

UNITED STATES
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): **September 2, 2004**

CONTINENTAL AIRLINES, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of Incorporation)

1-10323

(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)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

<input type="checkbox"/>	Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
<input type="checkbox"/>	Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
<input type="checkbox"/>	Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
<input type="checkbox"/>	Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

On September 2, 2004, we provided an update for investors presenting information relating to our financial and operational outlook for the third quarter and full year 2004. The letter is furnished herewith as Exhibit 99.1 and is incorporated herein by reference.

Item 8.01. Other Events.

On September 2, 2004, we issued a press release announcing additional cost-savings initiatives. The press release is filed herewith as Exhibit 99.2 and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

a. Exhibits

- 99.1 Investor Update
- 99.2 Press Release for Cost-Savings Initiatives

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.

September 2, 2004

By /s/ Jennifer L. Vogel

Jennifer L. Vogel

Senior Vice President, General Counsel
and Secretary

EXHIBIT INDEX

- 99.1 Investor Update
- 99.2 Press Release for Cost-Savings Initiatives

Investor Update

Issue Date:

September 2, 2004

This report contains forward-looking statements that are not limited to historical facts, but reflect our current beliefs, expectations or intentions regarding future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. For examples of such risks and uncertainties, please see the risk factors set forth in our 2003 10-K and our other securities filings, which identify important matters such as terrorist attacks, domestic and international economic conditions, the significant cost of aircraft fuel, labor costs, competition and industry conditions including the demand for air travel, airline pricing environment and industry capacity decisions, regulatory matters and the seasonal nature of the airline business. In addition to the foregoing risks, there can be no assurance that the company will be able to achieve the pre-tax benefits from the cost-reducing initiatives discussed, some of which will depend, among other matters, on our ability to implement such initiatives. 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.

Current News

Earlier today, Continental announced that it has identified \$200 million additional annual pre-tax cost savings in order to further reduce the gap between revenue and expenses. The cost savings items are expected to provide approximately \$125 million of pre-tax benefits in 2005 and, when fully implemented by 2007, a run-rate annual pre-tax benefit of \$200 million. These cost savings include a reduction of approximately 425 positions through staff reductions, attrition and the elimination of unfilled positions, the majority of which involve management and clerical positions. In addition, Continental is continuing to negotiate savings from numerous suppliers and continuing to pursue other savings initiatives, including a variety of fuel savings, facilities cost reductions, reductions in distribution costs, and technology-enabled productivity enhancements.

As mentioned above, although the cost savings items are primarily expected to provide benefits in 2005 and beyond, there is a small amount of savings related to the staff reductions that will impact the remainder of 2004. The savings are reflected in the attached cost guidance.

As announced previously, our Board of Directors has elected Executive Vice President Jeffery Smisek to be president of the company when Larry Kellner assumes the new responsibilities of chairman and chief executive officer at the end of the year. Continental also announced changes in several other top positions as part of a broader management realignment.

Third Quarter 2004 results are expected to include pre-tax charges of approximately \$20 million primarily related to future lease payments and return conditions in connection with MD80 aircraft retirements in the third quarter.

Tax Sharing Agreement with ExpressJet Holdings, Inc.

During the third quarter, Continental expects to record approximately \$12 million related to the tax-sharing agreement with ExpressJet. Continental expects to receive a total of approximately \$48 million for the full year 2004 and \$25 million in 2005 related to this agreement. For more information regarding this tax-sharing agreement, please see our 2003 10-K.

Targeted Cash Balance

Excluding any potential cash contributions to our pension plan, Continental anticipates ending the third quarter of 2004 with an unrestricted cash and short-term investments balance between \$1.4 and \$1.5 billion. We expect to make a decision regarding the funding of the pension plan by mid-September 2004.

Debt & Capital Lease Payments

Debt principal & Capital Lease payments for the third quarter 2004 are estimated to be approximately \$170 million.

Advanced Bookings - Six Week Outlook

Advanced bookings outlook by region through mid-October is as follows:

Domestic bookings are running slightly ahead of last year. We expect third quarter domestic load factor be about a point higher than last year. Domestic yields remain weak. Furthermore, we expect increased downward pressure on yoy yield performance for the month of September.

Transatlantic bookings are running about two points ahead of last year. We expect third quarter Transatlantic load factor will be slightly higher than last year despite a capacity increase in this region of 25%.

Latin bookings are averaging about a point ahead of last year. We expect our third quarter Latin load factor will be about flat yoy despite a capacity increase in this region of more than 14%.

Pacific bookings are well ahead of last year. We expect third quarter Pacific load factor will improve yoy by approximately 5-6 pts.

	2004 Estimated	
	<u>Year-over-Year %Change</u>	
<u>ASMs (Available Seat Miles)</u>	<u>3rd Qtr.(E)</u>	<u>Full Year(E)</u>

Domestic	0.5%	2.5%
Latin America	14.4%	11.5%
Transatlantic	25.4%	21.0%
Pacific	4.4%	10.5%
Total Mainline System	7.2%	7.6%
Regional	19.0%	23.5%

2004 Estimate

<u>Load Factor</u>	<u>3rd Qtr.(E)</u>	<u>Full Year(E)</u>
Mainline	80 - 81%	76 - 77%
Regional	75 - 76%	71 - 72%

2004 Estimate (cents)

<u>Mainline Operating Statistics</u>	<u>3rd Qtr.(E)</u>	<u>Full Year(E)</u>
CASM (Cost per Available Seat Mile)	9.43 - 9.48	9.59 - 9.64
Less:		
Special items per ASM (a)	0.09	0.12
CASM Less Special Items (b)	9.34 - 9.39	9.47 - 9.52
Fuel Cost & Fuel Taxes per ASM	1.85	1.78
CASM Less Fuel, Fuel Taxes & Special Items (c)	7.49 - 7.54	7.69 - 7.74

2004 Estimate (cents)

<u>Consolidated Operating Statistics</u>	<u>3rd Qtr.(E)</u>	<u>Full Year(E)</u>
CASM	10.24 - 10.29	10.43 - 10.48
Less:		
Special items per ASM (a)	0.08	0.11
CASM Less Special Items (b)	10.16 - 10.21	10.32 - 10.37
Fuel Cost & Fuel Taxes per ASM	1.97	1.90
CASM less Fuel, Fuel Taxes & Special Items (c)	8.19 - 8.24	8.42 - 8.47

Consolidated is defined as mainline plus regional.

2004 Estimate

<u>Fuel Gallons Consumed</u>	<u>3rd Qtr.(E)</u>	<u>Full Year(E)</u>
Mainline	345 Million	1,325 Million
Regional	68 Million	263 Million
<u>Fuel Price per Gallon (including fuel taxes)</u>	\$1.18	\$1.13

Please note that we have changed the presentation of fuel price per gallon to include related taxes on fuel.

<u>Fuel Hedges</u>	% of Volume Hedged	Wtd. Average Strike Price of Caps
Third Quarter	20%	\$32.00/Barrel
	<u>25%</u>	<u>\$40.00/Barrel</u>
Third Quarter Total	45%	\$36.40/Barrel
Fourth Quarter	20%	\$32.00/Barrel
	<u>25%</u>	<u>\$40.00/Barrel</u>
Fourth Quarter Total	45%	\$36.50/Barrel

2004 Estimated Amounts (\$Millions)

<u>Selected Expense Amounts</u>	<u>3rd Qtr.(E)</u>	<u>Full Year(E)</u>
Aircraft Rent	\$225	\$890
Landing Fees & Other Rentals	\$170	\$660
Depreciation & Amortization	\$105	\$415
Net Interest Expense	\$90	\$350

Continental Airlines, Inc. Tax Computation

2004 Estimate

<u>3rd Qtr.(E)</u>	<u>Full Year(E)</u>
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Taxes on Profit/(Loss*)	Tax Rate of 36.8%	Tax Rate of 36.8%	Debit /(Credit)
Permanent Tax Differences	<u>\$ 2.5 Million</u>	<u>\$10 Million</u>	Debit
Total Tax	Sum of the Above	Sum of the Above	Debit/(Credit)

Permanent tax differences are primarily related to non-deductible per diems, meals and entertainment.

*Continental expects to have minimal ability to benefit future book losses, subject to recognition of hedge or other gains.

2004 Estimate
(\$Millions)

Cash Capital Expenditures

Fleet & Fleet Related	\$60
Non-Fleet	100
Rotable Parts & Capitalized Interest	<u>65</u>
Total	\$225
Net Purchase Deposits	<u>(110)</u>
Total Cash Capital Expenditures	\$115

EPS Estimated Share Count

Share count estimates for calculating basic and diluted earnings per share at different income levels are as follows:

Third Quarter 2004 (Millions)

Quarterly	Number of Shares		
<u>Earnings Level</u>	<u>Basic</u>	<u>Diluted</u>	<u>Interest Addback</u>
Over \$36	66.3	75.4	\$3.6
Between \$19 - \$36	66.3	71.3	\$1.4
Between \$0 - \$19	66.3	66.3	--
Net Loss	66.3	66.3	--

Full Year 2004 (Millions)

Year-to-date	Number of Shares		
<u>Earnings Level</u>	<u>Basic</u>	<u>Diluted</u>	<u>Interest Addback</u>
Over \$141	66.1	75.3	\$14.2
Between \$75 - \$141	66.1	71.2	\$5.7
Between \$0 - \$75	66.1	66.2	--
Net Loss	66.1	66.1	--

These share count charts are based upon several assumptions including market stock price and number of shares outstanding. The number of shares used in the actual EPS calculation will likely be different from those set forth above.

Reconciliation of GAAP to Non-GAAP Financial Information
(millions except CASM data)

Mainline	3rd Qtr. Range(E)		Full Year Range(E)	
Operating Expenses - GAAP	\$ 2,077	\$ 2,088	\$ 8,086	\$ 8,128
Items Excluded				
Special Items (a)	\$ (20)	\$ (20)	\$ (105)	\$ (105)
Aircraft Fuel & Related Taxes	<u>\$(407)</u>	<u>\$(407)</u>	<u>\$(1,497)</u>	<u>\$(1,497)</u>
Operating Expenses - Non GAAP	\$ 1,650	\$ 1,661	\$ 6,485	\$ 6,527
ASMs (millions)	22,030	22,030	84,320	84,320
CASM-GAAP (cents)	9.43	9.48	9.59	9.64
CASM Excluding Special Items (b)	9.34	9.39	9.47	9.52
CASM Excluding Fuel, Fuel Taxes & Special Items - Non-GAAP (cents) (c)	7.49	7.54	7.69	7.74
Consolidated (Mainline plus Regional)	3rd Qtr. Range(E)		Full Year Range(E)	
Operating Expenses - GAAP	\$ 2,532	\$ 2,545	\$ 9,878	\$ 9,925
Items Excluded				
Special Items (a)	\$ (20)	\$ (20)	\$ (105)	\$ (105)

Aircraft Fuel & Related Taxes	\$ (487)	\$ (487)	\$ (1,794)	\$ (1,794)
Operating Expenses - Non GAAP	\$ 2,025	\$ 2,037	\$ 7,979	\$ 8,026
ASMs (millions)	24,730	24,730	94,705	94,705
CASM-Non-GAAP (cents)	10.24	10.29	10.43	10.48
CASM Excluding Special Items (b)	10.16	10.21	10.32	10.37
CASM Excluding Fuel, Fuel Taxes & Special Items - Non-GAAP (cents) (c)	8.19	8.24	8.42	8.47

(a) Special items include \$55 million, \$30 million and \$20 million of pre-tax charges during the first, second and third quarters of 2004, respectively, primarily relating to MD80 aircraft retirements.

(b) Cost per available seat mile excluding special items is computed by subtracting special items from operating expenses and dividing by available seat miles. This statistic provides management and investors the ability to measure and monitor Continental's cost performance on a consistent basis.

(c) Cost per available seat mile excluding fuel, fuel taxes and special items is computed by multiplying fuel price per gallon, including fuel taxes, by fuel gallons consumed and subtracting that amount and special items from operating expenses then dividing by available seat miles. This statistic provides management and investors the ability to measure and monitor Continental's cost performance absent fuel price volatility. Both the cost and availability of fuel are subject to many economic and political factors and therefore are beyond our control.



News Release

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CONTINENTAL AIRLINES IDENTIFIES ADDITIONAL

\$200 MILLION IN ANNUAL COST SAVINGS

HOUSTON, Sept. 2, 2004 - Continental Airlines (NYSE: CAL) today announced that it has identified approximately \$200 million of additional annual pre-tax cost savings in order to further reduce the gap between revenue and expenses. These initiatives are the carrier's latest attempt to reduce its losses, without asking for wage and benefit concessions from its employee workgroups. Coupled with the carrier's previously announced revenue generation and cost savings initiatives, the total contribution of these efforts is expected to result in approximately \$1.1 billion in pre-tax run-rate benefits.

"These are difficult times for all of us," said Gordon Bethune, Chairman and Chief Executive Officer. "We continue to struggle to identify additional ways to lower our costs as continued losses jeopardize our survival. Our employees are focused on ensuring our long-term viability. However, unless the revenue environment improves dramatically, we will need to reduce wages and benefits to compensate for the continued losses."

The cost savings items are expected to provide approximately \$125 million of pre-tax benefits in 2005 and, when fully implemented by 2007, a run-rate annual pre-tax benefit of approximately \$200 million.

These cost savings include a reduction of approximately 425 positions through staff reductions, attrition and the elimination of unfilled positions. A majority of these reductions involve management and clerical positions, and, together with earlier reductions in force, will

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COST SAVINGS / Page 2

result in a 24 percent reduction in the carrier's management and clerical workforce since September 11, 2001. By comparison, over the same time period, most other work groups at Continental have been affected to a lesser extent since September 11, 2001: flight operations personnel have been reduced 14 percent, inflight personnel have been reduced 15 percent, mechanics have been reduced five percent, airport agents have been reduced 15 percent, and reservation agents have been reduced 26 percent.

Most of the staff reductions announced today will occur immediately, and do not include the 253 previously announced reservations position reductions.

The company will provide a package of separation benefits for affected employees. Additionally, the company will arrange job fairs and make other efforts to help affected employees transition to new positions outside the company.

In addition to staff reductions, Continental is continuing to negotiate savings from numerous suppliers, demonstrating that its best business partners are willing to continue to work with the company and support it in these difficult times. The company is also continuing to pursue other savings initiatives, including a variety of fuel savings, facilities cost reductions, reductions in distribution costs, and technology-enabled productivity enhancements.

Continental Airlines is the world's sixth-largest airline with more than 2,900 daily departures throughout the Americas, Europe and Asia. Continental serves 149 domestic and 119 international destinations -- more than any other airline in the world -- and nearly 200 additional points are served via codeshare partner airlines. With 42,000 employees, the airline has hubs serving New York, Houston, Cleveland and Guam, and carries approximately 51 million passengers per year. In 2004, Continental has earned awards and critical acclaim for both its

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operation and its corporate culture. FORTUNE ranks Continental one of the 100 Best Companies to Work For in America, an honor it has earned for six consecutive years, and also ranks Continental as the top airline in its Most Admired Global Companies in 2004. The carrier won major awards at the 2004 OAG Airline of the Year Awards including "Airline of the Year," "Best Airline Based in North America" and "Best Executive/Business Class." For more company information, visit continental.com .

This press release contains forward-looking statements that are not limited to historical facts, but reflect the company's current beliefs, expectations or intentions regarding future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ from those in the forward-looking statements. For examples of such risks and uncertainties, please see the risk factors set forth in the company's 2003 10-K and its other securities filings, which identify important matters such as terrorist attacks, domestic and international economic conditions, the significant cost of aircraft fuel, labor costs, competition and industry conditions including the demand for air travel, airline pricing environment and industry capacity decisions, and regulatory matters. In addition to the foregoing risks, there can be no assurance that the company will be able to achieve the targeted pre-tax contributions from the new cost-reducing initiatives, or the previously announced revenue-generating and cost-reducing initiatives, discussed in this press release, which will depend, among other matters, on customer acceptance, competitor actions, negotiations with third parties, identification of additional opportunities and other matters outside the company's control. The company undertakes no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this press release.

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