

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported):
July 10, 2001

CONTINENTAL AIRLINES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-09781
(Commission File Number)

74-2099724
(IRS Employer
Identification No.)

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

77002
(Zip Code)

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

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Item 5. Other Events.

On July 10, 2001, we issued a press release, a copy of which is attached hereto as Exhibit 99.1 and incorporated herein by reference. The press release discusses the filing today by our wholly owned subsidiary, ExpressJet Holdings, Inc., of a registration statement with the Securities and Exchange Commission to effect an initial public offering of shares of its Class A common stock. The sole assets of ExpressJet Holdings are all the shares of the capital stock of ExpressJet Airlines, Inc. (formerly known as Continental Express, Inc.), the regional airline that operates as Continental Express. As discussed in the registration statement, we have announced our intention to distribute all of our shares of stock of ExpressJet Holdings pro rata to our stockholders soon after the six-month anniversary of the initial public offering.

The press release includes pro forma financial information to reflect the effects of some of the matters discussed in the press release.

In light of the foregoing matters and as announced in the press release, we have suspended our previously announced stock repurchase program until a date to be announced in the future.

Item 7. Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release

SIGNATURE

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

CONTINENTAL AIRLINES, INC.

By /s/ Jennifer L. Vogel

Jennifer L. Vogel
Vice President and General Counsel

July 10, 2001

EXHIBIT INDEX

99.1 Press Release

NEWS RELEASE

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CONTINENTAL AIRLINES ANNOUNCES INITIAL
 PUBLIC OFFERING OF REGIONAL AIRLINE SUBSIDIARY

HOUSTON, July 10, 2001 -- Continental Airlines (NYSE: CAL) today announced that its wholly owned subsidiary, ExpressJet Holdings, Inc. (ExpressJet), filed a registration statement with the Securities and Exchange Commission for a proposed initial public offering of its Class A common stock. ExpressJet wholly owns ExpressJet Airlines, Inc., the regional airline that operates as Continental Express.

Soon after the six-month anniversary of the planned offering, subject to receipt of a favorable ruling from the Internal Revenue Service, Continental Airlines intends to spin off to its stockholders the remaining shares of ExpressJet in a tax-free distribution.

In connection with the planned offering and spin-off, Continental Airlines plans to prepay a portion of its outstanding indebtedness and has suspended its previously announced stock repurchase program until a date to be announced in the future.

Unaudited pro forma consolidated condensed financial statements of Continental Airlines giving effect to the prepayment of debt and to the spin-off and related matters are included in this press release.

A registration statement relating to the ExpressJet securities has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This press release shall not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of the ExpressJet securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State. The offering will be made

only by means of a prospectus. The terms "expected to," "plans to" and "intended to" identify forward-looking statements as defined by federal securities laws. The proposed offering and related spin-off of ExpressJet are subject to a number of conditions and approvals and there can be no assurance that an offering or spin-off will be completed as described or within the time periods outlined above. Important factors that could cause actual results to be materially different than those described in the forward-looking statements include the failure to receive an Internal Revenue Service ruling that the spin-off will be tax-free to Continental Airlines and its stockholders for U.S. federal income tax purposes.

UNAUDITED PRO FORMA CONSOLIDATED
 CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated condensed financial statements of Continental Airlines, Inc. are derived from the application of pro forma adjustments to our historical financial statements:

- o The unaudited pro forma consolidated condensed statement of operations for the three months ended March 31, 2001 gives effect to (1) the retirement of \$150 million in debt in connection with the planned initial public offering

of Class A common stock of our wholly owned subsidiary, ExpressJet Holdings, Inc. (which we refer to as "Holdings"), the holder of all the capital stock of ExpressJet Airlines, Inc. (formerly known as Continental Express, Inc., which we refer to as "Express"), and (2) the subsequent 100% spin-off of Holdings, as if each of these transactions had been effective as of January 1, 2001.

- o The unaudited pro forma consolidated condensed statement of operations for the year ended December 31, 2000 gives effect to (1) the retirement of \$150 million in debt in connection with the planned initial public offering of Class A common stock of Holdings, (2) the subsequent 100% spin-off of Holdings and (3) the capacity purchase arrangement which replaced our previous revenue sharing arrangement with Express and went into effect on January 1, 2001, as if each of these transactions had been effective as of January 1, 2000.
- o The unaudited pro forma consolidated condensed balance sheet at March 31, 2001 has been prepared as if (1) the retirement of \$150 million in debt in connection with the planned initial public offering of Class A common stock of Holdings and (2) the subsequent 100% spin-off of Holdings had occurred on March 31, 2001.

The total net proceeds from the planned initial public offering are not currently known. Consequently, that portion of the total net proceeds in excess of the amount to be used to retire at least \$150 million of debt described above is not reflected in any of the following pro forma information.

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the transactions had been consummated at the assumed dates, nor is it necessarily indicative of future results of operations.

These unaudited pro forma consolidated condensed financial statements should be read in conjunction with our audited historical financial statements and the related notes thereto, and the other information about our company filed with the Securities and Exchange Commission.

Three Months Ended March 31, 2001
(in millions, except per share data)

	Actual	As Adjusted (A)	Capacity Purchase and Other Adjustments		Pro Forma
PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS:					
Operating revenue.....	\$2,451	\$2,206	\$ (45)	(B)	\$2,161
Operating expenses:					
Wages, salaries and related costs.....	758	709	(3)	(C)	688
Aircraft fuel.....	345	317	(18)	(B)	315
Aircraft rent.....	214	175	(2)	(B)	175
Maintenance, materials and repairs.....	160	128			128
Other rentals and landing fees....	141	122			122
Commissions.....	115	115	(10)	(B)	105
Reservations and sales.....	128	128	(13)	(B)	115
Depreciation and amortization.....	105	100			100
Passenger servicing.....	91	87	(2)	(B)	85
Other.....	318	276			276
	2,375	2,157	(48)		2,109
Operating income.....	76	49	3		52
Interest income (expense), net.....	(42)	(37)	4	(D)	(33)
Other non-operating income (expense).....	(15)	(15)	-		(15)
Income (loss) before income taxes....	19	(3)	7		4
Income tax (expense) benefit.....	(8)	1	(3)	(E)	(2)
Distribution on preferred securities..	(2)	(2)	-		(2)

Net income (loss).....	\$ 9	\$ (4)	\$ 4	\$ 0
	=====	=====	=====	=====
Basic earnings per share.....	0.17			0.00
	=====			=====
Diluted earnings per share.....	0.16			0.00
	=====			=====
Shares used in computing basic earnings per share.....	54.9			54.9
	=====			=====
Shares used in computing diluted earnings per share.....	56.4			56.4
	=====			=====

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Year Ended December 31, 2000
(in millions, except per share data)

	Actual	As Adjusted (A)	Capacity Purchase and Other Adjustments		Pro Forma
	-----	-----	-----		-----
PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS:					
Operating revenue.....	\$9,899	\$9,055	\$(119)	(B)	\$8,936
Operating expenses:					
Wages, salaries and related costs.....	2,875	2,719	(4)	(C)	2,715
Aircraft fuel.....	1,393	1,287			1,287
Aircraft rent.....	844	697			697
Maintenance, materials and repairs.....	646	530			530
Other rentals and landing fees.....	532	474			474
Commissions.....	526	489			489
Reservations and sales.....	455	392			392
Depreciation and amortization.....	402	379			379
Passenger servicing.....	362	339			339
Other.....	1,135	985			985
	-----	-----	-----		-----
	9,170	8,291	(4)		8,287
	-----	-----	-----		-----
Operating income (loss).....	729	764	(115)		649
	-----	-----	-----		-----
Interest income (expense), net.....	(107)	(83)	16	(D)	(67)
Other non-operating income (expense).....	(51)	(51)	-		(51)
	-----	-----	-----		-----
Income (loss) before income taxes.....	571	630	(99)		531
Income tax (expense) benefit.....	(222)	(242)	36	(E)	(206)
Distribution on preferred securities..	(1)	(1)	-		(1)
	-----	-----	-----		-----
Income (loss) before extraordinary charges.....	348	387	(63)		324
Extraordinary charge.....	(6)	(6)	-		(6)
	-----	-----	-----		-----
Net income (loss).....	\$ 342	\$ 381	\$ (63)		\$ 318
	=====	=====	=====		=====
Basic earnings per share.....	5.62				5.24
	=====				=====
Diluted earnings per share.....	5.45				5.08
	=====				=====
Shares used in computing basic earnings per share.....	60.7				60.7
	=====				=====
Shares used in computing diluted earnings per share.....	62.8				62.8
	=====				=====

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NOTES TO PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS:

- (A) As adjusted amounts, reflect the removal of the historical consolidated financial results of Holdings and its wholly owned subsidiary, Express, as a result of the planned initial public offering and spin-off.
- (B) Reflects the restatement of revenues from the historical revenue sharing arrangement between Continental Airlines and Express, which was based on a proration formula, to a fixed-fee capacity purchase arrangement whereby Continental Airlines pays fixed rates for each scheduled block hour of flight by aircraft operated by Express. These rates vary depending on the average length of Express's scheduled flights, Express's aggregate number of flights and the type of aircraft provided, and are otherwise subject to certain adjustments. The fixed rates used to determine the 2000 pro forma revenue were based on historical and expected operating costs, which had been set to provide Express with the capacity purchase arrangement's targeted margin on earnings before interest and taxes. Adjustments to expenses reflect the reclassification of certain items associated with Express's operations to revenue where the capacity purchase expenses are recorded. All amounts associated with the capacity purchase arrangement including the fixed fee payments, the revenue associated with passengers traveling a portion of their trip on Express and the expenses associated with these passengers are reflected together in revenue.
- (C) Reflects the adjustment to profit sharing expense based on the pro forma, as adjusted income.
- (D) Reflects the reduction in interest expense associated with the \$150 million reduction in debt and additional interest income associated with the receivable from Express.
- (E) Reflects the income tax effects of the pro forma adjustments.

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March 31, 2001
(in millions of dollars)

	Actual	As Adjusted (A)	Other Adjustments	Pro Forma
PRO FORMA CONSOLIDATED				
CONDENSED BALANCE SHEET:				
ASSETS:				
Cash and cash equivalents	\$ 1,007	\$ 936	\$ --	\$ 936
Accounts receivable, net	572	572		572
Spare parts and supplies, net	276	240		240
Deferred income taxes	139	73		73
Prepayments and other	187	187		187
	-----	-----	-----	-----
Total current assets	2,181	2,008	--	2,008
Total property and equipment, net ...	5,504	5,315		5,315
Routes, gates and slots	1,068	1,054		1,054
Receivable from Express		535		535
Other assets	515	515		515
	-----	-----	-----	-----
Total assets	\$ 9,268	\$ 9,427	\$ --	\$ 9,427
	=====	=====	=====	=====
LIABILITIES:				
Current maturities of long-term debt and capital leases	\$ 361	\$ 359	\$ --	\$ 359
Accounts payable	912	901		901
Air traffic liability	1,357	1,357		1,357
Accrued other liabilities	544	478		478
	-----	-----	-----	-----
Total current liabilities	3,174	3,095		3,095
Long-term debt and capital leases	3,639	3,631	(150) (B)	3,481
Deferred income taxes	835	835	53 (B)	888
Other long-term liabilities	208	205		205
Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures	243	243		243

STOCKHOLDERS' EQUITY:

Common stock	1	1		1
Additional paid-in capital	831	831		831
Retained earnings (accumulated deficit)	1,465	1,714	97 (B)	1,811
Other	(1,128)	(1,128)		(1,128)
	-----	-----	-----	-----
Total stockholders' equity	1,169	1,418	97	1,515
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 9,268	\$ 9,427	\$ --	\$ 9,427
	=====	=====	=====	=====

NOTES TO PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET:

- (A) As adjusted amounts reflect the removal of the financial results of Holdings and its wholly owned subsidiary, Express, as a result of the planned initial public offering and spin-off.
- (B) Reflects the reduction of debt associated with the proceeds from the planned initial public offering of Holdings and the related income tax effect.

Continental Airlines is the fifth largest airline in the U.S., offering more than 2,200 daily departures to 133 domestic and 92 international destinations. Operating hubs in Newark, Houston, Cleveland and Guam, Continental (www.continental.com) serves more international cities than any other U.S. carrier, including extensive service throughout the Americas, Europe and Asia.