee's assumption of the Lease was approved by the Bankruptcy Court by an Order thereof dated the 1<sup>st</sup> day of October, 1993; and

WHEREAS, the parties desire to amend the Lease in certain respects as hereinafter set forth;

NOW, THEREFORE, the Port Authority and the Lessee hereby agree as follows:

1. The provisions of Schedule M, set forth in Paragraph 2 to Supplement No. 15 to the Lease, shall be amended as of October 1, 2001 such that Article III, paragraph (b) of said Schedule M shall be revised to read in its entirety as follows:

"(b)" The Port Authority shall determine the total amount of rental or fees actually received by the Port Authority from rental car permittees specifically for and in connection with the portion of the Monorail Construction Costs and Operating Costs said permittees are obligated under their respective permits to pay the Port Authority (hereinafter called the "Rental Car Credit"). The term "Bus Service Credit" shall mean the amount of Five Hundred Thousand Dollars and No Cents (\$500,000.00). The Port Authority shall determine the total amount of farebox revenue to which it is entitled and which it actually receives from (i) The New Jersey Transit Corporation ("NJT"), pursuant to a written agreement, dated as of October 24, 2001, between NJT and the Port Authority and (ii) the National Railroad Passenger Corporation ("Amtrak"), pursuant to a written agreement, dated as of October 31, 2001, between Amtrak and the Port Authority, which agreements relate to the Monorail-Northeast Corridor Connection Project to expand the Monorail System at the Airport to provide an intermodal connection between the Airport and commuter and intercity trains operating on land located in the City of Newark, County of Essex and State of New Jersey, known as the Northeast Corridor (hereinafter called the "NEC Project Credit"). The Rental Car Credit, the Bus Service Credit and the NEC Project Credit shall be hereinafter collectively called the "Credits". The Port Authority shall subtract the Credits from the Operating costs and multiply the remainder by one hundred and fifteen percent (115%), the product thereof being hereinafter called the "Annual Operating Cost Factor". The sum of the Initial Construction Factor and the Annual Operating Cost Factor constitutes the "Total Capital and Operating costs" as of the last day of the Initial Schedule M Period."

2. The Lessee represents and warrants that no broker has been concerned in the negotiation of this Supplemental Agreement and that there is no broker who is or may be entitled to be paid a commission in connection therewith. The Lessee shall indemnify and save harmless the Port authority of and from any and all claims for commission or brokerage made by any and all persons, firms or corporations whatsoever for services in connection with the negotiation and execution of the Supplemental Agreement.

3. Neither the Commissioners of the Port Authority nor any of them, nor any officer, agent or employee thereof, shall be charged personally by the Lessee with any liability, or held liable to it under any term or provision of this Supplemental Agreement, or because of its execution or attempted execution or because of any breach thereof.

4. As hereby amended, all of the terms, covenants, provisions, conditions and agreements of the Lease shall be and remain in full force and effect.

5. This Supplemental Agreement and the Lease which it amends constitute the entire agreement between the Port Authority and the Lessee on the subject matter, and may not be changed, modified, discharged or extended except by instrument in writing duly executed on behalf of both the Port Authority and the Lessee. The Lessee agrees that no representations or warranties shall be binding upon the Port Authority unless expressed in writing in the Lease or this Supplemental Agreement.

IN WITNESS WHEREOF, the Port Authority and the Lessee have executed these presents.

ATTEST: THE PORT AUTHORITY OF NEW YORK OF NEW JERSEY

/s/ Linda Handel By: /s/ Francis A. Dimola

Assistant Secretary

(Title) Assistant Director

Aviation Dept.

ATTEST: CONTINENTAL AIRLINES, INC.

/s/ Jennifer Vogel By: /s/ Holden Shannon\_\_\_\_\_

Secretary

(Title) Vice President

Real Estate and Environmental Affairs



**EMPLOYMENT AGREEMENT**

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

**WITNESSETH:**

**WHEREAS**, 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, March 12, 2004 and April 14, 2004, respectively, and by Waiver 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 deemed it advisable and in the best interests of Company and its stockholders to assure management continuity for Company in light of the planned retirement of Company's current Chairman of the Board and Chief Executive Officer and, consistent therewith, 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**. 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, until the close of business on the last date that Gordon M. Bethune serves as Chairman of the Board and Chief Executive Officer of Company (the "Retirement Date"), which Retirement Date shall be no later than December 30, 2004, Company shall employ Executive in the position of Executive Vice President (or in such other positions as the parties mutually may agree). From and after the date immediately following the Retirement Date, Company shall employ Executive in the position of President of Company, 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 his abilities the duties and services appertaining to such offices as set forth in the Bylaws of Company in effect on the Effective Date, as well as such additional duties and services appropriate to such offices 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 five-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 fifth 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 five-year or one-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"), 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 which renders him mentally or physically incapable of performing the material duties and services required of him hereunder on a full-time basis during such period;
- (iii) if, in carrying out his duties hereunder, Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct resulting in material economic harm to Company;
- (iv) upon the conviction or plea of *nolo contendere* of Executive for a felony or any crime involving moral turpitude;
- (v) upon Executive committing an act of deceit or fraud intended to result in personal and unauthorized enrichment of Executive at Company's expense;
- (vi) upon Executive's material breach of a material obligation of Executive under this Agreement which, if correctable, remains uncorrected for 30 days following written notice of such breach by Company to Executive; or
- (vii) for any other reason whatsoever, in the sole discretion of the Board of Directors.

2.3 **Executive's Right to Terminate**. Notwithstanding the provisions of paragraph 2.1, Executive shall have the right to terminate his 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 him from any such positions;
- (ii) a material diminution in the nature or scope of Executive's authority, responsibilities, or titles from those applicable to him as of the Effective Date, including a change in the reporting structure so that Executive reports to someone other than the Chief Executive Officer 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 materially reduces the corporate amenities enjoyed by Executive below the level of corporate amenities enjoyed by any other executive of Company other than, with respect to fiscal year 2004 only, Company's Chief Executive Officer and President, and after fiscal year 2004, Company's Chief Executive Officer;
- (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 (a) any reduction in Executive's then current annual base salary, or (b) any reduction in 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), or (c) any percentage reduction in Executive's long-term incentive compensation opportunity greater than the percentage reduction applied to any other executive of Company, 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 he shall do so by giving written notice to the other party that it or he 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) \$720,000 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 Program and Long Term Incentive Program.** (a) **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, with respect to fiscal year 2004 only, Company's Chief Executive Officer and President, and after fiscal year 2004, other than Company's Chief Executive Officer); provided that Company shall at all times maintain Executive's annual cash bonus opportunity as a percentage of his 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).

(b) **Long-Term Incentive Programs.** Executive shall participate in each long-term incentive 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, with respect to grants or awards made in fiscal year 2004 only, Company's Chief Executive Officer and President, and with respect to awards or grants made after fiscal year 2004, Company's Chief Executive Officer) and Company shall not make a percentage reduction in Executive's long-term incentive compensation opportunity greater than the percentage reduction applied to any other executive of Company.

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). 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, and may transfer ownership of such policy or policies (and any rights of Executive under this paragraph 3.3) to any life insurance trust, family trust or other trust. To the extent that Company's purchase of, or payment of premiums with respect to, such policy or policies results in compensation income to Executive, Company shall pay to Executive 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 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 his 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 30 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, 1995 ("Actual Years of Service"), (2) an additional two years 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) 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), that number of additional years of service as is equal to (X) 18 years minus (Y) three times the number of full calendar years which have occurred during the period beginning January 1, 2000 and ending on the earlier of (i) the date that the Termination Payment under this Agreement first becomes payable to Executive or (ii) December 31, 2004. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) \$720,000 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 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 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 coinciding 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 he 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 his 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 individual or firm has been selected, an individual actuary or actuarial firm appointed by Company and reasonably satisfactory to Executive and/or Executive's spouse. The term "Aa Corporate Bond Rate" shall mean the average of the Moody's daily long-term corporate bond yield averages for Aa-rated corporate bonds published by Moody's Investors Service, for the three-month period ending on the last day of the second month preceding the date Executive (or, in the case of Executive's death, his 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 applicable lump-sum payment for Executive (or, in the case of Executive's death, his spouse) and shall 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 Additional Disability Benefit**. If Executive shall begin to receive long-term disability insurance benefits pursuant to a plan maintained by Company and if such benefits cease prior to Executive's attainment of age 65 and while Executive remains disabled, then Company shall immediately pay Executive upon the cessation of such benefits a lump-sum, cash payment in an amount equal to the Termination Payment. If Executive receives payment of a Termination Payment pursuant to the provisions of Article 4, then the provisions of this paragraph 3.6 shall terminate. If Executive shall be disabled at the time his employment with Company terminates and if Executive shall not be entitled to the payment of a Termination Payment pursuant to the provisions of Article 4 upon such termination, then Executive's right to receive the payment upon the occurrence of the circumstances described in this paragraph 3.6 shall be deemed to have accrued as of the date of such termination and shall survive the termination of this Agreement.

**3.7 Other Perquisites**. During his employment hereunder, Executive shall be afforded the following benefits as incidences of his employment:

(i) Automobile - Company will provide an automobile (including replacements thereof) 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 his 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 without his 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 his 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 his 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 3.7(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 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) 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 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 his current position 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 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 his 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 3.7(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 Payment Amounts with respect to Awards are paid to other participants under the LTIP or the NLTIP/RSU Program, as the case may be, all Payment Amounts with respect to Awards made to Executive under the LTIP or the 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 his current position 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 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) provide Executive (or his designated beneficiary or beneficiaries) with the benefits contemplated under paragraph 3.3 or paragraph 3.6, as applicable, and (5) perform its obligations with respect to the automobile then used by Executive as provided in subparagraph 3.7(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 his 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 3.7(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 decides to contest such claim, Executive shall cooperate fully with Company in such action; provided, however, Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of Company's action. If, as a result of Company's action with respect to a claim, Executive receives a refund of any amount paid by Company with respect to such claim, Executive shall promptly pay such refund to Company. If Company fails to timely notify Executive whether it will contest such claim or Company determines not to contest such claim, then Company shall immediately pay to Executive the portion of such claim, if any, which it has not previously paid to Executive.

**4.5 Payment Obligations Absolute.** Company's obligation to pay Executive the amounts and to make the arrangements provided in this Article 4 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Company (including its subsidiaries and affiliates) may have against him 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. 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) "Continuation Coverage" shall mean the continued coverage of Executive and his 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 (or, if any such reimbursement or payment of benefits is taxable, then Company shall pay to Executive an amount as shall be required to hold Executive harmless from any additional tax liability resulting from the failure by Company to so provide 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;

(iii) "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 determined 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 consistently with the methodology being used by the Company at the Effective Date or at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare, or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, 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 (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 his position, to the extent then available for use by Executive, for Executive's lifetime or a shorter period if such perquisites become unavailable to the Company for use by Executive; and
- ii. "Termination Payment" shall mean an amount equal to three times 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 150% of the amount described in the foregoing clause (1).

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 of this Agreement, the unused balance of Executive's Annual Travel Limit under his Existing Agreement at the Effective Date), automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for calculation of imputed income resulting 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 and ignoring for this example the unused balance of Executive's Annual Travel Limit under his Existing Agreement at the Effective Date). 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.

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 of this Agreement, the unused balance of Executive's Annual Gross Up Limit under his Existing Agreement at the Effective Date), automatically upon any change in the valuation methodology for imputed income from flights (as compared with the valuation methodology for calculation of imputed income resulting 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 and ignoring for this example the unused balance of Executive's Annual Gross Up Limit under his Existing Agreement at the Effective Date). 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 therefore, he 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 his 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 3.7(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 being used by the Company as of the Effective Date or at the lowest published or unpublished fare (i.e., 21 day advance purchase coach fare, lowest negotiated consolidator net fare or other lowest available fare) for the applicable itinerary (or similar flights on or around the date of such flight), regardless of the actual fare class booked or flown, 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 spouse's and Executive's children's names, lifetime membership cards in the 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 his 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, his 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 his death) for up to a total amount of the unused balance of Executive's Annual Travel Limit at the date of his death (which unused balance, and the unused balance of Executive's Annual Gross Up Limit, shall be fixed at the date of Executive's death and shall not be adjusted except as provided below in this paragraph) in value of flights (in any fare class) on the CO system, valued identically to the valuation of flights for purposes of Flight Benefits as described in this Agreement, which unused balance of Executive's Annual Travel Limit (and unused Annual Gross Up Limit) at the date of his death shall adjust automatically upon any change in the valuation methodology, from and after the date of Executive's death, for imputed income from flights (as compared with the valuation methodology for calculation of imputed income resulting from flights used by the Company as of the date of Executive's death), so as to preserve the benefit of such unused balance of Executive's Annual Travel Limit (and unused Annual Gross Up Limit) relative to the valuations resulting from the valuation methodology used by the Company as of the date of Executive's death (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 the Company as of the date of Executive's death, then the then-unused Annual Travel Limit (and then-unused Annual Gross Up Limit) would be increased by 10%). Upon their request, the Company will promptly notify each of Executive's surviving spouse and children in writing of the amount of the unused balance of Executive's Annual Travel Limit (and the unused balance of Executive's Annual Gross Up Limit) at the date of his death and of any subsequent adjustment thereto. All restrictions, duties and obligations of Executive, and all rights of the Company, relating to Executive's usage of his Flight Benefits contained in this Agreement shall be applicable to usage of Executive's Flight Benefits by Executive's surviving spouse and children, and the provision of such Flight Benefits to Executive's surviving spouse and children shall be conditioned upon written acknowledgement of and agreement thereto by Executive's surviving spouse and children. In connection therewith, after the death of Executive, each of Executive's surviving spouse and children will be issued a UATP card (or Similar Card), subject to the limitations of usage thereof described herein.

## **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 his reasonable attorneys' fees and disbursements incurred in such litigation and hereby agrees (i) to pay in full all such fees and disbursements and (ii) to pay prejudgment interest on any money judgment obtained by Executive from the earliest date that payment to him 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:** Mr. Jeffery A. Smisek

5211 Briar Drive

Houston, Texas 77056

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 his surviving spouse and children shall be enforceable by them.

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

5.12 **Entire Agreement.** Except as provided in (i) the benefits, plans, and programs referenced in paragraph 3.7(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 shall automatically terminate and no longer be of any force or effect, and neither party shall have any rights or obligations thereunder. Any modification of this Agreement shall be effective only if it is in writing and signed by the party to be charged.

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, if applicable, 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.

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

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

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

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/ Jeffery A. Smisek

JEFFERY A. SMISEK

APPROVED:

/s/ Charles Yamarone

Charles 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 as 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, grants 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.



**AMENDMENT TO  
EMPLOYMENT AGREEMENT**

**THIS AMENDMENT TO EMPLOYMENT AGREEMENT** ("Amendment") is entered into by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and J. David Grizzle ("Executive") as of September 3, 2004.

**WHEREAS**, Company and Executive have heretofore entered into that certain Employment Agreement dated as of July 25, 2000, as amended by letter agreements dated April 9, 2002, and March 12, 2004 (as so amended, the "Employment Agreement"); and

**WHEREAS**, Executive desires to take a temporary leave of absence from employment with Company in order to perform services for the government of the United States in Afghanistan, and the Human Resources Committee of the Board of Directors of Company ("HR Committee") has approved such temporary leave of absence upon the terms and conditions set forth herein; and

**WHEREAS**, Company and Executive desire to amend the Employment Agreement in certain respects in recognition of said leave of absence;

**NOW, THEREFORE**, in consideration of the premises set forth above and the mutual agreements set forth herein, Company and Executive hereby agree, effective as of the close of Company's business at its corporate headquarters in Houston, Texas on September 3, 2004 (the "Effective Time"), that, notwithstanding any provision in the Employment Agreement to the contrary, the Employment Agreement shall be and hereby is amended as hereafter provided:

**1. Commencement, General Terms and Duration of Leave of Absence.** (a) Executive is hereby granted a temporary leave of absence from employment with Company (the "Leave of Absence"), commencing as of the Effective Time, so that Executive may perform services for the government of the United States in Afghanistan. Executive shall remain an employee of Company, but shall not be required to perform services for Company, during the Leave of Absence. Executive hereby resigns, effective as of the Effective Time, his positions (to the extent applicable) (i) as an officer of Company and all of its affiliates, (ii) as a member of the board of directors (and any committee thereof) of all affiliates of Company and Copa Airlines of Panama, and (iii) as a member of any committee administering or performing other functions with respect to the employee benefit plans maintained by Company or any of its affiliates.

(b) Unless sooner terminated as herein provided, the Leave of Absence shall expire effective as of the close of Company's business at its corporate headquarters in Houston, Texas on the earlier of (i) a date specified in a written notice delivered to Company by Executive (which date must be at least 30 days after the date upon which Executive provides such notice to Company) or (ii) December 31, 2005. Executive must report for active employment with Company on the first business day following the expiration of the Leave of Absence. If Executive fails to timely report for active employment with Company upon the expiration of the Leave of Absence as provided in the preceding provisions of this paragraph, then Executive shall be deemed to have terminated his employment with Company on the date of the expiration of the Leave of Absence pursuant to the provisions of Section 2.3(vii) of the Employment Agreement.

(c) The Leave of Absence shall immediately end, and Executive shall be deemed to have terminated his employment with Company pursuant to the provisions of Section 2.3(vii) of the Employment Agreement, if Executive takes any action that the HR Committee determines, in its sole discretion acting in good faith, is inconsistent with Executive's stated intention of returning to active employment with Company upon the expiration of the Leave of Absence. Such actions may include, but shall not be limited to, Executive's extension of his agreement to perform services for the government of the United States (whether in Afghanistan or elsewhere) beyond December 31, 2005, or Executive's agreement or stated intention to accept employment with (or to otherwise perform services for) a person or entity other than Company and its affiliates upon the conclusion of the performance of his services for the government of the United States in Afghanistan. Executive shall provide Company with prompt written notice of any such action or similar action. The HR Committee shall determine, in its sole discretion acting in good faith, the effective date of any termination of Executive's employment with Company pursuant to the provisions of this paragraph.

**2. Position and Base Salary upon Return from Leave of Absence.** Upon Executive's timely return to active employment with Company upon the expiration of the Leave of Absence as provided in paragraph 1(b) above, Company shall employ Executive as a Senior Vice President of Company in such position or positions and with such responsibilities and duties as are determined in the sole discretion of Company's Chief Executive Officer. Executive and Company shall be deemed to have mutually agreed to such position or positions for purposes of Section 1.2 of the Employment Agreement, and Executive shall have no right to terminate his employment pursuant to paragraphs (i) through (vi) of Section 2.3 of the Employment Agreement by virtue of such position or positions. Executive's minimum annual base salary upon such return to active employment shall be no less than Executive's annual base salary as in effect immediately prior to the Effective Time; provided, however, that such minimum annual base salary may be adjusted downward by the HR Committee to give effect to any reduction in base salary generally taken by senior officers of Company during the Leave of Absence. Executive and Company shall be deemed to have mutually agreed to such minimum annual base salary for purposes of Section 3.1 of the Employment Agreement, and Executive shall have no right to terminate his employment pursuant to paragraphs (i) through (vi) of Section 2.3 of the Employment Agreement by reason of any reduction in Executive's base salary as described in the preceding sentence.

**3. Compensation and Benefits During Leave of Absence.** (a) Executive shall not receive a base salary from Company during the Leave of Absence. Except as may otherwise be provided in paragraphs 3(b) through (j) below, Executive's right to participate in all Company benefit plans and programs (including, without limitation, pension, profit sharing, stock purchase, bonus, incentive compensation, stock option, health care and other welfare benefit plans) during the Leave of Absence shall be subject to the terms and conditions of such plans and programs as in effect from time to time. Accordingly, Executive acknowledges that he will not be able to actively participate in certain plans and programs during the Leave of Absence. For example, Executive acknowledges that he will not be able to make contributions, and no contributions will be made on his behalf, to Company's 401(k) Savings Plan during the Leave of Absence (although he shall be entitled to change the investment allocations of contributions made prior to the commencement of the Leave of Absence).

(b) During the portion, if any, of the Leave of Absence that Executive elects to continue coverage for himself or his eligible dependents under Company's group health plans under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), Company shall promptly reimburse Executive on a monthly basis (or as otherwise agreed by the parties hereto) for the difference between the amount Executive pays to effect and continue such coverage and the employee contribution amount that active senior executive employees pay for similar coverage under Company's group health plans. The provisions of this paragraph 3(b) are not intended to extend Executive's COBRA period of coverage beyond what is provided by law. In addition, during the Leave of Absence, Company will continue to provide Executive with the same level of life insurance coverage (but not disability coverage) as is applicable to Executive as of the Effective Time at a cost to Executive equal to the cost to Executive as of the Effective Time. For the avoidance of doubt, it is not the intent of the parties that Executive receive a tax gross-up or other tax-related payment related to the matters described in this paragraph 3(b) (i.e., the cost to Executive shall be determined without consideration of income tax consequences to Executive).

(c) For purposes of the supplemental retirement plan described in Section 3.5 of the Employment Agreement (the "SERP"), Executive shall not be credited with any "Actual Years of Service" (as such term is defined in the SERP) for the period from January 1, 2004 through the last day of the Leave of Absence; provided, however, that if Executive remains continuously on the Leave of Absence through December 31, 2004 and his employment is not terminated pursuant to paragraph 1(c) on or prior to December 31, 2004, then Executive shall receive credit for one Actual Year of Service for calendar year 2004 (and, pursuant to clause (2) of the second sentence of Section 3.5(i) of the Employment Agreement, Executive shall be credited with one additional year of service with respect to such Actual Year of Service).

(d) Executive shall continue to vest in shares of restricted stock and stock options awarded to Executive under Company's stock incentive plans in accordance with the terms of such plans and the agreements evidencing such awards, which awards treat Executive's temporary government service as employment with Company for purposes of such awards. During the Leave of Absence, Executive shall not be awarded any additional shares of restricted stock and/or stock options under Company's stock incentive plans.

(e) Executive's participation in Company's Annual Executive Bonus Program (the "Bonus Program") shall be suspended during the Leave of Absence; provided, however, that if Executive remains continuously on the Leave of Absence through December 31, 2004 and his employment is not terminated pursuant to paragraph 1(c) on or prior to December 31, 2004, then Executive shall (i) be deemed to have remained continuously employed by Company during the entire 2004 fiscal year for purposes of the Bonus Program and (ii) receive an Annual Bonus (as such term is defined in the Bonus Program) for the 2004 fiscal year if and when other participants in the Bonus Program are paid such bonus. The Annual Bonus, if any, to be paid to Executive pursuant to clause (ii) of the proviso of the preceding sentence shall be determined in accordance with the terms of the Bonus Program, except that (x) Executive's base annual salary with respect to the 2004 fiscal year shall be deemed to be that in effect immediately prior to the Effective Time (reduced, if applicable, by the HR Committee to give effect to any reduction in base salary generally taken by senior officers of Company prior to December

31, 2004) and (y) the amount of such Annual Bonus shall be prorated based on a fraction, the numerator of which is 247, and the denominator of which is 366. During the Leave of Absence, Executive shall not receive any award or otherwise participate under the Bonus Program with respect to any fiscal year beginning after December 31, 2004.

(f) For purposes of awards held by Executive as of the Effective Time under Company's Long Term Incentive Performance Award Program (the "LTIP"), Executive shall be deemed to be continuously employed by Company on a full-time basis while he remains continuously on the Leave of Absence. If a Payment Amount (as such term is defined in the LTIP) becomes payable to Executive with respect to any such award during the Leave of Absence, then, solely for purposes of determining the amount of such Payment Amount, Executive shall be deemed to be (i) a Senior Vice President of Company during the Leave of Absence and (ii) earning an annual base salary during the Leave of Absence in an amount equal to his annual base salary in effect immediately prior to the Effective Time (reduced, if applicable, by the HR Committee to give effect to any reduction in base salary generally taken by senior officers of Company during the Leave of Absence). During the Leave of Absence, Executive shall not receive any additional awards under the LTIP.

(g) For purposes of the NLTIP Award (as such term is defined in Company's Long Term Incentive and RSU Program (the "NLTIP/RSU Program")) held by Executive as of the Effective Time, Executive shall be deemed to be continuously employed by Company on a full-time basis while he remains continuously on the Leave of Absence. If a Payment Amount (as such term is defined in the NLTIP/RSU Program) becomes payable to Executive with respect to such NLTIP Award during the Leave of Absence, then, solely for purposes of determining the amount of such Payment Amount, Executive shall be deemed to be (i) a Senior Vice President of Company during the Leave of Absence and (ii) earning an annual base salary during the Leave of Absence in an amount equal to his annual base salary in effect immediately prior to the Effective Time (reduced, if applicable, by the HR Committee to give effect to any reduction in base salary generally taken by senior officers of Company during the Leave of Absence). During the Leave of Absence, Executive shall not receive any additional NLTIP Awards under the NLTIP/RSU Program.

(h) Executive hereby surrenders and forfeits to Company his RSU Award and all RSUs subject to such award for the RSU Performance Period commencing on April 1, 2004 and ending on June 30, 2005 (as such terms are defined in the NLTIP/RSU Program). For purposes of all other RSU Awards held by Executive as of the Effective Time, Executive shall be deemed to be continuously employed by Company on a full-time basis while he remains continuously on the Leave of Absence. During the Leave of Absence, Executive shall not receive any additional RSU Awards under the NLTIP/RSU Program.

(i) Except as provided in the following sentence, for purposes of awards held by Executive as of the Effective Time under Company's Officer Retention and Incentive Award Program (the "Retention Program") (including, without limitation, for the purpose of receiving awards with respect to Follow-up Investments (as such term is defined in the Retention Program) relating to awards held by Executive as of the Effective Time), Executive shall be deemed to be continuously employed by Company on a full-time basis while he remains continuously on the Leave of Absence. Notwithstanding the foregoing, during the Leave of Absence Executive shall not obtain any greater Vested Interest (as such term is defined in the Retention Program) in his awards under the Retention Program pursuant to the first sentence of Section 5.1 of the Retention Program, and, upon Executive's return to active employment with Company following the Leave of Absence, Executive's Vested Interest pursuant to such sentence shall be determined by disregarding the period of the Leave of Absence. For example, if the Date of Grant (as such term is defined in the Retention Program) of an award to Executive under the Retention Program were January 1, 2004, and if Executive returns to active employment with Company on January 1, 2006, then (i) Executive will have a 12.5% Vested Interest in such award as of the Effective Time, (ii) such Vested Interest shall not increase during the Leave of Absence, and (iii) assuming Executive's continuous employment with Company following his Leave of Absence, he will obtain an additional 6.25% Vested Interest in such award on January 27, 2006 and for each full three-month period thereafter that he remains so employed. During the Leave of Absence, Executive shall not receive any additional awards under the Retention Program other than with respect to Follow-up Investments relating to awards held by Executive as of the Effective Time as provided in Section 4.5 of the Retention Program.

(j) During the Leave of Absence, Executive's Flight Benefits will continue uninterrupted and Executive will continue to be treated as an employee of Company for purposes of his Flight Benefits and any flight benefits afforded employees of Company by other airlines, and may retain his annual cards on other airlines until such cards are up for renewal. Executive will be permitted to purchase the Company's computer, palm pilot and zip drive currently used by him for \$800. During the Leave of Absence, Executive will surrender his (i) parking spaces at IAH and Company's headquarters building, (ii) BlackBerry, (iii) any and all car rental cards, (iv) Verizon card, and (v) American Express corporate card. Company will work with Executive to convert his Verizon cell phone account to a personal account such that Executive retains his current phone number and phone.

4. **Termination of Employment During Leave of Absence.** Company shall have the right to terminate Executive's employment with Company at any time during the Leave of Absence and for any of the reasons set forth in paragraphs (i) through (v) of Section 2.2 of the Employment Agreement, and, upon such termination of employment, the Leave of Absence shall terminate and the terms and provisions of Section 4.2 of the Employment Agreement shall apply. Executive shall have the right to terminate his employment with Company at any time during the Leave of Absence and for any of the reasons set forth in paragraphs (vi) or (vii) of Section 2.3 of the Employment Agreement (it being agreed that the provisions of paragraphs (i) through (v) of Section 2.3 of the Employment Agreement shall not apply during the Leave of Absence), and, upon such termination of employment, the Leave of Absence shall terminate and the terms and provisions of Section 4.3 of the Employment Agreement shall apply.

5. **Notices.** Notices and all other communications provided for in this Amendment shall be in writing and shall be provided in accordance with Section 5.2 of the Employment Agreement.

6. **Effect of Amendment.** This Amendment (a) shall supersede any prior agreement between Company and Executive relating to the subject matter of this Amendment and (b) shall be binding upon and inure to the benefit of the parties hereto and any successors to Company and all persons lawfully claiming under Executive. In the event of any conflict between the terms of this Amendment and the terms of the Employment Agreement, the terms of this Amendment shall govern and control. Except as expressly modified by this Amendment, the terms of the Employment Agreement shall remain in full force and effect and are hereby confirmed and ratified.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first set forth above, effective as of the Effective Time.

"COMPANY"

CONTINENTAL AIRLINES, INC

By: /s/ Michael H. Campbell

Name: Michael H. Campbell

Title: Senior Vice President -

Human Resources and

Labor Relations

"EXECUTIVE"

/s/ J. David Grizzle

J. DAVID GRIZZLE



Supplemental Agreement No. 31

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 August 20, 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 Buyer have mutually agreed to revise the Aircraft Price to July 2003 year dollars (STE) and the **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**;

WHEREAS, Boeing and Buyer have mutually agreed that this revised Aircraft Price to July 2003 year dollars (STE) and **[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. 31.

1.2 Remove and replace, in its entirety, Article 3 "Price", with the Article 3 attached hereto, to reflect the changes made by this Supplemental Agreement No. 31.

1.3 Remove and replace, in its entirety, page T-2-2 of Table 1 entitled, "Aircraft Deliveries and Descriptions, Model 737-700 Aircraft", with revised page T-2-2 of Table 1, attached hereto, to reflect **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

1.4 Remove and replace, in its entirety, page T-3-3 and page T-3-4 of Table 1 entitled, "Aircraft Deliveries and Descriptions, Model 737-800 Aircraft", with revised page T-3-3 of Table 1, attached hereto, to remove the aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

1.5 Add new pages T-3-4 and T-3-5 of Table 1 entitled, "Aircraft Deliveries and Descriptions, Model 737-800 Aircraft", to reflect the revised Aircraft price of certain Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

1.6 Remove and replace, in its entirety, page T-5-2 of Table 1 entitled, "Aircraft Deliveries and Descriptions, Model 737-900 Aircraft", with revised pages T-5-2 of Table 1, attached hereto, to reflect the revised price of certain Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

2. Exhibits:

2.1 Add Exhibit A-6, "Aircraft Configuration - Model 737-700", to reflect July 2003 base pricing for Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

2.2 Add Exhibit A-7, "Aircraft Configuration - Model 737-800", to reflect July 2003 base pricing for Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

2.3 Add Exhibit A-8, "Aircraft Configuration - Model 737-900", to reflect July 2003 base pricing for Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

2.4 Add Exhibit D-3, "Aircraft Price Adjustments - New Generation Aircraft (July 2003 Base Price - Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**."

3. Letter Agreements:

3.1 Remove and replace, in its entirety, Letter Agreement 1951-12R5, "Option Aircraft - Model 737-924 Aircraft", with the revised Letter Agreement 1951-12R6 attached hereto, to reflect the revised price of certain Option Aircraft.

3.2 Remove and replace, in its entirety, Letter Agreement 6-1162-GOC-015, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, with

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

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

THE BOEING COMPANY Continental Airlines, Inc.

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

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

Finance and Treasurer

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A-1 Aircraft Configuration - Model 737-724 SA 26

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

A-2 Aircraft Configuration - Model 737-824 SA 26

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

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

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

A-5 Aircraft Configuration - Model 737-924 SA 26

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

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A-6 Aircraft Configuration - Model 737-724 SA 31

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

A-7 Aircraft Configuration - Model 737-824 SA 31

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

A-8 Aircraft Configuration - Model 737-924 SA 31

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

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

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6-1162-MMF-311R4	<b>[CONFIDENTIAL MATERIAL OMITTED SA 22 AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]</b>
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AND FILED SEPARATELY WITH THE SECURITIES  
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AND FILED SEPARATELY WITH THE SECURITIES  
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Supplemental Agreement No. 5 May 21,1998  
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Supplemental Agreement No. 7 November 12,1998



Supplemental Agreement No. 8 December 7,1998

Supplemental Agreement No. 9 February 18,1999

Supplemental Agreement No. 10 March 19, 1999

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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

### **ARTICLE 3. Price of Aircraft.**

#### **3.1 Definitions.**

##### **3.1.1 Current Generation Aircraft.**

3.1.1.1 Special Features are the features listed in Exhibit A-4 which Buyer has selected for incorporation in Current Generation Aircraft.

3.1.1.2 Base Airframe Price is the Aircraft Basic Price excluding the price of Special Features and Engines.

3.1.1.3 Engine Price is the price established by the Engine manufacturer for the Engines installed on the Aircraft including all accessories, equipment and parts set forth in Exhibit D-1.

3.1.1.4 Aircraft Basic Price is comprised of the Base Airframe Price, the Engine Price and the price of the Special Features.

3.1.1.5 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Airframe, Engine and Special Features) as calculated pursuant to Exhibit D-1.

3.1.1.6 Base Airplane Price is the Aircraft Basic Price excluding the price of Special Features, but including Engines.

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

3.1.2.1 Special Features are the features listed in Exhibits A-1, A-2, A-3, and A-5, which Buyer has selected for incorporation in New Generation Aircraft.

3.1.2.2 Base Airplane Price is the Aircraft Basic Price excluding the price of Special Features, but including Engines.

3.1.2.3 Aircraft Basic Price is comprised of the Base Airplane Price and the price of the Special Features.

3.1.2.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Airplane and Special Features) as calculated pursuant to Exhibit D for Aircraft expressed in July 1995 dollars and Exhibit D-2 for Aircraft expressed in July 1997 dollars.

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

3.1.3.1 Special Features are the features listed in Exhibits A-6, A-7, and A-8, which Buyer has selected for incorporation in New Generation Aircraft.

3.1.3.2 Base Airplane Price is the Aircraft Basic Price excluding the price of Special Features, but including Engines.

3.1.3.3 Aircraft Basic Price is comprised of the Base Airplane Price and the price of the Special Features.

3.1.3.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Airplane and Special Features) as calculated pursuant to Exhibit D-3 for Aircraft expressed in July 2003 dollars.

3.2 Aircraft Basic Price.

3.2.1 Current Generation Aircraft:

3.2.1.1 Model 737-524 Aircraft.

The Aircraft Basic Price of each 737-524 Aircraft, expressed in July 1995 dollars, is set forth below:

Base Airframe Price: **[CONFIDENTIAL MATERIAL**

Special Features **OMITTED AND FILED**

Engine Price **SEPARATELY WITH THE**

**SECURITIES AND EXCHANGE**

Aircraft Basic Price **COMMISSION PURSUANT TO A**

**REQUEST FOR CONFIDENTIAL**

**TREATMENT]**

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

3.2.2.1 Model 737-624 Aircraft.

The Aircraft Basic Price of each 737-624 Aircraft, expressed in July 1995 dollars, is set forth below:

Base Airplane Price: **[CONFIDENTIAL MATERIAL**

Special Features **OMITTED AND FILED**

**SEPARATELY WITH THE**

Aircraft Basic Price **SECURITIES AND EXCHANGE**

**COMMISSION PURSUANT TO A**

**REQUEST FOR CONFIDENTIAL**

**TREATMENT]**

3.2.2.2 Model 737-724 Aircraft.

The Aircraft Basic Price of each 737-724 Aircraft, expressed in July 1995 dollars, is set forth in Table 1 page T-2-1.

3.2.2.3 Model 737-824 Aircraft.

The Aircraft Basic Price of each 737-824 Aircraft, expressed in July 1995 dollars, is set forth in Table 1 pages T-3-1, T-3-2 and T-3-3.

3.2.2.4 Model 737-924 Aircraft.

The Aircraft Basic Price of each 737-924 Aircraft, expressed in July 1997 dollars, is set forth in Table 1 page T-5-1.

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

3.2.3.1 Model 737-724 Aircraft.

The Aircraft Basic Price of each 737-724 Aircraft, expressed in July 2003 dollars, is set forth in Table 1 page T-2-2.

3.2.3.2 Model 737-824 Aircraft.

The Aircraft Basic Price of each 737-824 Aircraft, expressed in July 2003 dollars, is set forth in Table 1 pages T-3-4 and T-3-5.

3.2.2.4 Model 737-924 Aircraft.

The Aircraft Basic Price of each 737-924 Aircraft, expressed in July 2003 dollars, is set forth in Table 1 page T-5-2.

3.3 Aircraft Price. The total amount that Buyer is to pay for the Aircraft at the time of delivery (Aircraft Price) will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, set forth in Table 1; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibits D or D-1 or D-2 or D3, as applicable; plus

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the estimated delivery prices of the Aircraft have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth in Table 1.

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

**Table 1 to Purchase Agreement 1951**

**Aircraft Deliveries and Descriptions**

**Model 737-700 Aircraft**

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

**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]

**Table 1 to Purchase Agreement 1951**

**Aircraft Deliveries and Descriptions**

**Model 737-900 Aircraft**

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

1951PA/CALContinental Airlines, Inc.

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

Continental Airlines, Inc.

Exhibit A-6 to Purchase Agreement Number 1951

(737-724 Aircraft [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT])

AIRCRAFT CONFIGURATION

Dated August 20, 2004

relating to

BOEING MODEL 737-724 AIRCRAFT

Exhibit A-6

The Detail Specification is Customer Detail Specification D6-38808-42 Revision A dated November 1, 1998. Such Detail Specification will be comprised of Boeing Configuration Specification D6-38808 Revision G dated April 29, 1997 as amended to incorporate the applicable specification language to reflect the effect of the changes set forth in the Change Requests and Master Changes listed below, including the effects of such changes on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). Such Change Requests and Master Changes are set forth in Boeing Document D6-39049. As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect the effect of such changes. The Aircraft Basic Price will reflect and include all effects of such changes of price, except such Aircraft Basic Price will not include the price effects of Change Requests changing Buyer Furnished Equipment to Seller Purchased Equipment.

Exhibit A-6 to

Purchase Agreement No. 1951

Page 3

PRICE PER

AIRCRAFT

CHANGE NO. TITLE K July 2003\$

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

1951PA/CALContinental Airlines, Inc.

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

Continental Airlines, Inc.

Exhibit A-7 to Purchase Agreement Number 1951

(737-824 Aircraft [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT])

AIRCRAFT CONFIGURATION

Dated August 20, 2004

relating to

BOEING MODEL 737-824 AIRCRAFT

Exhibit A-7

The Detail Specification is Boeing Detail Specification D6-38808-43 dated October 2, 2001. Such Detail Specification will be comprised of Boeing Configuration Specification D6-38808 Revision G dated April 29, 1997 as amended to

incorporate the applicable specification language to reflect the effect of the changes set forth in the Change Requests listed below, including the effects of such changes on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). Such Change Requests are set forth in Boeing Document D6-39050. As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect the effect of such changes. The Aircraft Basic Price will reflect and include all effects of such changes on price, except such Aircraft Basic Price will not include the price effect of changing Buyer Furnished Equipment to Seller Purchased Equipment.

Exhibit A-7 to

Purchase Agreement No. 1951

Page 3

AIRCRAFT

CHANGE NO. TITLE K July 2003\$

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

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

Continental Airlines, Inc.

Exhibit A-8 to Purchase Agreement Number 1951

(737-924 Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**)

AIRCRAFT CONFIGURATION

Dated August 20, 2004

relating to

BOEING MODEL 737-924 AIRCRAFT

Exhibit A-8

The Detail Specification is Boeing Detail Specification D019A001CAL39P-1 dated as of June 29, 2001. Such Detail Specification will be comprised of Boeing Specification D6-39127, Revision 0, dated July 25, 1997 as amended to incorporate the Options listed below, including the effects on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). Such Options are set forth in Boeing Document D019ACR1CAL39P-1. As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect such Options. The Aircraft Basic Price reflects and includes all effects of such Options, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment, Seller Purchased Equipment or Inflight Entertainment/Cabin Communications Systems (IFE/CCS) Equipment.

Exhibit A-8 to

Purchase Agreement No. 1951

Page 3

AIRCRAFT

CHANGE NO. TITLE K July 2003\$

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

1951PA/CALCONTINENTAL AIRLINES, INC.

AIRCRAFT PRICE ADJUSTMENT

between  
THE BOEING COMPANY  
and  
Continental Airlines, Inc.

Exhibit D-3 to Purchase Agreement Number 1951

New Generation Aircraft

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

PRICE ADJUSTMENT DUE TO

ECONOMIC FLUCTUATIONS

AIRCRAFT PRICE ADJUSTMENT

(July 2003 Base Price)

**Aircraft Price Adjustment for New Generation Aircraft (Aircraft delivering [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT])**

1. Formula

The Aircraft 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]**  $\times$  (ECI

$ECI_b$ ) where  $ECI_b$  is the base

year index (as set forth

in Table 1 for Aircraft

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

**CONFIDENTIAL TREATMENT]** of

this Purchase

Agreement)

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

year index (as set forth in Table 1 for

Aircraft **[CONFIDENTIAL MATERIAL OMITTED AND**

**FILED SEPARATELY WITH THE SECURITIES AND**

**EXCHANGE COMMISSION PURSUANT TO A REQUEST**

**FOR CONFIDENTIAL TREATMENT]** of this

Purchase Agreement)

$P$  = Airframe Price plus Optional Features Price (as set forth in Article 3.2 of this Agreement).

ECI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months prior to the month of scheduled delivery of the applicable Aircraft. As the Employment Cost Index values are released only 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.

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

As an example, for an Aircraft scheduled to be delivered in the month of July, the months [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] 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 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] 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 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] in the Airframe Price Adjustment formula.

iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the [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. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

## 2. Values to be Utilized in the Event of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

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

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

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 1951-12R5 dated November 4, 2003.

Boeing agrees to manufacture and sell to Buyer up to **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]** additional Model 737-924 aircraft (the Option Aircraft), on the same terms and conditions set forth in the Agreement, subject to the terms and conditions set forth below. The delivery months, number of aircraft, Advance Payment Base Price per aircraft and advance payment schedule are listed in the Attachment to this Letter Agreement (the Attachment).

1. Aircraft Description and Changes.

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

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

(i) Changes applicable to the basic Model 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: August 20, 2004

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its Senior Vice President - Finance and Treasurer

Attachment

Attachment to  
Letter Agreement 1951-12R6 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]

6-1162-GOC-015R1

August , 2004

CONTINENTAL AIRLINES, INC.

1600 Smith Street

Houston, Texas 77002

Subject: Letter Agreement No. 6-1162-GOC-015R1 to

Purchase Agreement No. 1951 -

Category III A Landing Feature

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 6-1162-GOC-015 dated March 5, 1997.

Special Consideration for Cat III A Landing Feature

In the event that Buyer elects to have the Category III A landing capability (Change Request 0221CG3017) installed on an Aircraft at time of delivery, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

In the event that Buyer elects to install the Category III A landing feature as a post delivery modification, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**.

Confidential Treatment.

Boeing and Buyer understand that certain commercial and financial information contained in this Letter Agreement, including any attachments hereto, are considered by both parties to be confidential. Boeing and Buyer further 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 provided in Letter Agreement 6-1162-MMF-308R3.

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: August 20, 2004

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its Senior Vice President -

Finance and Treasurer

September 28, 2004

Mr. Fred Cromer  
 Chief Financial Officer  
 ExpressJet Airlines, Inc.  
 1600 Smith Ave  
 Houston, TX 77002

**Third Amendment to the Capacity Purchase Agreement**

Gentlemen:

As you are aware, Continental Airlines, Inc. ("Continental") and ExpressJet Airlines, Inc. ("Contractor"), are each parties to an Amended and Restated Capacity Purchase Agreement dated as of April 17, 2002, as amended by the first and second amendments thereto, dated March 27, 2003 and December 9, 2003, respectively (as so amended, the "CPA").

Continental and Contractor each desire to amend the CPA as follows, such amendments to be effective as of the date hereof:

1. Article 1 of the CPA is hereby amended to delete the definition of "Flight Hour Agreement" and replacing it with the following:

*Flight Hour Agreement* - means that certain Amended and Restated AE3007A Series Engine Fleet Hour Agreement, dated as of September 28, 2004, between Allison Engine Company, Inc., doing business as Rolls-Royce Allison, and XJT.

2. Subsection 2.02(e) of the CPA is hereby amended by deleting such subsection and replacing it with the following:

e. "*Financial Arrangements*. In connection with the withdrawal of any Covered Aircraft from the capacity purchase provisions of this Agreement pursuant to this Section 2.02, (i) Continental shall be responsible for all reasonable and necessary direct out-of-pocket costs incurred by Contractor as a result of such withdrawal, including without limitation the reasonable costs of terminating facility leases and/or employees and disposing of Excess Inventory caused by such withdrawal and any increased charges per scheduled block hour for Covered Aircraft under Section 5.4.3 of the Flight Hour Agreement precipitated by the return of any Covered Aircraft to Continental, but excluding any lost profits and any other indirect costs; *provided* that Contractor shall use its reasonable good faith efforts to mitigate any such costs; (ii) Continental shall meet and confer with Contractor regarding the impact of the withdrawal on Contractor's cash flow, and shall negotiate in good faith regarding the provision by Continental of a credit facility for Contractor, if needed by Contractor as a result of such withdrawal, for a term not to exceed two years, a size not to exceed \$75 million in the aggregate and at an interest rate equal to LIBOR plus 200 basis points; *provided*, that Continental has no obligation to provide such credit facility; (iii) for each such withdrawn aircraft being retained by Contractor, Contractor shall calculate a maintenance reimbursement equal to the product of (x) Contractor's average cost of a heavy maintenance visit for such aircraft type during the previous six months and (y) a fraction, the numerator of which is the number of hours remaining until the next heavy maintenance visit for such aircraft minus one-half of the total number of hours allowable between heavy maintenance visits for such aircraft, and the denominator of which is the total number of hours allowable between heavy maintenance visits for such aircraft, and at the time of such withdrawal (I) Continental shall pay Contractor an amount equal to such maintenance reimbursement, if the numerator of such fraction is less than zero, (II) Contractor shall pay Continental an amount equal to such maintenance reimbursement, if the numerator of such fraction is greater than zero, and (III) there shall be no maintenance reimbursement payable pursuant to this clause (iii) if the numerator of such fraction is equal to zero; (iv) Continental will be responsible for costs, and shall be entitled to any savings, arising under the Flight Hour Agreement related to Uncovered Aircraft operated by third-party operators; and (v) for each such withdrawn aircraft being retained by Contractor, if Continental shall have previously reimbursed Contractor for the cost of any engine life-limited component pursuant to Paragraph B(3) of Schedule 3 which component is installed in such aircraft, then Contractor shall pay to Continental an amount equal to the cost of such life-limited component multiplied by a fraction, the numerator of which is the number of hours remaining in the life of such life-limited part, and the denominator of which is the total number of hours in the life of such life-limited part. Contractor may elect, in lieu of making the payment contemplated by clause (v) above, to pay such amount plus accrued interest, which interest shall accrue monthly at the interest rate used in the Uncovered Aircraft Sublease for such aircraft to determine the lease payments thereunder, in equal monthly installments over the remaining term of the Uncovered Aircraft Sublease with respect to such aircraft."

1. Continental and Contractor agree that the rates set forth on Appendix 22D will be inclusive of all costs associated with the Flight Hour Agreement.

Capitalized terms not defined herein shall be defined as provided in the CPA. Except as specifically amended or modified hereby, the CPA shall remain in effect as written. This Amendment may be signed in counterparts.

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

Very truly yours,

Continental Airlines, Inc.

/s/ Mark Erwin

Mark Erwin  
 Senior Vice President

Agreed: EXPRESSJET HOLDINGS, Inc.

XJT HOLDINGS, Inc.

/s/ Fred Cromer

By: Fred Cromer  
Vice President and  
Chief Financial Officer

**CERTIFICATION**

I, Gordon M. Bethune, certify that:

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

Date: October 19, 2004

/s/ Gordon M. Bethune

Gordon M. Bethune

Chairman of the Board and

Chief Executive Officer

**CERTIFICATION**

I, Jeffrey J. Misner, certify that:

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

Date: October 19, 2004

/s/ Jeffrey J. Misner

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002****(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: October 19, 2004

/s/ Gordon M. Bethune

Gordon M. Bethune

Chairman of the Board and

Chief Executive Officer

/s/ Jeffrey J. Misner

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer