UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________ TO __________

Commission File Number 1-10323

CONTINENTAL AIRLINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	74-2099724
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1600 Smith Street, Dept. HQSEO, Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No _____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes _No X

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer X Accelerated filer _____ Non-accelerated filer _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _No X

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $888 million based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 24, 2006
Class B Common Stock, $0.01 par value per share	86,848,955 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of Stockholders to be held on June 6, 2006: PART III

TABLE OF CONTENTS

PAGE

PART I

ITEM 1. BUSINESS.

Overview

Continental Airlines, Inc., a Delaware corporation incorporated in 1980, is a major United States air carrier engaged in the business of transporting passengers, cargo and mail. The term "Continental," "we," "us," "our" and similar terms refer to Continental Airlines, Inc. and, unless the context indicates otherwise, its consolidated subsidiaries.

We are the world's sixth largest airline (as measured by the number of scheduled miles flown by revenue passengers, known as revenue passenger miles, in 2005). Together with ExpressJet Airlines, Inc. (operating as Continental Express and referred to in this Form 10-K as "ExpressJet"), a wholly-owned subsidiary of ExpressJet Holdings, Inc. ("Holdings"), from which we purchase seat capacity, and our wholly-owned subsidiary, Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, we operate more than 2,500 daily departures. As of December 31, 2005, we flew to 132 domestic and 126 international destinations and offered additional connecting service through alliances with domestic and foreign carriers. We directly served 23 European cities, nine South American cities, Tel Aviv, Delhi, Hong Kong, Beijing and Tokyo as of December 31, 2005. In addition, we provide service to more destinations in Mexico and Central America than any other U.S. airline, serving 41 cities. Through our Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

General information about us, including our Corporate Governance Guidelines and the charters for the committees of our Board of Directors, can be found at *http://www.continental.com/ company/investor*. Our Board of Directors has adopted a code of ethics entitled "Principles of Conduct," which applies to all of our employees, officers and directors. Our board has also adopted a separate "Directors' Code of Ethics" for our directors. Copies of these codes can be found at *http://www.continental.com/company/investor*. Copies of our charters and codes are available in print to any stockholder who requests them. Written requests for such copies may be directed to our Secretary at Continental Airlines, Inc., P.O. Box 4607, Houston, Texas 77210-4607. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website as soon as reasonably practicable after w e file them with, or furnish them to, the U.S. Securities and Exchange Commission ("SEC"). Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

Forward-Looking Statements

This Form 10-K contains forward-looking statements that are not limited to historical facts, but reflect our current beliefs, expectations or intentions regarding future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. For examples of those risks and uncertainties, see the cautionary statements contained in Item 1A. "Risk Factors - Risk Factors Relating to the Company" and "Risk Factors - Risk Factors Relating to the Airline Industry." See these sections of Item 1. and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview - Summary of Principal Risk Factors" for a discussion of trends and factors affecting us and our industry. Also see Item 8. "Financial Statements and Supplementary Data, Note 18 - Segment Reporting" for financial information about each of our business segments. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

Domestic Operations

We operate our domestic route system primarily through our hubs in the New York metropolitan area at Newark Liberty International Airport ("Liberty International"), in Houston, Texas at George Bush Intercontinental Airport ("Bush Intercontinental") and in Cleveland, Ohio at Hopkins International Airport ("Hopkins International"). Our hub system allows us to transport passengers between a large number of destinations with substantially more frequent service than if each route were served directly. The hub system also allows us to add service to a new destination from a large number of cities using only one or a limited number of aircraft. As of December 31, 2005, we operated 71% of the average daily departures from Liberty International, 89% of the average daily departures from Bush Intercontinental and 66% of the average daily departures from Hopkins International (in each case including regional jets flown for us by ExpressJet). Each of our domestic hubs is located in a large business and pop ulation center, contributing to a high volume of "origin and destination" traffic.

International Operations

We directly serve destinations throughout Europe, Canada, Mexico, Central and South America and the Caribbean, as well as Tel Aviv, Delhi, Hong Kong, Beijing and Tokyo. We also provide service to numerous other destinations through codesharing arrangements with other carriers and have extensive operations in the western Pacific conducted by CMI. As measured by 2005 available seat miles, approximately 45% of our mainline operations (flights using jets with a capacity of greater than 100 seats) is dedicated to international traffic.

Liberty International is a significant international gateway. From Liberty International, we served 23 cities in Europe, seven cities in Canada, five cities in Mexico, seven cities in Central America, five cities in South America, 19 Caribbean destinations, Tel Aviv, Delhi, Hong Kong, Beijing and Tokyo at December 31, 2005. During 2005, we added service between Liberty International and Beijing, China; Bristol, England; Belfast, Northern Ireland; Berlin, Germany; Delhi, India; Hamburg, Germany; Stockholm, Sweden; Liberia, Costa Rica; Curacao, Netherlands Antilles and Ponce, Puerto Rico. In 2006, we will begin service between Liberty International and Barcelona, Spain; Copenhagen, Denmark and Cologne, Germany.

Bush Intercontinental is the focus of our flights to destinations in Mexico and Central America. As of December 31, 2005, we flew from Bush Intercontinental to 30 cities in Mexico, all seven countries in Central America, nine cities in South America, eight Caribbean destinations, four cities in Canada, three cities in Europe and Tokyo. During 2005, we added service between Bush Intercontinental and Buenos Aires, Argentina; Punta Cana, Dominican Republic and Bonaire, Netherlands Antilles.

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

See Item 8. "Financial Statements and Supplementary Data, Note 18 - Segment Reporting," for operating revenue by geographical area.

Alliances

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

In September 2004, we joined SkyTeam, a global alliance of airlines that offers greater destination coverage and the potential for increased revenue. SkyTeam members include Aeromexico, Air France, Alitalia, CSA Czech Airlines, Delta, KLM, Korean Air and Northwest. As of December 31, 2005, SkyTeam members served 344 million passengers with over 15,200 daily departures to 684 global destinations in more than 133 countries. In conjunction with joining SkyTeam, we entered into bilateral codeshare, frequent flyer program participation and airport lounge access agreements with each of the SkyTeam members. We had long-term alliances with Northwest, Delta and KLM prior to joining SkyTeam. We began codeshare operations with many of the other SkyTeam members in 2005, and we intend to implement codeshare operations with the remaining carriers by the end of 2006.

We also have domestic codesharing agreements with Hawaiian Airlines, Alaska Airlines, and Horizon Airlines. Additionally, we have codeshare agreements with Gulfstream International Airlines, Champlain Enterprises, Inc. ("CommutAir"), Hyannis Air Service, Inc. ("Cape Air"), Colgan Airlines, Inc., Hawaii Island Air, Inc. ("Island Air") and American Eagle Airlines, who provide us with commuter feed traffic. We also have the first train-to-plane alliance in the United States with Amtrak.

In addition to our domestic alliances, we seek to develop international alliance relationships that complement our own route system and permit expanded service through our hubs to major international destinations. International alliances assist in the development of our route structure by enabling us to offer more frequencies in a market, provide passengers connecting service from our international flights to other destinations beyond an alliance airline's hub and expand the product line that we may offer in a foreign destination. In addition to our agreements with the SkyTeam member airlines, we also currently have international codesharing agreements with Air Europa of Spain, Emirates (the flag carrier of the United Arab Emirates), EVA Airways Corporation (an airline based in Taiwan), British European ("flybe"), Virgin Atlantic Airways, Copa Airlines of Panama ("Copa Airlines") and French rail operator SNCF. We own 27% of the common equity of Copa Holdings, S.A. ("Copa"), the parent of Cop a Airlines.

Regional Operations

Our mainline service at each of our domestic hub cities is coordinated with ExpressJet, which operates new-generation regional jets. As of December 31, 2005, ExpressJet served 116 destinations in the U.S., 27 cities in Mexico, six cities in Canada, two Caribbean destinations and one city in Guatemala. Since December 2002, ExpressJet's fleet has been comprised entirely of regional jets. We believe ExpressJet's regional jet service complements our operations by carrying traffic that connects onto our mainline jets and by allowing more frequent flights to smaller cities than could be provided economically with larger jet aircraft. The regional jets also allow ExpressJet to serve certain routes that cannot be served by turboprop aircraft. Additional commuter feed traffic is currently provided to us by other alliance airlines, as discussed above.

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

Under the capacity purchase agreement, we have the right, upon no less than 12 months' notice to ExpressJet, to reduce the number of its aircraft covered by the contract. In December 2005, we gave notice to ExpressJet that we would withdraw 69 of the 274 regional jet aircraft (including 2006 deliveries) from the capacity purchase agreement because we believe the rates charged by ExpressJet for regional capacity are above the current market. While our discussions with ExpressJet continue, we have requested proposals from numerous regional jet operators to provide regional jet service to replace the withdrawn capacity. Any transition of service of the withdrawn capacity from ExpressJet to a new operator would begin in January 2007 and be completed during the summer of 2007. Under our agreement with ExpressJet, once we have given notice of withdrawal of aircraft from the agreement, ExpressJet will have the option to decide, within nine months of that notice, to (1) fly any of the withdrawn aircraft f or another airline (subject to its ability to obtain facilities, such as gates, ticket counters, hold rooms and other operations-related facilities, and subject to its arrangement with us that prohibits ExpressJet during the term of the agreement from flying under its or another carrier's code in or out of our hub airports), (2) fly any of the withdrawn aircraft under ExpressJet's own flight designator code, subject to its ability to obtain facilities and subject to ExpressJet's arrangement with us respecting our hubs, or (3) decline to fly any of the withdrawn aircraft, return the aircraft to us and cancel the related subleases with us. If ExpressJet elects to retain the aircraft, the implicit interest rate used to calculate the scheduled lease payments under our aircraft subleases with ExpressJet will automatically increase by 200 basis points to compensate us for our continued participation in ExpressJet's lease financing arrangements. Should ExpressJet retain the withdrawn aircraft, we anticipate that the new operator will supply any aircraft needed for its operations for us.

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

We have reduced our ownership of Holdings from 100% prior to the initial public offering of Holdings common stock in 2002 to 8.6% as of December 31, 2005, through a series of transactions. These transactions include the initial public offering of the common stock of Holdings by Holdings and us in 2002, a sale of Holdings common stock by us to Holdings in 2003 and contributions by us of Holdings common stock to our defined benefit pension plan in 2003 and 2005. Additionally, during 2005 we relinquished our right to appoint a director to Holdings' Board of Directors. Due to the capacity purchase agreement, the disposition of our interest in Holdings has had no effect on our operations and on ExpressJet's flight operations on our behalf.

Marketing

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

We use the internet to provide travel-related services for our customers and to reduce our reservation system booking fees. We have marketing agreements with internet travel service companies such as Orbitz, Hotwire, Travelocity and Expedia. Although customers' use of the internet has helped to reduce our distribution costs, it has also lowered our yields because it has enhanced the visibility of low-cost carriers.

Our website, *http://www.continental.com*, recorded approximately $2.1 billion in ticket sales in 2005, a 38% increase over 2004. The site offers customers the ability to purchase and change tickets on-line, to check-in on-line and to have direct access to information such as schedules, reservations, flight status, frequent flyer account information (including the ability to redeem reward travel) and Continental travel specials. Tickets purchased through our website accounted for 19% of our passenger revenue during 2005, compared with 16% in 2004 and 11% in 2003.

In 2005, we continued to expand our electronic ticketing, or E-Ticket, product. E-Tickets enhance customer and revenue information. E-Ticketed passengers have the ability to check-in at *http://www.continental.com* for all domestic and international travel. On-line check-in allows customers to obtain a boarding pass from their home, office or hotel up to 24 hours prior to departure and to proceed directly to security at the airport, bypassing the ticket counter and saving time. Passengers with baggage who check-in on-line may use special kiosks at our hub airports to check their bags rapidly. E-Ticket passengers can also use self-service kiosks to check-in.

We have approximately 1,000 Continental self-service kiosks at 150 airports throughout our system, including all domestic airports we serve. We were one of the first U.S. airlines to implement interline E-Ticketing, allowing customers to use electronic tickets when their itineraries include travel on multiple carriers. At December 31, 2005, we had interline E-Ticketing arrangements with 33 air carriers and we plan to implement E-Ticketing agreements with approximately 24 additional carriers in 2006.

Frequent Flyer Program

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

At December 31, 2005, we had an outstanding liability associated with approximately 2.5 million free travel awards that were expected to be redeemed for free travel on Continental, ExpressJet, CMI or alliance airlines. Our total liability for future OnePass award redemptions for free travel and unrecognized revenue from sales of OnePass miles to other companies was approximately $236 million at December 31, 2005. This liability is recognized as a component of air traffic liability in our consolidated balance sheets.

During the year ended December 31, 2005, OnePass participants claimed approximately 1.4 million awards. Frequent flyer awards accounted for an estimated 7.0% of our total revenue passenger miles ("RPMs"). We believe displacement of revenue passengers is minimal given our ability to manage frequent flyer inventory and the low ratio of OnePass award usage to revenue passenger miles.

Our "EliteAccess" service is offered to OnePass members who hold Elite status, first class and BusinessFirst ticket holders and travelers with high yield coach tickets who qualify as "Elite for the Day." EliteAccess passengers receive preferential treatment in the check-in, boarding and baggage claim areas and have special security lanes at certain airports. We also initiated a guarantee of no middle seat assignment for those passengers using a full-fare, unrestricted ticket.

Employees

As of December 31, 2005, we had approximately 42,200 employees, or 39,530 full-time equivalent employees, consisting of approximately 16,895 customer service agents, reservations agents, ramp and other airport personnel, 8,570 flight attendants, 5,925 management and clerical employees, 4,420 pilots, 3,610 mechanics and 110 dispatchers. Approximately 44% of our employees are represented by unions. The following table reflects the principal collective bargaining agreements, and their respective amendable dates, of Continental and CMI:

Employee Group	Approximate Number of Full-time Equivalent Employees	Representing Union	Contract Amendable Date
Continental Flight Attendants	8,220	International Association of Machinists and Aerospace Workers ("IAM")	December 2009
Continental Pilots	4,420	Air Line Pilots Association International ("ALPA")	December 2008
Continental Mechanics	3,510	International Brotherhood of Teamsters ("Teamsters")	December 2008
CMI Fleet and Passenger Service Employees	560	Teamsters	December 2006
CMI Flight Attendants	350	IAM	June 2005
Continental Dispatchers	110	Transport Workers Union ("TWU")	December 2008
CMI Mechanics	100	Teamsters	December 2006
Continental Flight Simulator Technicians	50	TWU	December 2008

On March 30, 2005, our pilots, mechanics, dispatchers and simulator technicians ratified new contracts containing pay and benefit reductions and work rule changes, and on April 1, 2005 we implemented pay and benefit reductions for our domestic employees not subject to collective bargaining agreements. On January 29, 2006, our flight attendants ratified their new contract containing pay and benefit reductions and work rule changes. We expect to complete the process of obtaining the final $10 million of our targeted $500 million in annual pay and benefit reductions and work rule changes, principally with our unionized workgroups at CMI, in the near future.

Industry Regulation and Airport Access

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

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

Under the Aviation and Transportation Security Act (the "Aviation Security Act"), substantially all security screeners at airports are federal employees and significant other elements of airline and airport security are overseen and performed by federal employees, including federal security managers, federal law enforcement officers, federal air marshals and federal security screeners. Among other matters, the law mandates improved flight deck security, deployment of federal air marshals onboard flights, improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, additional provision of passenger data to U.S. customs and enhanced background checks.

Airports from time to time seek to increase the rates charged to airlines, and the ability of airlines to contest such increases has been restricted by federal statutes, DOT and FAA regulations and judicial decisions. Under the Aviation Security Act, funding for passenger security is provided in part by a per enplanement ticket tax (passenger security fee) of $2.50, subject to a $5 per one-way trip cap. The current administration has proposed to replace this fee with a $5 one-way, or $10 round-trip, passenger fee. If implemented, this proposal would result in an additional annual tax of $1.3 billion on the airline industry, as estimated by the administration. The Aviation Security Act also allows the Transportation Security Administration ("TSA") to assess an aviation security infrastructure fee on each airline up to the total amount spent by that airline on passenger and property screening in calendar year 2000 and, starting in fiscal year 2005, to impose a new methodology for calculating assessm ents. TSA has continued to assess this fee on airlines. Furthermore, because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports are significantly increasing their rates and charges to airlines, including us, and may do so again in the future. Most airports where we operate impose passenger facility charges of up to $4.50 per segment, subject to an $18 per roundtrip cap.

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

The FAA has designated John F. Kennedy International Airport ("Kennedy") and LaGuardia Airport ("LaGuardia") in New York and Ronald Reagan Washington National Airport in Washington, D.C. ("Washington National") as "high density traffic airports" and has limited the number of departure and arrival slots at those airports. Slot restrictions at LaGuardia and Kennedy are scheduled to be eliminated by 2007, although the FAA has separately imposed new slot controls at LaGuardia to reduce congestion. Given that we expect to be able to continue operating out of these airports with our existing access to gates and related facilities, the elimination of slot restrictions is not expected to have a material impact on us.

Under U.S. law, "actual control" of U.S. carriers must be held at all times by U.S. citizens. The DOT has issued a notice of proposed rulemaking ("NPRM") to interpret U.S. law to allow foreign control of U.S. carriers except for the functions of safety, security, Civil Reserve Air Fleet and organizational documents. We believe the NPRM was issued by the DOT to induce the European Union to execute a new air services treaty between the United States and the European Union, which treaty would be adverse to us as explained below under "International Regulations." There is significant opposition to the NPRM in Congress, and it is our belief that the NPRM is unlawful. If a final rule is issued under the NPRM, we expect to take appropriate legal action to challenge its validity.

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

One example of these limits is the bilateral agreement between the United States and the United Kingdom. Designations between the United States and Heathrow airport in London are limited to two for each country and because both designations are already taken, we cannot serve London Heathrow, even though we desire to do so. Additionally, the bilateral agreement limits frequencies. As a result, even if we received a Heathrow designation, we would be prevented from expanding our service above a predefined number of weekly frequencies. Finally, even if we received a Heathrow designation, we could not serve it from Houston or Cleveland because of point limits. However, the U.S. and the European Union have negotiated an "open skies" agreement (meaning all carriers have access to a destination) which would allow U.S. and European carriers to operate between any U.S. and European points. Although the treaty, which has not been executed by the European Union, technically would permit us to fly to London Hea throw, that right is illusory, as there are not available to us commercially viable slots or other facilities at Heathrow. However, certain of our competitors with these assets could introduce service between London Heathrow and our hubs at Houston and Cleveland and new or increased service at our hub at Newark, which could have a material adverse effect on us.

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

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

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

ITEM 1A. RISK FACTORS.

Risk Factors Relating to the Company

We continue to experience significant losses. Since September 11, 2001, we have incurred significant losses. We reported a net loss of $68 million in 2005 and expect to incur a significant loss for the first quarter of 2006 under current market conditions. Losses of the magnitude incurred by us since September 11, 2001 are not sustainable if they continue. These losses are primarily attributable to decreased yields on passenger revenue since September 11, 2001 and record high fuel prices. Passenger revenue per available seat mile for our mainline operations was 5.8% lower for the year ended December 31, 2005 versus 2000 (the last full year before the September 11, 2001 terrorist attacks).

We have been able to implement some fare increases on certain domestic and international routes during 2005, but these increases have not fully offset the substantial increase in fuel prices. Our ability to raise our fares is limited due to the substantial price competition in the airline industry, especially in U.S. domestic markets.

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

Record high fuel costs have materially and adversely affected our operating results. Fuel costs, which are currently at historically high levels, constitute a significant portion of our operating expense. Mainline fuel costs represented approximately 26.7% of our mainline operating expenses for the year ended December 31, 2005. We expect that fuel expense will be our single largest operating expense item in 2006. Based on gallons expected to be consumed in 2006, for every one dollar increase in the price of a barrel of crude oil, our annual fuel expense would increase by approximately $42 million. Our fuel expense could further increase if the refining margin (the component of the price of jet fuel attributable to the refining of crude oil into jet fuel) increases above current levels.

We are also at risk for all of ExpressJet's fuel costs, as well as a margin on ExpressJet's fuel costs up to a negotiated cap of 71.2 cents per gallon, under our capacity purchase agreement and a related fuel purchase agreement with ExpressJet.

Fuel prices and supplies are influenced significantly by international political and economic circumstances, such as increasing demand by developing nations, unrest in Iraq and current diplomatic tension between the U.S. and Iran concerning Iran's nuclear energy development, as well as OPEC production curtailments, a disruption of oil imports, other conflicts or instability in the Middle East or other oil producing regions, environmental concerns, weather and other unpredictable events. Further, Hurricane Katrina and Hurricane Rita caused widespread disruption in 2005 to oil production, refinery operations and pipeline capacity in portions of the U.S. Gulf Coast. As a result of these disruptions, the price of jet fuel increased significantly and the availability of jet fuel supplies was diminished. A significant portion of the increase in the price of jet fuel immediately following Hurricane Katrina and Hurricane Rita was attributable to an increase in the refining margin.

Further increases in jet fuel prices or disruptions in fuel supplies, whether as a result of natural disasters or otherwise, could have a material adverse effect on our results of operations, financial condition or liquidity.

From time to time we enter into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide some short-term hedge protection (generally three to six months) against sudden and significant increases in jet fuel prices. However, as of December 31, 2005, we did not have any fuel hedges in place. In February 2006, we entered into petroleum swap contracts to hedge a minimal portion of our projected 2006 fuel usage.

Our high leverage may affect our ability to satisfy our significant financing needs or meet our obligations. As is the case with our principal competitors, we have a high proportion of debt compared to our equity capital. As of December 31, 2005, we had approximately $5.6 billion (including current maturities) of long-term debt and capital lease obligations, $226 million of stockholders' equity and $2.2 billion in consolidated cash, cash equivalents and short-term investments (of which $241 million was restricted cash). Our combined long-term debt and capital lease obligations coming due in 2006 total $546 million, and we have significant amounts coming due in 2007 and thereafter. We also have significant operating lease and facility rental costs. For the year ended December 31, 2005, annual aircraft and facility rental expense under operating leases was $1.4 billion.

In addition, we have substantial commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. As of December 31, 2005, we had firm commitments for 52 new aircraft from Boeing, with an estimated cost of $2.5 billion, and options to purchase 30 additional Boeing aircraft. We are scheduled to take delivery of six new 737-800 aircraft in 2006, with delivery of the remaining 46 new Boeing aircraft occurring from 2007 through 2011. In addition, we are scheduled to take delivery of two used 757-300 aircraft in 2006 under operating leases.

We have backstop financing for six 737-800 aircraft to be delivered in 2006 and two 777-200ER aircraft to be delivered in 2007. By virtue of these agreements, we have financing available for all Boeing aircraft scheduled to be delivered through 2007. However, we do not have backstop financing or any other financing currently in place for the remainder of the aircraft. Further financing will be needed to satisfy our capital commitments for our firm aircraft and other related capital expenditures. We can provide no assurance that sufficient financing will be available for the aircraft on order or other related capital expenditures, or for our capital expenditures in general.

At December 31, 2005, our senior unsecured debt ratings were Caa2 by Moody's and CCC+ by Standard & Poor's. Reductions in our credit ratings 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 $45 million under our bank-issued credit card processing agreement if our debt rating falls below Caa3 as rated by Moody's or CCC- as rated by Standard & Poor's. We would also be required to post additional collateral of up to $27 million under our workers' compensation program if our debt rating falls below Caa2 as rated by Moody's or CCC+ as rated by Standard & Poor's.

Our bank-issued credit card processing agreement also contains financial covenants which require, among other things, that we maintain a minimum EBITDAR (generally, earnings before interest, taxes, depreciation, amortization, aircraft rentals and income from affiliates, adjusted for certain special items) to fixed charges (interest and aircraft rentals) ratio of 0.9 to 1.0 through June 30, 2006 and 1.1 to 1.0 thereafter. The liquidity covenant requires us to maintain a minimum level of $1.0 billion of unrestricted cash and short-term investments and a minimum ratio of unrestricted cash and short-term investments to current liabilities of .27 to 1.0 through June 30, 2006 and .29 to 1.0 thereafter. Although we are currently in compliance with all of the covenants, failure to maintain compliance would result in our being required to post up to an additional $330 million of cash collateral, which would adversely affect our liquidity. Depending on our unrestricted cash and short-term investments balance at the time, the posting of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the $1.0 billion minimum balance requirement under our $350 million secured loan facility, resulting in a default under such facility.

We have defined benefit pension plans covering substantially all U.S. employees other than employees of Chelsea Food Services and CMI. Based on current assumptions and applicable law, we will be required to contribute in excess of $1.5 billion to our defined benefit pension plans over the next ten years, including $258 million in 2006, to meet our minimum funding obligations.

Our labor costs may not be competitive and could threaten our future liquidity. Labor costs constitute a significant percentage of our total operating costs. In 2005, labor costs (including employee incentives) constituted 23.6% of our total operating expenses. All of the major hub-and-spoke carriers with whom we compete have achieved significant labor cost reductions, whether in or out of bankruptcy. Even given the effect of pay and benefit cost reductions we implemented beginning in April 2005, we believe that our wages, salaries and benefits cost per available seat mile, measured on a stage length adjusted basis ("labor CASM"), will continue to be higher than that of many of our competitors. Although we enjoy generally good relations with our employees, we can provide no assurance that we will not experience labor disruptions in the future. Any disruptions which result in a prolonged significant reduction in flights would have a material adverse impact on our results of operations or financial condition.

Our net operating loss carryforwards may be limited. At December 31, 2005, we had estimated net operating loss carryforwards ("NOLs") of $4.1 billion for federal income tax purposes that will expire beginning in 2006 through 2025. If we were to have a change of ownership under current conditions, our annual NOL utilization could be limited to approximately $81 million per year, before consideration of any built-in gains. For a further discussion of our NOLs, see Note 11 to our consolidated financial statements included in Item 8. of this report.

For financial reporting purposes, income tax benefits recorded on losses generally result in deferred tax assets. We are required to provide a valuation allowance for deferred tax assets to the extent management determines that it is more likely than not that such deferred tax assets will ultimately not be realized. Due to our continued losses, we were required to provide a valuation allowance on deferred tax assets beginning in the first quarter of 2004. As a result, all of our 2005 losses and the majority of our 2004 losses were not reduced by any tax benefit. Furthermore, we expect to be required to provide additional valuation allowances in conjunction with deferred tax assets recorded on losses in the future.

Risk Factors Relating to the Airline Industry

Additional terrorist attacks or international hostilities may further adversely affect our financial condition, results of operations and liquidity. The terrorist attacks of September 11, 2001 involving commercial aircraft severely and adversely affected our financial condition, results of operations and liquidity and the airline industry generally. Additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights due to terror threats), could negatively affect us and the airline industry. The potential negative effects include increased security, insurance and other costs for us, higher ticket refunds and decreased ticket sales. The war in Iraq further decreased demand for air travel during the first half of 2003, especially in transatlantic markets, and additional international hostilities could potentially have a material adverse impact on our financial condition, results of operations or liquidity. Our financial resources might not be sufficient to absorb the adverse effects of any further terrorist attacks or other international hostilities involving the United States.

The airline industry is highly competitive and susceptible to price discounting. The U.S. airline industry is increasingly characterized by substantial price competition, especially in domestic markets. Carriers use discount fares to stimulate traffic during periods of slack demand, to generate cash flow and to increase market share. Some of our competitors have substantially greater financial resources, including hedges against fuel price increases, or lower cost structures than we do, or both. In recent years, the domestic market share held by low cost carriers has increased significantly and is expected to continue to increase, which is dramatically changing the airline industry. The increased market presence of low cost carriers, which engage in substantial price discounting, has diminished the ability of the network carriers to maintain sufficient pricing structures in domestic markets to achieve profitability. This has contributed to the dramatic losses for us and the airline industry generally. For example, a low-cost carrier began to directly compete with us on flights between Liberty International and destinations in Florida in 2005. We are responding vigorously to this challenge, but have experienced decreased yields on affected flights. We cannot predict whether or for how long these trends will continue.

In addition to price competition, airlines also compete for market share by increasing the size of their route system and the number of markets they serve. Several of our domestic competitors have announced aggressive plans to expand into international markets, including some destinations that we currently serve. The increased competition in these international markets, particularly to the extent our competitors engage in price discounting, may have a material adverse effect on our results of operations, financial condition or liquidity.

Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels are influenced by, among other things, the state of the global economy, domestic and international events, airline capacity and pricing actions taken by carriers. The September 11, 2001 terrorist attacks, the weak economy prior to 2004, turbulent international events (including the war in Iraq), high fuel prices and extensive price discounting by carriers have resulted in dramatic losses for us and the airline industry generally and have precipitated several airline bankruptcies.

United, US Airways, Delta, Northwest and several small competitors have filed for bankruptcy protection. Other carriers could file for bankruptcy or threaten to do so to reduce their costs. US Airways and, more recently, United, have emerged from bankruptcy. Carriers operating under bankruptcy protection may be in a position to operate in a manner adverse to us and could emerge from bankruptcy as more vigorous competitors with substantially lower costs than ours.

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

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

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

A large part of the costs of these security measures is borne by the airlines and their passengers, and we believe that these and other security measures have the effect of decreasing the demand for air travel and the attractiveness of air transportation as compared to other modes of transportation in general. Security measures imposed by the U.S. and foreign governments after September 11, 2001 have increased our costs and therefore adversely affected our financial results, and additional measures taken in the future may result in similar adverse effects. See "Industry Regulation and Airport Access - Federal Regulations" above for a discussion of passenger and aviation security fees and their impact on us.

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

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

Restrictions on the ownership and transfer of airline routes and takeoff and landing slots have also been proposed. See "Industry Regulation and Airport Access" above. The ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because appropriate slots or facilities are not made available. We cannot provide assurance that current laws and regulations, or laws or regulations enacted in the future, will not adversely affect us.

Our results of operations fluctuate due to seasonality and other factors associated with the airline industry. Due to greater demand for air travel during the summer months, revenue in the airline industry in the second and third quarters of the year is generally stronger than revenue in the first and fourth quarters of the year for most U.S. air carriers. Our results of operations generally reflect this seasonality, but also have been impacted by numerous other factors that are not necessarily seasonal, including excise and similar taxes, weather, air traffic control delays and general economic conditions, as well as the other factors discussed above. For example, in the third quarter of 2005, Hurricanes Katrina and Rita disrupted our operations and resulted in unprecedented high prices and diminished supplies of jet fuel. As a result, our operating results for a quarterly period are not necessarily indicative of operating results for an entire year, and historical operating results are not necessarily indicative of future operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Flight Equipment

As shown in the following table, our operating fleet consisted of 356 mainline jets and 266 regional jets at December 31, 2005, excluding aircraft out of service. The regional jets are leased by ExpressJet from us and are operated by ExpressJet. Our purchase commitments (firm orders) for aircraft as of December 31, 2005 are also shown below. In addition to these firm orders, we have options to purchase 30 additional Boeing aircraft.

Aircraft Type	Total Aircraft	Owned	Leased	Firm Orders		Seats in Standard Configuration	Average Age (In Years)
787-8	-	-	-	10	(a)	TBD	-
777-200ER	18	6	12	2		283	6.4
767-400ER	16	14	2	-		235	4.3
767-200ER	10	9	1	-		174	4.8
757-300	13	9	4	4	(b)	222	3.1
757-200	41	13	28	-		172	8.9
737-900	12	8	4	3		167	4.3
737-800	99	26	73	22		155	4.8
737-700	36	12	24	15		124	7.0
737-500	63	15	48	-		114	9.7
737-300	48	15	33	-		124	19.2
Mainline jets	356	127	229	56			8.3
ERJ-145XR	96	-	96	8		50	2.0
ERJ-145	140	18	122	-		50	5.6
ERJ-135	30	-	30	-		37	5.3
Regional jets	266	18	248	8			4.3
Total	622	145	477	64			6.6

a. Includes three 787-8 firm order aircraft for which we have cancellation rights that expire on December 31, 2006.
b. Used aircraft to be leased, including two aircraft delivered in 2005 but not yet placed into service.

During 2005, we put into service eight new Boeing 737-800 aircraft and four used 757-300 aircraft. Also during 2005, we removed from service three 737-300 aircraft and two MD-80 aircraft. We are scheduled to take delivery of six new 737-800 aircraft in 2006, with delivery of the remaining 46 new Boeing aircraft occurring from 2007 through 2011. In addition, we are scheduled to take delivery of two used 757-300 aircraft in 2006 under operating leases. The first 787-8 aircraft is scheduled to be delivered in 2009.

During 2005, ExpressJet took delivery of 21 ERJ-145XR aircraft. ExpressJet anticipates taking delivery of the final eight Embraer regional jet aircraft currently on order in 2006.

In addition to our operating fleet, we had eight owned and six leased MD-80 aircraft permanently removed from service as of December 31, 2005. Our last two active MD-80 aircraft were permanently grounded in January 2005. Additionally, we own seven out-of-service Embraer 120 turboprop aircraft. We are currently exploring sublease or sale opportunities for the remaining out-of-service aircraft.

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

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

Facilities

Our principal facilities are Liberty International, Bush Intercontinental, Hopkins International and A.B. Won Pat International Airport in Guam. Substantially all of these facilities are leased on a net-rental basis, as we are responsible for maintenance, taxes, insurance and other facility-related expenses and services. These hub facilities (other than those located at Guam) have lease expiration dates ranging from 2006 to 2032. The current lease for our Guam terminal facilities has expired and an extension of that lease, which is expected to have a term ending in September 2009, is currently being negotiated. At each of our three domestic hub cities and most other locations, our passenger and baggage handling space is leased directly from the airport authority on varying terms dependent on prevailing practice at each airport. We also maintain administrative offices, terminal, catering, cargo and other airport facilities, training facilities, maintenance facilities and other facilities, in e ach case as necessary to support our operations in the cities we serve.

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of certain of our guarantees relating to our principal facilities, as well as our contingent liability for US Airways' obligations under a lease agreement covering the East End Terminal at LaGuardia Airport.

ITEM 3. LEGAL PROCEEDINGS.

Legal Proceedings

During the period between 1997 and 2001, we reduced or capped the base commissions that we paid to travel agents, and in 2002 we eliminated such base commissions. This was similar to actions also taken by other air carriers. We are now a defendant, along with several other air carriers, in two remaining lawsuits brought by travel agencies that purportedly opted out of a prior class action entitled Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C., Eastern District of North Carolina), filed on June 21, 2000, in which the defendant airlines prevailed on summary judgment that was upheld on appeal. These similar suits against Continental and other major carriers allege violations of antitrust laws in reducing and ultimately eliminating the base commission formerly paid to travel agents. The pending cases are Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 2003 and Swope Travel Agency, e t al. v. Orbitz LLC et al. (U.S.D.C., Eastern District of Texas), filed on June 5, 2003. Another such similar lawsuit, styled Paula Fausky, et al. v. American Airlines, et al. (U.S.D.C., Northern District of Ohio) and filed on May 8, 2003, was dismissed without prejudice in July 2005. By order dated November 10, 2003, the remaining actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has commenced.

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 results of operations, financial condition or liquidity.

Environmental Proceedings

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

We are also and may from time to time become involved in other environmental matters, including the investigation and/or remediation of environmental conditions at properties we use or previously used. We could 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 ("CRWQCB") mandated a field study of the site and it was completed in September 2001. In April 2005, under the threat of a CRWQCB enforcement action, we began environmental remediation of jet fuel contamination surrounding our aircraft maintenance hangar pursuant to a work plan submitted to (and approved by) the CRWQCB and our landlord, the Los Angeles World Airports.

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 expect our total losses from environmental matters to be approximately $45 million, for which we were fully accrued at December 31, 2005. We have evaluated and recorded this accrual for environmental remediation costs separately from any related insurance recovery. We have not recognized any material receivables related to insurance recoveries at December 31, 2005.

Based on currently available information, we believe that our reserves for potential environmental remediation costs are adequate, although reserves could be adjusted as further information develops or circumstances change. However, we do not expect these items to materially impact our results of operations, financial condition or liquidity.

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

General

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

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

Not applicable.

PART II

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

Common Stock Information

Our common stock (Class B common stock) trades on the New York Stock Exchange. The table below shows the high and low sales prices for our common stock as reported in the consolidated transaction reporting system during 2005 and 2004.

		Class B Common Stock	
		High	Low
2005	Fourth Quarter	$21.97	$ 9.62
	Third Quarter	$16.60	$ 9.03
	Second Quarter	$15.60	$11.08
	First Quarter	$14.19	$ 8.50
2004	Fourth Quarter	$14.01	$ 7.63
	Third Quarter	$11.68	$ 7.80
	Second Quarter	$13.93	$ 9.05
	First Quarter	$18.70	$10.85

As of February 24, 2006, there were approximately 20,594 holders of record of our common stock. We have paid no cash dividends on our common stock and have no current intention of doing so. Our agreement with the union representing our pilots provides that we will not declare a cash dividend or repurchase our outstanding common stock for cash until we have contributed at least $500 million to the pilots' defined benefit plan, measured from March 31, 2005. Through December 31, 2005, we have made $112 million of such contributions to the plan.

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

Equity Compensation Plans

See Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information regarding our equity compensation plans as of December 31, 2005.

Issuer Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth the selected financial data of the Company derived from our consolidated financial statements. The selected financial data should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in Item 8. "Financial Statements and Supplementary Data."

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Statement of Operations Data (in millions except per share data) (1)(2):					
Operating revenue	$11,208	$9,899	$9,001	$8,511	$9,049
Operating expenses	11,247	10,137	8,813	8,841	8,921
Operating income (loss)	(39)	(238)	188	(330)	128
Net income (loss)	(68)	(409)	28	(462)	(105)
Basic earnings (loss) per share	(0.96)	(6.19)	0.43	(7.19)	(1.89)
Diluted earnings (loss) per share	(0.97)	(6.25)	0.41	(7.19)	(1.89)

	As of December 31,				
	2005	2004	2003	2002	2001
Balance Sheet Data (in millions) (1):					
Cash, cash equivalents and short-term investments	$ 2,198	$ 1,669	$ 1,600	$ 1,342	$1,132
Total assets	10,529	10,511	10,620	10,615	9,778
Long-term debt and capital lease obligations	5,057	5,167	5,558	5,471	4,448
Stockholders' equity	226	155	727	712	1,117

Selected Operating Data

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Mainline Operations:					
Passengers (thousands) (3)	44,939	42,743	40,613	41,777	45,064
Revenue passenger miles (millions) (4)	71,261	65,734	59,165	59,349	61,140
Available seat miles (millions) (5)	89,647	84,672	78,385	80,122	84,485
Cargo ton miles (millions)	1,018	1,026	917	908	917
Passenger load factor (6)	79.5%	77.6%	75.5%	74.1%	72.4%
Passenger revenue per available seat mile (cents)	9.32	8.82	8.79	8.67	9.03
Total revenue per available seat mile (cents)	10.46	9.83	9.81	9.41	9.68
Average yield per revenue passenger mile (cents) (7)	11.73	11.37	11.64	11.71	12.48
Average segment fare per revenue passenger	$188.67	$177.90	$172.83	$169.37	$172.50
Operating cost per available seat mile, including special charges (cents) (8)	10.22	9.84	9.53	9.63	9.34
Average price per gallon of fuel, including fuel taxes (cents)	177.55	119.01	91.40	74.01	82.48

Fuel gallons consumed (millions)	1,376	1,333	1,257	1,296	1,426
Actual aircraft in fleet at end of period (9)	356	349	355	366	352
Average length of aircraft flight (miles)	1,388	1,325	1,270	1,225	1,185
Average daily utilization of each aircraft (hours) (10)	10:31	9:55	9:19	9:29	10:19
Regional Operations:					
Passengers (thousands) (3)	16,076	13,739	11,445	9,264	8,354
Revenue passenger miles (millions) (4)	8,938	7,417	5,769	3,952	3,388
Available seat miles (millions) (5)	11,973	10,410	8,425	6,219	5,437
Passenger load factor (6)	74.7%	71.3%	68.5%	63.5%	62.3%
Passenger revenue per available seat mile (cents)	15.67	15.09	15.31	15.45	15.93
Actual aircraft in fleet at end of period (9)	266	245	224	188	170
Consolidated Operations (Mainline and Regional):					
Passengers (thousands) (3)	61,015	56,482	52,058	51,041	53,418
Revenue passenger miles (millions) (4)	80,199	73,151	64,934	63,301	64,528
Available seat miles (millions) (5)	101,620	95,082	86,810	86,341	89,922
Passenger load factor (6)	78.9%	76.9%	74.8%	73.3%	71.8%
Passenger revenue per available seat mile (cents)	10.07	9.51	9.42	9.16	9.45
Average yield per revenue passenger mile (cents) (7)	12.76	12.36	12.60	12.49	13.17

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

	2005	2004	2003	2002	2001
Operating revenue:					
Change in expected redemption of frequent flyer mileage credits sold	$ -	$ -	$ 24	$ -	$ -
Operating (expense) income:					
Fleet retirement and impairment charges	16	(87)	(86)	(242)	(61)
Pension curtailment/settlement charges	(83)	-	-	-	-
Termination of 1993 service agreement with United Micronesia Development Association	- -	(34)	- -	- -	- -
Frequent flyer reward redemption cost adjustment	- -	(18)	- -	- -	- -
Security fee reimbursement	-	-	176	-	-
Air Transportation Safety and System Stabilization Act grant	- -	- -	- -	(12)	417
Severance and other special charges	-	-	(14)	-	(63)
Nonoperating (expense) income:					
Gains on investments	204	-	305	-	-
Impairment of investments	-	-	-	-	(22)

4. Revenue passengers measured by each flight segment flown.
5. The number of scheduled miles flown by revenue passengers.
6. The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
7. Revenue passenger miles divided by available seat miles.
8. The average passenger revenue received for each revenue passenger mile flown.
9. Includes operating expense special items noted in (2) above. These special items increased (decreased) operating cost per available seat mile by 0.07, 0.16, (0.11), 0.25 and (0.36) in each of the five years, respectively.
10. Excludes aircraft that were removed from service.
11. The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).

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

Overview

We recorded a net loss of $68 million for the year ended December 31, 2005, as compared to a net loss of $409 million and a net income of $28 million for the years ended December 31, 2004 and 2003, respectively. Our results for each of the last three years have been affected by a number of special items which are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. These special items are discussed in "Consolidated Results of Operations" below. We would have incurred significant losses in 2005 and 2003 without the special items.

Primarily due to record-high fuel prices and the continued competitive domestic fare environment, the current U.S. domestic network carrier financial environment continues to be poor and could deteriorate further. During the third quarter of 2005, Hurricane Katrina and Hurricane Rita caused widespread disruption to oil production, refinery operations and pipeline capacity along certain portions of the U.S. Gulf Coast. As a result of these disruptions, the price of jet fuel increased significantly and the availability of jet fuel supplies was diminished. Additionally, Hurricane Rita forced us to suspend service for 36 hours at our largest hub, Houston's Bush Intercontinental Airport, costing us an estimated $25 million. Further increases in jet fuel prices or disruptions in fuel supplies, whether as a result of natural disasters or otherwise, could have a material adverse effect on our results of operations, financial condition or liquidity.

Among the many factors that threaten us are the continued rapid growth of low-cost carriers and resulting downward pressure on domestic fares, high fuel costs, excessive taxation and significant pension liabilities. In addition to competition from low-cost carriers, we may face stronger competition from carriers that have filed for bankruptcy protection, such as Delta Air Lines and Northwest Airlines (both of which filed for bankruptcy in September 2005), and from carriers recently emerging from bankruptcy, including US Airways (which emerged from bankruptcy in September 2005, for the second time since 2002) and United Airlines (which emerged from over three years of bankruptcy protection in February 2006). Carriers in bankruptcy are able to achieve substantial cost reductions through, among other things, reduction or discharge of debt, lease and pension obligations and wage and benefit reductions.

We have suffered substantial losses since September 11, 2001, the magnitude of which is not sustainable. Our ability to return to sustained profitability depends, among other factors, on implementing and maintaining a more competitive cost structure, retaining our revenue premium to the industry and our ability to respond effectively to the factors that threaten the airline industry as a whole. We have attempted to return to profitability by implementing the majority of $1.1 billion of annual cost-cutting and revenue-generating measures since 2002, and we have also made significant progress toward our goal of achieving an additional $500 million reduction in annual pay and benefits costs. On January 29, 2006, our flight attendants ratified a new contract which, along with previously announced pay and benefit reductions for other work groups, concludes the negotiation process to change wages, work rules and benefits for our domestic employees. We began implementing these pay and benefit reductions and work rule changes in early April 2005, which, when fully implemented, are expected to result in approximately $490 million of annual pay and benefits cost savings on a run-rate basis. We expect to complete the process of obtaining the final $10 million of our targeted $500 million in annual pay and benefit reductions and work rule changes, principally with our unionized workgroups at CMI, in the near future.

Although revenue trends have been improving, our passenger revenue per available seat mile for our mainline operations was 5.8% lower in 2005 compared to 2000, the last full year before the September 11, 2001 terrorist attacks. We have been able to implement some fare increases on certain domestic and international routes in recent months, but these increases have not fully offset the substantial increase in fuel prices.

We expect to incur a significant loss for the first quarter of 2006 due to the continued low domestic fare environment and high fuel costs. However, we believe that under current conditions, absent adverse factors outside of our control, such as additional terrorist attacks, hostilities involving the United States, or further significant increases in jet fuel prices, our existing liquidity and projected 2006 cash flows will be sufficient to fund current operations and other financial obligations through 2006.

Although we have significant financial obligations due in 2007, we also believe that under current conditions and absent adverse factors outside of our control, such as those described above, our projected 2007 cash flows from operations and access to capital markets will provide us with sufficient liquidity to fund our operations and meet our other obligations through the end of 2007.

Summary of Principal Risk Factors

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

- Competition. The continued growth of low-cost carriers is increasing the competitive pressures within the airline industry. For example, a low-cost carrier began to directly compete with us on flights between Liberty International and destinations in Florida in 2005. We are responding vigorously to this challenge, but have experienced decreased yields on affected flights. In addition, carriers in or emerging from bankruptcy have or will have significantly reduced cost structures and operational flexibility that will allow them to compete more effectively, and other carriers have used the threat of bankruptcy to achieve substantial cost savings. Moreover, several of our domestic competitors have also announced aggressive plans to expand into international markets, including some destinations that we currently serve. We have initiated three sets of revenue-generating and cost-savings initiatives since 2002 designed to improve our annual pre-tax results by over $1.1 billion, and have achieved a greements relating to the vast majority of our targeted $500 million in annual pay and benefit reductions and work rule changes. While we are on track to meet these goals, our cost structure remains higher than that of the low-cost carriers and several of our network competitors.
- Low Fare Environment. As many low-cost carriers have introduced lower and simplified fare structures (such as shortening advance purchase requirements and reducing the number of fare classes), we have had to match those fare levels on a majority of our domestic routes to remain competitive. In January 2005, Delta announced a new nationwide pricing structure on most of its flights that significantly reduced many ticket prices, including those for first class seats and last minute purchases. Delta also eliminated Saturday-night stay requirements. We have matched the Delta fare reductions and structure in competitive markets and further fare reductions or further simplification of fare structures may occur in the future.
- Fuel Costs. Fuel costs, which have recently reached unprecedented high levels, constitute a significant portion of our operating expense. Mainline fuel costs and related taxes represented approximately 26.7% of our mainline operating expenses for the year ended December 31, 2005. The price of crude has recently been trading at historic levels. Based on gallons expected to be consumed in 2006, for every one dollar increase in the price of crude oil, our annual fuel expense would increase by approximately $42 million. As of December 31, 2005, we did not have any fuel price hedges in place. In February 2006, we entered into petroleum swap contracts to hedge a minimal portion of our projected 2006 fuel usage.
- Labor Costs. As discussed above, we have reached agreements with the vast majority of our work groups to reduce pay and benefit costs and enhance work rule productivity. Even assuming the full run-rate benefits of the $500 million reduction in annual pay and benefit costs, we estimate that our labor CASM will continue to be higher than that of many of our competitors.
- Excessive Taxation. The U.S. airline industry is one of the most heavily taxed of all industries. These fees and taxes have grown significantly in the past decade and currently include (a) a federal excise tax of 7.5% of the value of the ticket; (b) a federal segment tax of $3.30 per domestic flight segment of a passenger's itinerary; (c) local airport charges of up to $18 per round trip; and (d) airport security fees of up to $10 per round trip. Various U.S. fees and taxes are also assessed on international flights that can result in additional fees and taxes of up to $46 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. Due to competition, many increases in these fees and taxes that are not required to be included in fares have been absorbed by the airline industry rather than being passed on to the passenger. These fees and taxes, which are not include d in our reported passenger revenue, increased to $1.2 billion for us for the year ended December 31, 2005, compared to $1.0 billion for the year ended December 31, 2004.
- Pension Liability. We have significant commitments to our defined benefit pension plans. In 2005, we contributed $224 million in cash and 12.1 million shares of Holdings common stock valued at approximately $130 million to our defined benefit pension plans. Based on current assumptions and applicable law, we will be required to contribute in excess of $1.5 billion to our defined benefit pension plans over the next ten years, including $258 million in 2006, to meet our minimum funding obligations.

Results of Operations

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

	Pre Tax Income (Expense)

Year Ended December 31, 2005	
Gain on sale of Copa Holdings, S.A. shares (1)	$ 106
Gain on dispositions of ExpressJet stock (2)	98
Pension curtailment/settlement charges (3)	(83)
Reserve reduction on grounded aircraft (4)	16
	$ 137

Year Ended December 31, 2004	
MD-80 aircraft retirement charges and other (4)	$ (87)
Termination of United Micronesia Development Association Service Agreement (4)	(34)
Frequent flyer reward redemption cost adjustment (5)	(18)
	$(139)

Year Ended December 31, 2003	
Security fee reimbursement (6)	$ 176
Gain on dispositions of ExpressJet stock (2)	173
Gain on Hotwire and Orbitz investments (after related compensation expense and including an adjustment to fair value of remaining investment in Orbitz) (7)	132
MD-80 aircraft retirement and impairment charges (4)	(86)
Revenue adjustment for change in expected redemption of frequent flyer mileage credits sold (5)	24
Boeing 737 aircraft delivery deferral (4)	(14)
	$ 405

1. See Note 14 to our consolidated financial statements included in Item 8 of this report.
2. See Note 16 to our consolidated financial statements included in Item 8 of this report.
3. See Note 10 to our consolidated financial statements included in Item 8 of this report.
4. See Note 12 to our consolidated financial statements included in Item 8 of this report.
5. See Note 1(k) to our consolidated financial statements included in Item 8 of this report.
6. See Note 13 to our consolidated financial statements included in Item 8 of this report.
7. See Note 14 to our consolidated financial statements included in Item 8 of this report.

The following discussion provides an analysis of our results of operations and reasons for material changes therein for the three years ended December 31, 2005. Significant components of our operating results are as follows (in millions, except percentage changes):

Comparison of Year Ended December 31, 2005 to December 31, 2004

	Year Ended December 31, 2005	2004	Increase (Decrease)	% Increase (Decrease)
Operating Revenue:				
Passenger	$10,235	$9,042	$1,193	13.2 %
Cargo, mail and other	973	857	116	13.5 %
	11,208	9,899	1,309	13.2 %
Operating Expenses:				
Wages, salaries and related costs	2,649	2,819	(170)	(6.0)%
Aircraft fuel and related taxes	2,443	1,587	856	53.9 %
ExpressJet capacity purchase, net	1,572	1,351	221	16.4 %
Aircraft rentals	928	891	37	4.2 %
Landing fees and other rentals	708	654	54	8.3 %
Distribution costs	588	552	36	6.5 %
Maintenance, materials and repairs	455	414	41	9.9 %
Depreciation and amortization	389	415	(26)	(6.3)%
Passenger servicing	332	306	26	8.5 %
Special charges	67	121	(54)	NM

Other	1,116	1,027	89	8.7 %
	11,247	10,137	1,110	10.9 %
Operating Loss	(39)	(238)	(199)	(83.6)%
Nonoperating Income (Expense)	(29)	(211)	(182)	(86.3)%
Loss before Income Taxes and Minority Interest	(68)	(449)	(381)	(84.9)%
Income Tax Benefit	-	40	(40)	(100.0)%
Net Loss	$ (68)	$ (409)	$(341)	(83.4)%

Operating Revenue. Passenger revenue increased 13.2%, primarily due to higher traffic and capacity in all geographic regions, higher fares on international flights and more regional flying. Consolidated revenue passenger miles for 2005 increased 9.6% year-over-year on a capacity increase of 6.9%, which produced a consolidated load factor for 2005 of 78.9%, up 2.0 points over 2004. Consolidated yield increased 3.2% year-over-year. Consolidated revenue per available seat mile ("RASM") for 2005 increased 5.9% over 2004 due to higher load factor and yield. The improved RASM reflects recent fuel-driven fare increases and our efforts to manage the revenue associated with the emerging trend of customers booking closer to flight dates, an improved mix of local versus flow traffic and our efforts to reduce discounting.

The table below shows passenger revenue for the year ended December 31, 2005 and period to period comparisons for passenger revenue, RASM and available seat miles ("ASMs") by geographic region for our mainline and regional operations:

	2005 Passenger Revenue (in millions)	Percentage Increase 2005 vs. 2004		
		Passenger Revenue	RASM	ASMs
Domestic	$ 4,772	5.8%	5.3%	0.5%
Transatlantic	1,733	26.9%	8.8%	16.6%
Latin America	1,085	11.1%	7.2%	3.7%
Pacific	768	24.3%	3.1%	20.6%
Total Mainline	8,358	11.9%	5.7%	5.9%
Regional	1,877	19.4%	3.8%	15.0%
Total System	$10,235	13.2%	5.9%	6.9%

Cargo, mail and other revenue increased 13.5% in 2005 compared to 2004 primarily due to increases in revenue associated with sales of mileage credits in our OnePass frequent flyer program, passenger change fees and increases in freight fuel surcharges.

Operating Expenses. Wages, salaries and related costs decreased 6.0% primarily due to pay and benefit reductions and work rule changes, partially offset by a slight increase in the average number of employees. Aircraft fuel and related taxes increased 53.9% 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 49.2% from $1.19 in 2004 to $1.78 in 2005. The impact of jet fuel prices in 2004 was partially offset by $74 million of gains from our fuel hedging activities. We had no fuel hedges in place during 2005.

Payments made under our capacity purchase agreement are reported in ExpressJet capacity purchase, net. ExpressJet capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. The net expense was higher in 2005 than 2004 due to increased flight activity at ExpressJet, a larger fleet and increased fuel prices, offset in part by lower rates effective January 1, 2005 under the capacity purchase agreement.

Aircraft rentals increased due to new mainline and regional aircraft delivered in 2005. Landing fees and other rentals were higher primarily due to the completion of our new international Terminal E and related facilities at Bush Intercontinental. Distribution costs increased primarily due to higher credit card fees and reservation costs related to the increase in revenue. Maintenance, materials and repairs increased primarily due to higher contractual repair rates associated with a maturing fleet. The lower depreciation and amortization in 2005 resulted from discontinued depreciation related to the permanent grounding of MD-80 aircraft in 2003 and 2004. Other operating expenses increased primarily due to higher number of international flights which resulted in increased air navigation, ground handling, security and related expenses.

In 2005, we recorded special charges of $67 million which consisted primarily of a curtailment charge of $43 million related to the freezing of the portion of our defined benefit pension plan attributable to pilots, a $40 million settlement charge related to lump-sum distributions from the pilot pension plans, and a $16 million reversal of a portion of our reserve for exit costs related to permanently grounded aircraft.

In 2004, we recorded special charges of $121 million. Included in these charges were $87 million associated with future obligations for rent and return conditions related to 16 leased MD-80 aircraft which were permanently grounded and a non-cash charge of $34 million related to the termination of a 1993 service agreement with United Micronesia Development Association. In the fourth quarter of 2004, we recorded a change in expected future costs for frequent flyer reward redemptions on alliance carriers, resulting in a one-time increase to other operating expenses of $18 million.

Nonoperating Income (Expense). Nonoperating income (expense) includes net interest expense, income from affiliates, and gains from dispositions of investments. Total nonoperating income (expense) was a net expense in both 2005 and 2004. The net expense decreased $182 million in 2005 compared to 2004 primarily due to gains of $98 million in 2005 related to the contribution of 12.1 million shares of Holdings common stock to our primary defined benefit pension plan and a $106 million gain related to the sale of a portion of our investment in Copa Holdings, S.A. ("Copa"), the parent of Copa Airlines. Net interest expense (interest expense less interest income and capitalized interest) decreased $20 million in 2005 as a result of interest income on our higher cash balances, partially offset by interest expense on new debt issued in 2005. Income from affiliates, which includes income related to our tax sharing agreement with Holdings and our equity in the earnings of Holdings and Copa, was $28 million lower in 2005 as compared to 2004 as a result of our reduced ownership interest in Holdings and less income from our tax sharing agreement with Holdings.

Income Tax Benefit (Expense). Beginning in the first quarter of 2004, due to our continued losses, we concluded that we were required to provide a valuation allowance for deferred tax assets because we had determined that it was more likely than not that such deferred tax assets would ultimately not be realized. As a result, our 2005 losses and the majority of our 2004 losses were not reduced by any tax benefit. Our effective tax rate for the first three months of 2004 also differs 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 and state income taxes.

Segment Results of Operations

We have two reportable segments: mainline and regional. The mainline segment consists of flights to cities using jets with a capacity of greater than 100 seats while the regional segment consists of flights using jets with a capacity of 50 or fewer seats. The regional segment is operated by ExpressJet through a capacity purchase agreement. Under that agreement, we handle all of the scheduling and are responsible for setting prices and selling all of the seat inventory. In exchange for ExpressJet's operation of the flights, we pay ExpressJet for each scheduled block hour based on an agreed formula. Under the agreement, we recognize all passenger, cargo and other revenue associated with each flight, and are responsible for all revenue-related expenses, including commissions, reservations, catering and terminal rent at hub airports.

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

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

	Year Ended December 31,		Increase	% Increase
	2005	2004	(Decrease)	(Decrease)
Operating Revenue	$9,377	$ 8,327	$1,050	12.6 %
Operating Expenses:				
Wages, salaries and related costs	2,605	2,773	(168)	(6.1)%
Aircraft fuel and related taxes	2,443	1,587	856	53.9 %
Aircraft rentals	640	632	8	1.3 %
Landing fees and other rentals	667	622	45	7.2 %
Distribution costs	494	472	22	4.7 %
Maintenance, materials and repairs	455	414	41	9.9 %
Depreciation and amortization	378	404	(26)	(6.4)%
Passenger servicing	318	295	23	7.8 %
Special charges	67	121	(54)	NM
Other	1,095	1,014	81	8.0 %
	9,162	8,334	828	9.9 %
Operating Income (Loss)	$ 215	$ (7)	$ 222	NM

The variances in specific line items for the mainline segment are due to the same factors discussed under consolidated results of operations.

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

	Year Ended December 31,		Increase	% Increase
	2005	2004	(Decrease)	(Decrease)
Operating Revenue	$1,831	$ 1,572	$259	16.5 %
Operating Expenses:				
Wages, salaries and related costs	44	46	(2)	(4.3)%
ExpressJet capacity purchase, net	1,572	1,351	221	16.4 %
Aircraft rentals	288	259	29	11.2 %
Landing fees and other rentals	41	32	9	28.1 %
Distribution costs	94	80	14	17.5 %
Depreciation and amortization	11	11	-	-
Passenger servicing	14	11	3	27.3 %
Other	21	13	8	61.5 %

Other	21	13	8	61.5 %
	2,085	1,803	282	15.6 %
Operating Loss	$(254)	$(231)	$23	10.0 %

The reported results of our regional segment do not reflect the total contribution of the regional segment to our system-wide operations. The regional segment generates revenue for the mainline segment as it feeds passengers from smaller cities into our hubs.

The variances in specific line items for the regional segment are due to the growth in our regional operations and reflect generally the same factors discussed under consolidated results of operations**.** ASMs for our regional operations increased by 15% in 2005 compared to 2004.

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

	Year Ended December 31,			
	2005	2004	Increase	% Increase
Capacity purchase expenses	$1,560	$1,507	$53	3.5%
Fuel and fuel taxes in excess of 71.2 cents per gallon cap	322	126	196	155.6%
Aircraft sublease income	(310)	(282)	28	9.9%
ExpressJet capacity purchase, net	$1,572	$1,351	$221	16.4%

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

The deconsolidation of Holdings from our financial statements effective November 12, 2003, more fully described in Note 16 to our consolidated financial statements included in Item 8 of this report, also impacts the comparability of our results to those of prior years with the exception of passenger revenue. Accordingly, the expense variance explanations discussed below exclude the effect of ExpressJet in 2003 unless indicated otherwise. Significant components of our operating results attributable to the deconsolidation of ExpressJet and attributable to our business generally are set forth in the table below (in millions, except percentage changes):

	Year Ended December 31,		Components of Increase (Decrease)		
			Increase (Decrease) related to ExpressJet	All Other Increase	% Increase (Decrease) Excluding ExpressJet
	2004	2003	Deconsolidation (A)	(Decrease)	Deconsolidation
Operating Revenue:					
Passenger	$9,042	$8,179	$ -	$ 863	10.6 %
Cargo, mail and other	857	822	(4)	39	4.8 %
	9,899	9,001	(4)	902	10.0 %
Operating Expenses:					
Wages, salaries and related costs	2,819	3,056	(304)	67	2.4 %
Aircraft fuel and related taxes	1,587	1,319	(170)	438	38.1 %
ExpressJet capacity purchase, net	1,351	153	953	245	22.2 %
Aircraft rentals	891	896	-	(5)	(0.6)%
Landing fees and other rentals	654	632	(87)	109	20.0 %
Distribution costs	552	525	-	27	5.1 %
Maintenance, materials and repairs	414	509	(111)	16	4.0 %
Depreciation and amortization	415	447	(17)	(15)	(3.5)%
Passenger servicing	306	297	(11)	20	7.0 %
Security fee reimbursement	-	(176)	3	173	NM
Special charges	121	100	-	21	NM
Other	1,027	1,055	(103)	75	7.9 %
	10,137	8,813	153	1,171	13.1 %
Operating Income (Loss)	(238)	188	(157)	(269)	NM
Nonoperating Income (Expense)	(211)	(2)	50	(259)	NM

Income (Loss) before Income Taxes and Minority Interest	(449)	186	(107)	(528)	NM
Income Tax Benefit (Expense)	40	(109)	58	91	NM
Minority Interest	-	(49)	49	-	NM
Net Income (Loss)	$(409)	$ 28	$ -	$(437)	NM

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

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

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

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

	2004 Passenger Revenue (in millions)	Percentage Increase (Decrease) 2004 vs. 2003		
		Passenger Revenue	RASM	ASMs
Domestic	$4,510	2.3%	(0.8)%	3.1%
Transatlantic	1,366	26.1%	4.0 %	21.2%
Latin America	977	8.3%	(2.9)%	11.5%
Pacific	618	25.0%	13.2 %	10.5%
Total Mainline	7,471	8.4%	0.2 %	8.0%
Regional	1,571	21.8%	(1.4)%	23.6%
Total System	$9,042	10.6%	0.9 %	9.5%

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

Operating Expenses. Wages, salaries and related costs increased in 2004 compared to 2003 primarily due to increased flight activity which resulted in a slight increase in the average number of employees and higher wage rates. Aircraft fuel and related taxes increased due to a significant rise in fuel prices, combined with an increase in flight activity. The average jet fuel price per gallon including related taxes increased 30.2% from $0.91 in 2003 to $1.19 in 2004. The impact of higher jet fuel prices in 2004 was partially offset by $74 million of gains from our fuel hedging activities. Such gains were immaterial in 2003.

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

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

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

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

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

Nonoperating Income (Expense). Nonoperating income (expense) includes net interest expense, income from affiliates, and gains from dispositions of investments. Total nonoperating income (expense) was a net expense in both 2004 and 2003. The net expense increased $259 million in 2004 compared to 2003 primarily due to gains in 2003 of $173 million on the dispositions of Holdings shares and $132 million related to the sale of our investments in Hotwire and Orbitz. Interest expense, net of capitalized interest and interest income, for 2004 was relatively flat compared to 2003. Income from affiliates, which includes income related to our tax sharing agreement with Holdings and our equity in the earnings of Holdings and Copa, was $34 million higher in 2004 as compared to 2003 primarily as a result of higher tax sharing payments in 2004.

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. Additionally, due to our continued losses, we were required to provide a valuation allowance on the deferred tax assets beginning in the first quarter of 2004. As a result, the majority of our 2004 losses were not reduced by any tax benefit. The impact of the non-deductibility of certain expenses and state income taxes on our effective tax rate is generally greater in periods for which we report lower income (loss) before income taxes. During 2003, we contributed 7.4 million shares of Holdings common stock valued at approximately $100 million to our defined benefit pension plan. For tax purposes, our deduction was limited to the market value of the shares contrib uted. Since our tax basis in the shares was higher than the market value at the time of the contribution, the nondeductible portion increased our tax expense by $9 million.

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

Segment Results of Operations

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

	Year Ended December 31,		Increase	% Increase
	2004	2003	(Decrease)	(Decrease)
Operating Revenue	$ 8,327	$7,690	$ 637	8.3 %
Operating Expenses:				
Wages, salaries and related costs	2,773	2,713	60	2.2 %
Aircraft fuel and related taxes	1,587	1,149	438	38.1 %
Aircraft rentals	632	670	(38)	(5.7)%
Landing fees and other rentals	622	540	82	15.2 %
Distribution costs	472	456	16	3.5 %
Maintenance, materials and repairs	414	398	16	4.0 %
Depreciation and amortization	404	419	(15)	(3.6)%
Passenger servicing	295	278	17	6.1 %
Security fee reimbursement	-	(173)	173	NM
Special charges	121	91	30	NM
Other	1,014	930	84	9.0 %
	8,334	7,471	863	11.6 %
Operating Income (Loss)	$ (7)	$ 219	$(226)	NM

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

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

	Year Ended December 31,		Components of Increase (Decrease)		
	2004	2003	Increase (Decrease) Related to ExpressJet Deconsolidation (A)	All Other Increase (Decrease)	% Increase (Decrease) Excluding ExpressJet Deconsolidation
Operating Revenue	$ 1,572	$1,311	$ (4)	265	20.3 %
Operating Expenses:					
Wages, salaries and related costs	46	343	(304)	7	17.9 %
Aircraft fuel and related taxes	-	170	(170)	-	-
ExpressJet capacity purchase, net	1,351	153	953	245	22.2 %
Aircraft rentals	259	226	-	33	14.6 %
Landing fees and other rentals	32	92	(87)	27	540.0 %
Distribution costs	80	69	-	11	15.9 %
Maintenance, materials and repairs	-	111	(111)	-	-
Depreciation and amortization	11	28	(17)	-	-

Passenger servicing	11	19	(11)	3	37.5 %
Security fee reimbursement	-	(3)	3	-	-
Special charges	-	9	-	(9)	NM
Other	13	125	(103)	(9)	(40.9)%
	1,803	1,342	153	308	20.6 %
Operating Loss	$ (231)	$ (31)	$ (157)	$(43)	22.9 %

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

The reported results of our regional segment do not reflect the total contribution of the regional segment to our system-wide operations. The regional segment generates revenue for the mainline segment as it feeds passengers from smaller cities into our hubs.

The variances in specific line items for the regional segment are due to the same factors discussed under consolidated results of operations, with the exception of aircraft rentals. Regional aircraft rental expense increased due to the higher number of regional jets in ExpressJet's fleet. ExpressJet took delivery of 21 new regional jets in 2004.

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

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

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

Liquidity and Capital Resources

As of December 31, 2005, we had $2.2 billion in consolidated cash, cash equivalents and short-term investments, which is $529 million more than at December 31, 2004. At December 31, 2005, we had $241 million of restricted cash, which is primarily collateral for estimated future workers' compensation claims, credit card processing contracts, letters of credit and performance bonds. Restricted cash at December 31, 2004 totaled $211 million.

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

Operating Activities. Cash flows provided by operations for 2005 were $457 million, compared to cash flows provided by operations of $373 million for 2004. The increase in cash flows provided by operations in 2005 compared to 2004 is primarily the result of advance ticket sales associated with increased international flight activity and the impact of our cost-savings initiatives, partially offset by higher fuel costs. Cash flows provided by operations in 2004 benefited from our election with respect to 2004 to defer contributions to our primary defined benefit pension plan. Cash contributions to our defined benefit pension plans totaled $224 million in 2005.

Investing Activities. Cash flows provided by investing activities were $51 million for 2005, compared to cash flows provided by investing activities of $53 million for 2004. In 2005, we received $172 million from the sale of approximately nine million shares of Copa common stock. In 2004, we received $98 million related to the disposition of our remaining investment in Orbitz.

Our capital expenditures during 2005 totaled $185 million and net purchase deposits paid totaled $3 million, while our capital expenditures during 2004 totaled $162 million and net purchase deposits refunded totaled $111 million. Capital expenditures for 2006 are expected to be approximately $300 million, or $325 million after considering purchase deposits to be paid, net of purchase deposits to be refunded. Projected capital expenditures for 2006 consist of $155 million of fleet expenditures, $100 million of non-fleet expenditures and $45 million for rotable parts and capitalized interest.

As of December 31, 2005, we had firm commitments for 52 new aircraft from Boeing, with an estimated cost of $2.5 billion, and options to purchase 30 additional Boeing aircraft. We are scheduled to take delivery of six new 737-800 aircraft in 2006, with delivery of the remaining 46 new Boeing aircraft occurring from 2007 through 2011. In addition, we are scheduled to take delivery of two used 757-300 aircraft in 2006 under operating leases.

We have backstop financing for six 737-800 aircraft to be delivered in 2006 and two 777-200ER aircraft to be delivered in 2007. By virtue of these agreements, we have financing available for all Boeing aircraft scheduled to be delivered through 2007. However, we do not have backstop financing or any other financing currently in place for the remainder of the aircraft. Further financing will be needed to satisfy our capital commitments for our firm aircraft and other related capital expenditures. We can provide no assurance that sufficient financing will be available for the aircraft on order or other related capital expenditures, or for our capital expenditures in general.

As of December 31, 2005, ExpressJet had firm commitments for the final eight regional jets currently on order from Embraer with an estimated cost of approximately $0.2 billion. ExpressJet currently anticipates taking delivery of these regional jets in 2006. ExpressJet does not have an obligation to take any of these firm Embraer aircraft that are not financed by a third party and leased to either ExpressJet or us. Under the capacity purchase agreement between us and ExpressJet, we have agreed to lease as lessee and sublease to ExpressJet the regional jets that are subject to ExpressJet's firm purchase commitments. In addition, under the capacity purchase agreement with ExpressJet, we generally are obligated to purchase all of the capacity provided by these new aircraft as they are delivered to ExpressJet.

We also have significant operating lease and facility rental obligations. Aircraft and facility rental expense under operating leases were approximately $1.4 billion in 2005.

Financing Activities. Cash flows provided by financing activities, primarily the issuance of new long-term debt offset by the payment of long-term debt and capital lease obligations, were $37 million for 2005, compared to cash flows used in financing activities of $364 million in 2004. We issued $436 million of new debt and raised $203 million through the public offering of 18 million shares of our common stock in 2005. Debt and capital lease payments were $215 million higher in 2005 than in 2004 primarily as a result of the maturity of our 8% unsecured notes in December 2005.

At December 31, 2005, we had approximately $5.6 billion (including current maturities) of long-term debt and capital lease obligations. We currently do not have any undrawn lines of credit or revolving credit facilities, and substantially all of our otherwise readily financeable assets are encumbered. However, our remaining interests in Holdings and Copa are unencumbered. We were in compliance with all debt covenants at December 31, 2005.

In June 2005, we and our two wholly-owned subsidiaries, Air Micronesia, Inc. ("AMI") and Continental Micronesia, Inc. ("CMI"), closed on a $350 million secured loan facility. AMI and CMI have unconditionally guaranteed the loan made to us, and we and AMI have unconditionally guaranteed the loan made to CMI.

The facility consists of two loans, both of which have a term of six years and are non-amortizing, except for certain mandatory prepayments described below. The loans accrue interest at a floating rate determined by reference to the three-month London Interbank Offered Rate, known as LIBOR, plus 5.375% per annum. The loans and guarantees are secured by certain of our U.S.-Asia routes and related assets, all of the outstanding common stock of AMI and CMI and substantially all of the other assets of AMI and CMI, including route authorities and related assets.

The loan documents require us to maintain a minimum balance of unrestricted cash and short-term investments of $1.0 billion dollars at the end of each month. The loans may become due and payable immediately if we fail to maintain the monthly minimum cash balance and upon the occurrence of other customary events of default under the loan documents. If we fail to maintain a minimum balance of unrestricted cash and short-term investments of $1.125 billion, we and CMI will be required to make a mandatory aggregate $50 million prepayment of the loans. In addition, if the ratio of the outstanding loan balance to the value of the collateral securing the loans, as determined by periodic appraisals, is greater than 48%, we and CMI will be required to post additional collateral or prepay the loans to reestablish a loan-to-collateral value ratio of not greater than 48%. We are currently in compliance with these covenants.

In March 2005, we extended our current agreement with Chase to jointly market credit cards. In addition to reaching an agreement on advertising and other marketing commitments, Chase agreed to increase the rate it pays for mileage credits under our frequent flyer program. In April 2005, Chase purchased $75 million of mileage credits under the program, which will be redeemed for mileage purchases in 2007 and 2008 and recognized as other revenue consistent with other mileage sales in 2007 and 2008. In consideration for the advance purchase of mileage credits, we have provided a security interest to Chase in certain transatlantic routes. The $75 million purchase of mileage credits has been treated as a loan from Chase and will be reduced ratably in 2007 and 2008 as the mileage credits are redeemed. The new agreement expires at the end of 2009.

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

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

At December 31, 2005, our senior unsecured debt was rated Caa2 by Moody's and CCC+ by Standard and Poor's. Reductions in our credit ratings have increased the interest we pay on new issuances of debt and may increase the cost and reduce the availability of financing to us in the future. We do not have any debt obligations that would be accelerated as a result of a credit rating downgrade. However, we would have to post additional collateral of approximately $45 million under our bank-issued credit card processing agreement if our debt rating falls below Caa3 as rated by Moody's or CCC- as rated by Standard and Poor's. We would also be required to post additional collateral of up to $27 million under our worker's compensation program if our debt rating falls below Caa2 as rated by Moody's or CCC+ as rated by Standard & Poor's.

Our bank-issued credit card processing agreement also contains financial covenants which require, among other things, that we maintain a minimum EBITDAR (generally, earnings before interest, taxes, depreciation, amortization, aircraft rentals and income from affiliates, adjusted for special items) to fixed charges (interest and aircraft rentals) ratio of 0.9 to 1.0 through June 30, 2006 and 1.1 to 1.0 thereafter. The liquidity covenant requires us to maintain a minimum level of $1.0 billion of unrestricted cash and short-term investments and a minimum ratio of unrestricted cash and short-term investments to current liabilities of .27 to 1.0 through June 30, 2006 and .29 to 1.0 thereafter. Although we are currently in compliance with all of the covenants, failure to maintain compliance would result in our being required to post up to an additional $330 million of cash collateral, which would adversely affect our liquidity. Depending on our unrestricted cash and short-term investments balance at the time, the posting of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the $1.0 billion minimum balance requirement under our $350 million secured loan facility, resulting in a default under such facility.

On September 23, 2005, the SEC declared effective our universal shelf registration statement covering the sale from time to time of up to $1 billion of our securities in one or more public offerings. The securities offered might include debt securities, including pass-through certificates, shares of common stock, shares of preferred stock, and securities exercisable for, or convertible into, shares of common stock, such as stock purchase contracts, warrants or subscription rights, among others. Proceeds from any sale of securities under this registration statement other than pass-through certificates would likely be used for general corporate purposes, including the repayment of debt, the funding of pension obligations and working capital requirements, whereas proceeds from the issuance of pass-through certificates would be used to finance or refinance aircraft and related equipment. On October 24, 2005, we completed a public offering of 18 million shares of common stock under this registration sta tement, raising $203 million in cash.

We have utilized proceeds from the issuance of pass-through certificates to finance the acquisition of 251 leased and owned mainline jet aircraft. Typically, these pass-through certificates, as well as separate financings secured by aircraft spare parts and spare engines, contain liquidity facilities whereby a third party agrees to make payments sufficient to pay at least 18 months of interest on the applicable certificates if a payment default occurs. The liquidity providers for these certificates include the following: CALYON New York Branch, Landesbank Hessen-Thuringen Girozentrale, Morgan Stanley Capital Services, 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 are also the issuer of pass-through certificates secured by 127 leased regional jet aircraft currently operated by ExpressJet and three regional jet aircraft that are scheduled to be delivered through February 2006. The liquidity providers for these certificates include the following: ABN AMRO Bank N.V., Chicago Branch, Citibank N.A., Citicorp North America, Inc., Landesbank Baden-Wurttemberg, RZB Finance LLC and WestLB AG, New York Branch.

We currently utilize policy providers to provide credit support on three separate financings with an outstanding principal balance of $523 million at December 31, 2005. 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 Guaranty Insurance Company (a subsidiary of FGIC). Financial information for FGIC is available over the internet at *http://www.fgic.com* and financial information for the parent companies of our other policy providers is available over the internet at the SEC's website at *http://www.sec.gov* or at the SEC's public reference room in Washington, D.C. A policy provider is also used as credit support for the financing of certain facilities at Bu sh Intercontinental, currently subject to a sublease by us to the City of Houston, with an outstanding balance of $57 million at December 31, 2005.

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

Contractual Obligations			Payments Due				Later Years
	Total	2006	2007	2008	2009	2010	
Debt and leases:							
Long-term debt (1)	$ 7,846	$ 916	$1,240	$ 866	$ 698	$ 802	$ 3,324
Capital lease obligations (1)	614	39	40	46	16	16	457
Aircraft operating leases (2)	11,068	1,003	966	955	910	924	6,310
Nonaircraft operating leases (3)	6,931	429	400	377	374	364	4,987
Future operating leases (4)	194	9	11	11	11	11	141
Other:							
Capacity Purchase Agreement (5)	2,368	1,339	922	107	-	-	-

Aircraft and other purchase commitments (6)	2,709	252	274	630	855	378	320
Projected pension contributions (7)	1,554	258	318	376	262	98	242
Total (8)	$33,284	$4,245	$4,171	$3,368	$3,126	$2,593	$15,781

1. Amounts represent contractual amounts due, including interest. Interest on floating rate debt was estimated using rates in effect at December 31, 2005.
2. Amounts represent contractual amounts due and exclude $3.0 billion of projected sublease income to be received from ExpressJet.
3. Amounts represent minimum contractual amounts.
4. Amounts represent payments for firm regional jets to be financed by third parties and leased by us. We will sublease the regional jets to ExpressJet. Neither we nor ExpressJet has an obligation to take any firm aircraft that are not financed by a third party. Amounts are net of previously paid purchase deposits and exclude sublease income we will receive from ExpressJet. See Note 19 to our consolidated financial statements included in Item 8 of this report for a discussion of these purchase commitments.
5. Amounts represent our estimates of future minimum noncancelable commitments under our agreement with ExpressJet and do not include the portion of the underlying obligations for aircraft and facility rent that are disclosed as part of aircraft and nonaircraft operating leases. See Note 16 to our consolidated financial statements included in Item 8 of this report for the assumptions used to estimate the payments.
6. Amounts represent contractual commitments for firm-order aircraft only, net of previously paid purchase deposits, and noncancelable commitments to purchase goods and services, primarily information technology support. See Note 19 to our consolidated financial statements included in Item 8 of this report for a discussion of these purchase commitments.
7. Amounts represent our estimate of the minimum funding requirements as determined by government regulations. Amounts are subject to change based on numerous assumptions, including the performance of the assets in the plan and bond rates. See "Critical Accounting Policies and Estimates" in this Item for a discussion of our assumptions regarding our pension plans.
8. Total contractual obligations do not include long-term contracts where the commitment is variable in nature, such as credit card processing agreements, or where short-term cancellation provisions exist, such as power-by-the-hour engine maintenance agreements.

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

Operating Leases. At December 31, 2005, we had 482 aircraft under operating leases, including 227 in-service mainline aircraft, 248 in-service regional jets and seven aircraft that were not in service. These leases have remaining lease terms ranging up to 19 years. In addition, we have non-aircraft operating leases, principally related to airport and terminal facilities and related equipment. The obligations for these operating leases are not included in our consolidated balance sheets. Our total rental expense for aircraft and non-aircraft operating leases was $928 million and $466 million, respectively, in 2005.

Capacity Purchase Agreement. Our capacity purchase agreement with ExpressJet provides that we purchase, in advance, all of its available seat miles for a negotiated price, and we are at risk for reselling the available seat miles at market prices. Under the agreement, ExpressJet has the right through December 31, 2006 to be our sole provider of regional jet service from our hubs. In December 2005, we gave notice to ExpressJet that we would withdraw 69 of the 274 regional jet aircraft (including 2006 deliveries) from the capacity purchase agreement because we believe the rates charged by ExpressJet for regional capacity are above the current market. While our discussions with ExpressJet continue, we have requested proposals from numerous regional jet operators to provide regional jet service to replace the withdrawn capacity. Any transition of service of the withdrawn capacity from ExpressJet to a new operator would begin in January 2007 and be completed during the summer of 2007. See Item 8. Financial Statements and Supplementary Data, Note 16 for details of our capacity purchase agreement with ExpressJet.

Guarantees and Indemnifications. We are the guarantor of approximately $1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon, excluding the US Airways contingent liability discussed below. These bonds, issued by various municipalities and other governmental entities, 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.

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 $156 million at December 31, 2005 and having a final scheduled maturity in 2015. If US Airways defaults on these obligations, we would be obligated to cure the default and we would have the right to occupy the terminal after US Airways' interest in the lease had been terminated.

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

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

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

In our financing transactions that include loans, we typically agree to reimburse lenders for any reduced returns with respect to loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on LIBOR, for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to certain mitigation obligations of the lenders. At December 31, 2005, we had $1.0 billion of floating rate debt and $0.3 billion of fixed rate debt, with remaining terms of up to 10 years, that is subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 10 years and an aggregate carrying value of $1.1 billion, we bear the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions. In addition, in cross-border air craft 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 withholding taxes, subject to customary exclusions. These capital leases for two 757 aircraft expire in 2008 and have a carrying value of $49 million at December 31, 2005.

We cannot estimate the potential amount of future payments under the foregoing indemnities and agreements due to unknown variables related to potential government changes in capital adequacy requirements or tax laws.

Deferred Tax Assets. We have not paid federal income taxes in the last five years. As of December 31, 2005, we had gross deferred tax assets aggregating $2.3 billion, including $1.5 billion related to net operating losses ("NOLs"). We also had a valuation allowance of $495 million, which completely offset our net deferred tax assets.

Income tax benefits recorded on losses result in deferred tax assets for financial reporting purposes. We are required to provide a valuation allowance for deferred tax assets to the extent management determines that it is more likely than not that such deferred tax assets will ultimately not be realized. Due to our continued losses, we were required to provide a valuation allowance on deferred tax assets beginning in the first quarter of 2004. As a result, all of our 2005 losses and the majority of our 2004 losses were not reduced by any tax benefit. Furthermore, we expect to be required to provide additional valuation allowance in conjunction with deferred tax assets recorded on losses in the future.

Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. In the event of an ownership change, utilization of our NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax exempt rate (which was 4.40% for December 2005). Any unused annual limitation may be carried over to later years. The amount of the limitation may, under certain circumstances, be increased by built-in gains held by us at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, our annual NOL utilization would be limited to approximately $81 million per year, before consideration of any built-in gains.

During 2005, we entered into a final settlement agreement with the Internal Revenue Service ("IRS") resolving all matters raised by the IRS during its examination of our federal income tax returns through the year ended December 31, 1999. As a result of the settlement with the IRS and the associated deferred tax account reconciliation, deferred tax liabilities and long-term assets (primarily routes and airport operating rights, which values were established upon our emergence from bankruptcy in April 1993) were reduced by $215 million to reflect the ultimate resolution of tax uncertainties existing at the point we emerged from bankruptcy. The composition of the individual elements of deferred taxes recorded on the balance sheet was also adjusted; however, the net effect of these changes was entirely offset by an increase in the deferred tax valuation allowance due to our prior determination that it is more likely than not that our net deferred tax assets will ultimately not be realized. The settlem ent did not have a material impact on our results of operations, financial condition or liquidity.

Environmental Matters. We could 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 ("CRWQCB") mandated a field study of the site and it was completed in September 2001. In April 2005, under the threat of a CRWQCB enforcement action, we began environment remediation of jet fuel contamination surrounding our aircraft maintenance hangar pursuant to a work plan submitted to (and approved by) the CRWQCB and our landlord, the Los Angeles World Airports.

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 expect our total losses from environmental matters to be approximately $45 million, for which we were fully accrued at December 31, 2005. We have evaluated and recorded this accrual for environmental remediation costs separately from any related insurance recovery. We have not recognized any material receivables related to insurance recoveries at December 31, 2005.

Based on currently available information, we believe that our reserves for potential environmental remediation costs are adequate, although reserves could be adjusted as further information develops or circumstances change. However, we do not expect these items to materially impact our results of operations, financial condition or liquidity.

Off-Balance Sheet Arrangements

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

We have no arrangements of the types described in the first three categories that we believe may have a material current or future effect on our results of operations, financial condition or liquidity. Certain guarantees that we do not expect to have a material current or future effect on our results of operations, financial condition or liquidity are disclosed in Note 19 to our consolidated financial statements included in Item 8 of this report.

We do have obligations arising out of variable interests in unconsolidated entities. See Note 15 to our consolidated financial statements included in Item 8 of this report for a discussion of our off-balance sheet aircraft leases, airport leases (which includes the US Airways contingent liability), subsidiary trust and our capacity purchase agreement with ExpressJet.

Critical Accounting Policies and Estimates

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

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

Pension Plans. We account for our defined benefit pension plans using Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions" ("SFAS 87"). Under SFAS 87, pension expense is recognized on an accrual basis over employees' approximate service periods. Pension expense calculated under SFAS 87 is generally independent of funding decisions or requirements. We recognized expense for our defined benefit pension plans totaling $280 million, $293 million and $328 million in 2005, 2004 and 2003, respectively. We currently expect our expense related to our defined benefit pension plans to be approximately $165 million in 2006, excluding any non-cash settlement charges.

Under the new collective bargaining agreement with our pilots ratified on March 30, 2005, which we refer to as the "pilot agreement," future defined benefit accruals for pilots ceased and retirement benefits accruing in the future are provided through two new pilot-only defined contribution plans. See Note 10 to our consolidated financial statements included in Item 8 of this report for a discussion of these new defined contribution plans. As required by the pilot agreement, defined benefit pension assets and obligations related to pilots in our primary defined benefit pension plan (covering substantially all U.S. employees other than Chelsea Food Services ("Chelsea") and CMI employees) were spun out into a separate pilot-only defined benefit pension plan, which we refer to as the "pilot defined benefit pension plan." Subsequently, on May 31, 2005, future benefit accruals for pilots ceased and the pilot defined benefit pension plan was "frozen." As of that freeze date, all existing accrued benefits for pilots (including the right to receive a lump sum payment upon retirement) were preserved in the pilot defined benefit pension plan. Accruals for non-pilot employees under our primary defined benefit pension plan continue.

Our plans' under-funded status decreased from $1.6 billion at December 31, 2004 to $1.2 billion at December 31, 2005. The fair value of our plans' assets increased from $1.3 billion at December 31, 2004 to $1.4 billion at December 31, 2005. In 2005, we contributed $224 million in cash and 12.1 million shares of Holdings common stock valued at $130 million to our defined benefit pension plans. Due to high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we elected in 2004 and 2005 to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we were not required to make any contributions to our primary defined benefit pension plan in 2004 and did not do so. The elections also allowed us to make smaller contributions to our defined benefit pension plans in 2005, and will allow smaller contributions in 2006, than would have been otherwise required. Funding requirements for defined benefit pension plans are determined by governm ent regulations, not SFAS 87.

Based on current assumptions and applicable law, we will be required to contribute in excess of $1.5 billion to our defined benefit pension plans over the next ten years, including $258 million in 2006, to meet our minimum funding obligations. Our primary assumptions relate to the rate of return on plan assets, the discount rate and no legislative changes in pension funding requirements. If actual experience is different from our current assumptions, our estimates may change. The U.S. Senate approved a pension reform bill in November 2005 that would give airlines the option of amortizing pension liabilities over a twenty-year period. The pension reform bill passed by the U.S. House of Representatives in December 2005 does not include a similar provision. The bills are expected to go to conference committee in early 2006 and it is not possible to predict the outcome.

When calculating pension expense for 2005, we assumed that our plans' assets would generate a long-term rate of return of 9.0%. This rate is consistent with the rate used to calculate the 2004 and 2003 expense. We develop our expected long-term rate of return assumption based on historical experience and by evaluating input from the trustee managing the plans' assets. Our expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on our goal of earning the highest rate of return while maintaining risk at acceptable levels. The plans strive to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio. We regularly review our actual asset allocation and periodically rebalance the pension plans' investments to our targeted allocation when considered appropriate. Our allocation of assets was as follows at December 31, 2005:

	Percent of Total	Expected Long-Term Rate of Return

U.S. equities	49%		9.4%	
International equities	21		9.4	
Fixed income	22		6.8	
Other	8		12.4	
Total	100%			

Pension expense increases as the expected rate of return on plan assets decreases. When calculating pension expense for 2006, we will assume that our plans' assets will generate a long-term rate of return of 8.5%, a decrease of 50 basis points compared to the rate of return we assumed in calculating pension expense for 2005, 2004 and 2003. We have changed our assumed long-term rate of return to reflect the impact that lower returns in recent years has had on our long-term expectations. Lowering the expected long-term rate of return on our plan assets by an additional 50 basis points (from 8.5% to 8.0%) would increase our estimated 2006 pension expense by approximately $7 million.

We discounted our future pension obligations using a weighted average rate of 5.68% at December 31, 2005, compared to 5.75% at December 31, 2004 and 6.25% at December 31, 2003. We determine the appropriate discount rate for each of our plans based on current rates on high quality corporate bonds that would generate the cash flow necessary to pay plan benefits when due. This approach can result in different discount rates for different plans, depending on each plan's projected benefit payments. The discount rates for our plans ranged from 5.62% to 5.74% at December 31, 2005. The pension liability and future pension expense both increase as the discount rate is reduced. Lowering the discount rate by 50 basis points (from 5.68% to 5.18%) would increase our pension liability at December 31, 2005 by approximately $246 million and increase our estimated 2006 pension expense by approximately $29 million.

At December 31, 2005, we have unrecognized actuarial losses of $1.1 billion. These losses will be recognized as a component of pension expense in future years. Our estimated 2006 expense related to our defined benefit pension plans of $165 million includes the recognition of approximately $74 million of these losses.

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

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

We are required to charge certain taxes and fees on our passenger tickets. These taxes and fees include U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign arrival and departure taxes. These taxes and fees are legal assessments on the customer. We have a legal obligation to act as a collection agent. As we are not entitled to retain these taxes and fees, we do not include such amounts in passenger revenue. We record a liability when the amounts are collected and relieve the liability when payments are made to the applicable government agency or operating carrier.

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

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

We recognized fleet impairment losses in 2003 which were partially the result of the September 11, 2001 terrorist attacks and the related aftermath. These events resulted in a reevaluation of our operating and fleet plans, resulting in the grounding of certain older aircraft types or acceleration of the dates on which the related aircraft were to be removed from service. The grounding or acceleration of aircraft retirement dates resulted in reduced estimates of future cash flows. We recorded an impairment charge of $65 million to reflect decreases in the fair value of our owned MD-80s and spare parts inventory for permanently grounded fleets. We estimated the fair value of these aircraft and related inventory based on industry trends and, where available, reference to market rates and transactions. All other long-lived assets, principally our other fleet types and airport operating rights, were determined to be recoverable based on our estimates of future cash flows. There were no impairment los ses recorded during 2004 or 2005.

We also perform annual impairment tests on our routes, which are indefinite life intangible assets. These tests are based on estimates of discounted future cash flows, using assumptions consistent with those used for aircraft and airport operating rights impairment tests. We determined that we did not have any impairment of our routes at December 31, 2005.

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

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

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

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

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

During the year ended December 31, 2005, OnePass participants claimed approximately 1.4 million awards. Frequent flyer awards accounted for an estimated 7.0% of our total RPMs. We believe displacement of revenue passengers is minimal given our ability to manage frequent flyer inventory and the low ratio of OnePass award usage to revenue passenger miles.

At December 31, 2005, we estimated that approximately 2.5 million free travel awards outstanding were expected to be redeemed for free travel on Continental, ExpressJet, CMI or alliance airlines. Our total liability for future OnePass award redemptions for free travel and unrecognized revenue from sales of OnePass miles to other companies was approximately $236 million at December 31, 2005. This liability is recognized as a component of air traffic liability in our consolidated balance sheets.

Pending Accounting Pronouncement. In December 2004, the FASB issued a revision of SFAS 123, "Share Based Payment" ("SFAS 123R"), which requires companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is to be estimated using option-pricing models. The resulting cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. Under the original SFAS 123, this accounting treatment was optional with pro forma disclosures required.

We will adopt SFAS 123R effective January 1, 2006. It will be effective for all awards granted after that date. For those stock option awards granted prior to January 1, 2006 but for which the vesting period is not complete, we will use the modified prospective transition method permitted by SFAS 123R. Under this method, we will account for such awards on a prospective basis, with expense being recognized in our statement of operations beginning in the first quarter of 2006 using the grant-date fair values previously calculated for our SFAS 123 pro forma disclosures presented in Note 1(o). We will recognize the related compensation cost not previously recognized in the SFAS 123 pro forma disclosures over the remaining vesting period.

In addition to changing the accounting for our stock options and employee stock purchase plan, SFAS 123R will impact the accounting for our Long-Term Incentive and Restricted Stock Unit ("RSU") program. As discussed in Note 8 to our consolidated financial statements included in Item 8 of this report, awards made pursuant to this program can result in cash payments to our officers if there are specified increases in our stock price over multi-year performance periods. Under our current accounting, we have recognized no liability or expense as of December 31, 2005 because the targets set forth in the program had not been met as of that date. Under SFAS 123R, these awards will be measured at fair value at each reporting date and the related expense will be recognized over the remaining required service periods. The fair value will be determined using a pricing model.

We will recognize a cumulative effect of change in accounting principle related to the adoption of SFAS 123R on January 1, 2006, reducing earnings approximately $26 million. On February 1, 2006, our officers surrendered their RSU awards with a performance period ending March 31, 2006. Approximately $15 million of the cumulative effect of change in accounting principle at January 1, 2006 relates to these surrendered awards. Accordingly, we will record this amount as a reduction of operating expense in the first quarter of 2006.

We anticipate that the impact on our statement of operations of adopting SFAS 123R for our stock options outstanding at December 31, 2005 will be similar to the pro forma impact of SFAS 123 presented in Note 1(o) to our consolidated financial statements included in Item 8 of this report. The incremental expense related to future stock option and employee stock purchase plan grants is difficult to predict because the expense will depend on the number of awards granted, the grant date stock price, volatility of our stock price and other factors. Likewise, the incremental expense related to the existing RSU awards is difficult to predict because it will vary with changes in our stock price.

Related Party Transactions

See Note 17 to our consolidated financial statements included in Item 8 of this report for a discussion of related party transactions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Sensitive Instruments and Positions

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

Aircraft Fuel. Our results of operations are significantly impacted by changes in the price of aircraft fuel. During 2005 and 2004, mainline aircraft fuel and related taxes accounted for 26.7% and 19.0%, respectively, of our mainline operating expenses. Based on our expected fuel consumption in 2006, a hypothetical one dollar increase in the price of crude oil will increase our annual fuel expense by approximately $42 million. Periodically, we enter into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide us with short-term hedge protection (generally three to six months) against sudden and significant increases in jet fuel prices, while simultaneously ensuring that we are not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel. We had no fuel hedges outstanding at December 31, 2005 or at any time during 2005, although we did have fuel hedges in place prior to December 31, 2004. In February 2006, we entered into petroleum swap contracts to hedge a minimal portion of our projected 2006 fuel usage.

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

At December 31, 2005, we had forward contracts outstanding to hedge approximately 56% of our projected Canadian dollar-denominated cash inflows for 2006. We estimate that at December 31, 2005, a uniform 10% strengthening in the value of the U.S. dollar relative to the Canadian dollar would have increased the fair value of the existing forward contracts by $5 million offset by a corresponding loss on the underlying 2006 exposure of $8 million, resulting in a net loss of $3 million.

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

- Forward and option contracts to hedge approximately 61% of our projected Japanese yen-denominated cash flows for 2005.
- Forward and option contracts to hedge approximately 45% of our British pound-denominated cash flows for 2005.
- Forward contracts to hedge approximately 42% of our projected Canadian dollar-denominated cash flows for 2005.
- Forward and option contracts to hedge approximately 39% of our projected euro-denominated cash flows for 2005.

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

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

We had approximately $1.7 billion and $1.4 billion of variable-rate debt as of December 31, 2005 and December 31, 2004, respectively. We had mitigated our exposure on certain variable-rate debt by entering into an interest rate swap agreement. This swap expired in November 2005. The notional amount of the outstanding interest rate swap at December 31, 2004 was $143 million. The interest rate swap effectively locked us into paying a fixed rate of interest on a portion of our floating rate debt securities through the expiration of the swap in November 2005. If average interest rates increased by 100 basis points during 2006 as compared to 2005, our projected 2006 interest expense would increase by approximately $16 million. At December 31, 2004, an interest rate increase by 100 basis points during 2005 as compared to 2004 was projected to increase interest expense by approximately $12 million, net of the interest rate swap.

As of December 31, 2005 and 2004, we estimated the fair value of $3.0 billion and $3.4 billion (carrying value) of our fixed-rate debt to be $2.8 billion and $2.9 billion, respectively, based upon discounted future cash flows using our current incremental borrowing rates for similar types of instruments or market prices. Market risk, estimated as the potential increase in fair value resulting from a hypothetical 100 basis points decrease in interest rates, was approximately $66 million and $83 million as of December 31, 2005 and 2004, respectively. The fair value of the remaining fixed-rate debt at December 31, 2005 and 2004, with a carrying value of $655 million and $745 million, respectively, was not practicable to estimate due to the large number of remaining debt instruments with relatively small carrying amounts.

If 2006 average short-term interest rates decreased by 100 basis points over 2005 average rates, our projected interest income from cash, cash equivalents and short-term investments would decrease by approximately $19 million during 2006, compared to an estimated $15 million decrease during 2005 measured at December 31, 2004.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Continental Airlines, Inc.

We have audited the accompanying consolidated balance sheets of Continental Airlines, Inc. (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 24, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 24, 2006

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

	Year Ended December 31,		
	2005	2004	2003
Operating Revenue:			
Passenger (excluding fees and taxes of $1,176, $1,046 and $904)	$10,235	$ 9,042	$8,179
Cargo, mail and other	973	857	822
	11,208	9,899	9,001
Operating Expenses:			
Wages, salaries and related costs	2,649	2,819	3,056
Aircraft fuel and related taxes	2,443	1,587	1,319
ExpressJet capacity purchase, net	1,572	1,351	153
Aircraft rentals	928	891	896
Landing fees and other rentals	708	654	632
Distribution costs	588	552	525
Maintenance, materials and repairs	455	414	509

Depreciation and amortization	389	415	447
Passenger servicing	332	306	297
Security fee reimbursement	-	-	(176)
Special charges	67	121	100
Other	1,116	1,027	1,055
	11,247	10,137	8,813
Operating Income (Loss)	(39)	(238)	188
Nonoperating Income (Expense):			
Interest expense	(410)	(389)	(393)
Interest capitalized	12	14	24
Interest income	72	29	19
Income from affiliates	90	118	40
Gain on sale of Copa Holdings, S.A. shares	106	-	-
Gain on dispositions of ExpressJet Holdings shares	98	-	173
Other, net	3	17	135
	(29)	(211)	(2)
Income (Loss) before Income Taxes and Minority Interest	(68)	(449)	186
Income Tax Benefit (Expense)	-	40	(109)
Minority Interest	-	-	(49)
Net Income (Loss)	$ (68)	$(409)	$ 28
Earnings (Loss) per Share:			
Basic	$(0.96)	$(6.19)	$ 0.43
Diluted	$(0.97)	$(6.25)	$ 0.41
Shares Used for Computation:			
Basic	70.3	66.1	65.4
Diluted	70.3	66.1	65.6

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

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

	December 31,	
ASSETS	2005	2004
Current Assets:		
Cash and cash equivalents	$ 1,723	$ 1,178
Restricted cash	241	211
Short-term investments	234	280
Total cash, cash equivalents and short-term investments	2,198	1,669
Accounts receivable, net of allowance for doubtful receivables of $15 and $22	515	472
Spare parts and supplies, net of allowance for obsolescence of $95 and $93	201	214
Deferred income taxes	154	166
Note receivable from ExpressJet Holdings, Inc.	18	81
Prepayments and other	341	222
Total current assets	3,427	2,824

Property and Equipment:		
Owned property and equipment:		
Flight equipment	6,706	6,744
Other	1,372	1,262
	8,078	8,006
Less: Accumulated depreciation	2,328	2,053
	5,750	5,953
Purchase deposits for flight equipment	101	105
Capital leases	344	396
Less: Accumulated amortization	109	140
	235	256
Total property and equipment	6,086	6,314
Routes	484	615
Airport operating rights, net of accumulated amortization of $335 and $316	133	236
Intangible pension asset	60	108
Investment in affiliates	112	156
Note receivable from ExpressJet Holdings, Inc.	-	18
Other assets, net	227	240
Total Assets	$10,529	$10,511

(continued on next page)

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

	December 31,	
LIABILITIES AND STOCKHOLDERS' EQUITY	2005	2004
Current Liabilities:		
Current maturities of long-term debt and capital leases	$ 546	$ 670
Accounts payable	846	766
Air traffic and frequent flyer liability	1,475	1,157
Accrued payroll	234	281
Accrued other liabilities	298	251
Total current liabilities	3,399	3,125
Long-Term Debt and Capital Leases	5,057	5,167
Deferred Income Taxes	154	378
Accrued Pension Liability	1,078	1,132
Other	615	554
Commitments and Contingencies		
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; 111,690,943 and 91,938,816 shares issued	1	1
Additional paid-in capital	1,635	1,408
Retained earnings	406	474
Accumulated other comprehensive loss	(675)	(587)
Treasury stock - 25,489,291 and 25,476,881 shares, at cost	(1,141)	(1,141)
Total stockholders' equity	226	155
Total Liabilities and Stockholders' Equity	$10,529	$10,511

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

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

	Year Ended December 31,		
	2005	2004	2003
Cash Flows from Operating Activities:			
Net income (loss)	$ (68)	$ (409)	$ 28
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	-	(40)	96
Depreciation and amortization	389	415	447
Special charges	67	121	100
Gains on dispositions of investments	(204)	-	(305)
Undistributed equity in the income of affiliates	(62)	(66)	(23)
Other, net	(18)	(73)	(36)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(56)	(76)	(25)
(Increase) decrease in spare parts and supplies	(7)	(37)	4
(Increase) decrease in prepayments and other assets	(59)	(135)	(27)
Increase (decrease) in accounts payable	80	(74)	(19)
Increase in air traffic and frequent flyer liability	318	200	75
Increase in accrued pension liability and other	77	547	27
Net cash provided by operating activities	457	373	342
Cash Flows from Investing Activities:			
Capital expenditures	(185)	(162)	(205)
Purchase deposits (paid) refunded in connection with aircraft deliveries, net	(3)	111	52
Sale of short-term investments, net	46	34	35
Proceeds from sale of Copa Holdings, S.A, net.	172	-	-
Proceeds from sales of ExpressJet Holdings, net	-	-	134
Proceeds from sales of Internet-related investments	-	98	76
Proceeds from sales of property and equipment	53	16	16
Increase in restricted cash, net	(30)	(41)	(108)
Other	(2)	(3)	53
Net cash provided by investing activities	51	53	53
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt, net	436	67	559
Payments on long-term debt and capital lease obligations	(662)	(447)	(549)
Proceeds from issuance of common stock, net	227	5	5
Other	36	11	-
Net cash (used in) provided by financing activities	37	(364)	15
Impact on cash of ExpressJet deconsolidation	-	-	(225)
Net Increase in Cash and Cash Equivalents	545	62	185
Cash and Cash Equivalents - Beginning of Period	1,178	1,116	931
Cash and Cash Equivalents - End of Period	$1,723	$1,178	$1,116

Supplemental Cash Flows Information:			
Interest paid	$ 385	$ 372	$ 374
Income taxes paid (refunded)	$ 2	$ (4)	$ 13
Investing and Financing Activities Not Affecting Cash:			
Property and equipment acquired through the issuance of debt	$ -	$ 226	$ 120
Capital lease obligations incurred	$ 1	$ 1	$ 22
Contribution of ExpressJet Holdings stock to pension plan	$ 130	$ -	$ 100

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

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

	Class B Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury Stock,	
	Shares	Amount	Capital	Earnings	Income (Loss)	At Cost	Total
December 31, 2002	65.8	$ 1	$1,391	$ 855	$(395)	$(1,140)	$ 712
Net Income	-	-	-	28	-	-	28
Other Comprehensive Income:							
Increase in additional minimum pension liability, net of income taxes of $11	- -	- -	- -	- -	(20)	- -	(20)
Other	-	-	-	-	(2)	-	(2)
Total Comprehensive Income							6
Issuance of common stock pursuant to stock plans	0.3	- -	5	- -	- -	- -	5
Other	-	-	5	-	-	(1)	4
December 31, 2003	66.1	1	1,401	883	(417)	(1,141)	727
Net Loss	-	-	-	(409)	-	-	(409)
Other Comprehensive Income:							
Increase in additional minimum pension liability	- -	- -	- -	- -	(176)	- -	(176)
Other	-	-	-	-	6	-	6
Total Comprehensive Loss							(579)
Issuance of common stock pursuant to stock plans	0.4	- -	5	- -	- -	- -	5
Other	-	-	2	-	-	-	2
December 31, 2004	66.5	1	1,408	474	(587)	(1,141)	155
Net Loss	-	-	-	(68)	-	-	(68)
Other Comprehensive Income:							
Increase in additional minimum pension liability	- -	- -	- -	- -	(96)	- -	(96)
Other	-	-	-	-	8	-	8
Total Comprehensive Loss							(156)
Issuance of common stock pursuant to stock offering	18.0	- -	203	- -	- -	- -	203
Issuance of common stock pursuant to stock plans	1.7	-	24	-	-	-	24
December 31, 2005	86.2	$ 1	$1,635	$ 406	$(675)	$(1,141)	$ 226

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

Continental Airlines, Inc., a Delaware corporation, is a major United States air carrier engaged in the business of transporting passengers, cargo and mail. Together with ExpressJet Airlines, Inc. ("ExpressJet"), a wholly-owned subsidiary of ExpressJet Holdings, Inc. ("Holdings") from which we purchase seat capacity, and our wholly-owned subsidiary, Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, we are the world's sixth largest airline (as measured by the number of scheduled miles flown by revenue passengers, known as revenue passenger miles, in 2005) and operate more than 2,500 daily departures. As of December 31, 2005, we flew to 132 domestic and 126 international destinations and offered additional connecting service through alliances with domestic and foreign carriers. We directly served 23 European cities, nine South American cities, Tel Aviv, Delhi, Hong Kong, Beijing and Tokyo. In addition, we provide service to more destinations in Mexico and Central America than an y other U.S. airline, serving 41 cities. Through our Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

As used in these Notes to Consolidated Financial Statements, the terms "Continental," "we," "us," "our" and similar terms refer to Continental Airlines, Inc. and, unless the context indicates otherwise, its consolidated subsidiaries.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation. Our consolidated financial statements include the accounts of Continental and all wholly-owned domestic and foreign subsidiaries. Through November 12, 2003, we also consolidated Holdings. See Note 16 for a discussion of the changes in our ownership of Holdings and the resulting impact on our consolidated financial statements. All intercompany accounts, transactions and profits arising from consolidated entities have been eliminated in consolidation.
b. Investments in Affiliates. Investments in unconsolidated affiliates that are not variable interest entities (see Note 14) are accounted for by the equity method when we have significant influence over the operations of the companies.
c. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
d. Cash and Cash Equivalents. We classify short-term, highly liquid investments which are readily convertible into cash and have a maturity of three months or less when purchased as cash and cash equivalents. Restricted cash is primarily collateral for estimated future workers' compensation claims, credit card processing contracts, letters of credit and performance bonds.
e. Short-Term Investments. We invest in commercial paper, asset-backed securities and U.S. government agency securities with original maturities in excess of three months but less than one year. These investments are classified as short-term investments in the accompanying consolidated balance sheets. Short-term investments are stated at cost, which approximates market value.
f. Spare Parts and Supplies. Inventories, expendable parts and supplies related to flight equipment are carried at average acquisition cost and are expensed when consumed in operations. An allowance for obsolescence is provided over the remaining estimated useful life of the related aircraft, plus allowances for spare parts currently identified as excess to reduce the carrying costs to the lower of amortized cost or net realizable value. Spare parts and supplies are assumed to have an estimated residual value of 10% of original cost. These allowances are based on management estimates, which are subject to change.
g. Property and Equipment. Property and equipment are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Jet aircraft and rotable spare parts are assumed to have estimated residual values of 15% and 10%, respectively, of original cost; other categories of property and equipment are assumed to have no residual value. The estimated useful lives for our property and equipment are as follows:

	Estimated Useful Life
Jet aircraft and simulators	25 to 30 years
Rotable spare parts	25 to 30 years
Buildings and improvements	10 to 30 years
Food service equipment	6 to 10 years
Maintenance and engineering equipment	8 years
Surface transportation and ground equipment	6 years
Communication and meteorological equipment	5 years
Computer software	3 to 10 years
Capital lease - flight and ground equipment	Shorter of Lease Term or Useful Life
Leasehold improvements	Shorter of Lease Term or Useful Life

Amortization of assets recorded under capital leases is included in depreciation expense in our consolidated statement of operations.

The carrying amount of computer software was $70 million and $72 million at December 31, 2005 and 2004, respectively. Depreciation expense related to computer software was $28 million, $28 million and $25 million for the years ended December 31, 2005, 2004 and 2003, respectively.

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

Airport operating rights represent gate space and slots (the right to schedule an arrival or departure within designated hours at a particular airport). Airport operating rights are amortized over the stated term of the related lease or 20 years. Amortization expense related to airport operating rights was $19 million, $22 million and $25 million for the years ended December 31, 2005, 2004 and 2003, respectively. We expect annual amortization expense related to airport operating rights to be approximately $14 million in each of the next five years.

i. Measurement of Impairment of Long-Lived Assets. We record impairment losses on long-lived assets, consisting principally of property and equipment and airport operating rights, when events or changes in circumstances indicate, in management's judgement, that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The net carrying value of assets not recoverable is reduced to fair value if lower than carrying value. In determining the fair market value of the assets, we consider market trends, recent transactions involving sales of similar assets and, if necessary, estimates of future discounted cash flows.
j. Revenue/Air Traffic Liability. Passenger revenue is recognized either when transportation is provided or when the ticket expires unused rather than when a ticket is sold. Nonrefundable tickets expire on the date of intended flight, unless the date is extended by notification from the customer in advance of the intended flight.

We are required to charge certain taxes and fees on our passenger tickets. These taxes and fees include U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign arrival and departure taxes. These taxes and fees are legal assessments on the customer. We have a legal obligation to act as a collection agent. As we are not entitled to retain these taxes and fees, we do not include such amounts in passenger revenue. We record a liability when the amounts are collected and relieve the liability when payments are made to the applicable government agency or operating carrier.

Under our capacity purchase agreement with Holdings and ExpressJet, we purchase all of ExpressJet's capacity and are responsible for selling all of the seat inventory. We record the related passenger revenue and related expenses, with payments under the capacity purchase agreement reflected as a separate operating expense.

Revenue from the shipment of cargo and mail is recognized when transportation is provided. Other revenue includes revenue from the sale of frequent flyer miles (see (k) below), ticket change fees, charter services and other incidental services.

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

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

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

At December 31, 2005, we estimated that approximately 2.5 million free travel awards outstanding were expected to be redeemed for free travel on Continental, ExpressJet, CMI or alliance airlines. Our total liability for future OnePass award redemptions for free travel and unrecognized revenue from sales of OnePass miles to other companies was approximately $236 million at December 31, 2005. This liability is recognized as a component of air traffic liability in our consolidated balance sheets.

l. Deferred Income Taxes. Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Due to our continued losses, we were required to provide a valuation allowance on the deferred tax assets recorded on losses beginning in the first quarter of 2004. As a result, all of our 2005 losses and the majority of our 2004 losses were not reduced by any tax benefit.

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

n. Advertising Costs. We expense the costs of advertising as incurred. Advertising expense was $91 million, $84 million and $87 million for the years ended December 31, 2005, 2004 and 2003, respectively.

o. Stock Plans and Awards. We account for our stock-based compensation plans under the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). No stock-based employee compensation cost is reflected in net income (loss) for our stock option plans, as all options granted under our plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the pro forma effect on net income (loss) and earnings (loss) per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation" ("SFAS 123"), for the years ended December 31, 2005, 2004 and 2003. See Note 8 for the assumptions we used to compute the pro forma amounts (in millions, except for share data):

	2005	2004	2003
Net income (loss), as reported	$(68)	$(409)	$ 28
Deduct: total stock-based employee compensation expense determined under SFAS 123, net of tax	(29)	(6)	(6)
Net income (loss), pro forma	$ (97)	$(415)	$ 22
Basic earnings (loss) per share:			
As reported	$(0.96)	$(6.19)	$0.43
Pro forma	$(1.38)	$(6.28)	$0.33
Diluted earnings (loss) per share:			
As reported	$(0.97)	$(6.25)	$0.41
Pro forma	$(1.39)	$(6.33)	$0.32

p. ExpressJet Capacity Purchase, Net. Payments made to ExpressJet under our capacity purchase agreement are reported as ExpressJet capacity purchase, net. ExpressJet capacity purchase, net, includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our sublease income on aircraft we lease to ExpressJet. Prior to November 12, 2003, the date we deconsolidated Holdings, all of these items were eliminated in our consolidated financial statements.

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

NOTE 2 - PENDING ACCOUNTING PRONOUNCEMENT

In December 2004, the FASB issued a revision of SFAS 123, "Share Based Payment" ("SFAS 123R"), which requires companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is to be estimated using option-pricing models. The resulting cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. Under the original SFAS 123, this accounting treatment was optional with pro forma disclosures required.

We will adopt SFAS 123R effective January 1, 2006. It will be effective for all awards granted after that date. For those stock option awards granted prior to January 1, 2006 but for which the vesting period is not complete, we will use the modified prospective transition method permitted by SFAS 123R. Under this method, we will account for such awards on a prospective basis, with expense being recognized in our statement of operations beginning in the first quarter of 2006 using the grant-date fair values previously calculated for our SFAS 123 pro forma disclosures presented in Note 1(o). We will recognize the related compensation cost not previously recognized in the SFAS 123 pro forma disclosures over the remaining vesting period.

In addition to changing the accounting for our stock options and employee stock purchase plan, SFAS 123R will impact the accounting for our Long Term Incentive and Restricted Stock Unit ("RSU") program. As discussed in Note 8, awards made pursuant to this program can result in cash payments to our officers if there are specified increases in our stock price over multi-year performance periods. Under our current accounting, we have recognized no liability or expense as of December 31, 2005 because the targets set forth in the program had not been met as of that date. Under SFAS 123R, these awards will be measured at fair value at each reporting date and the related expense will be recognized over the remaining required service periods. The fair value will be determined using a pricing model.

We will recognize a cumulative effect of change in accounting principle related to the adoption of SFAS 123R on January 1, 2006, reducing earnings approximately $26 million. On February 1, 2006, our officers surrendered their RSU awards with a performance period ending March 31, 2006. Approximately $15 million of the cumulative effect of change in accounting principle at January 1, 2006 relates to these surrendered awards. Accordingly, we will record this amount as a reduction of operating expense in the first quarter of 2006.

We anticipate that the impact on our statement of operations of adopting SFAS 123R for our stock options outstanding at December 31, 2005 will be similar to the pro forma impact of SFAS 123 presented in Note 1(o). The incremental expense related to future stock option and employee stock purchase plan grants is difficult to predict because the expense will depend on the number of awards granted, the grant date stock price, volatility of our stock price and other factors. Likewise, the incremental expense related to the existing RSU awards is difficult to predict because it will vary with changes in our stock price.

NOTE 3 - EARNINGS PER SHARE

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

	2005	2004	2003
Numerator:			
Numerator for basic earnings per share - net income (loss)	$(68)	$(409)	$ 28
Effect of dilutive securities issued by equity investee	(1)	(4)	(1)
Numerator for diluted earnings per share - net income (loss) after effect of dilutive securities of equity investee	$ (69)	$(413)	$ 27
Denominator:			
Denominator for basic earnings (loss) per share - weighted-average shares	70.3	66.1	65.4
Effect of dilutive securities - employee stock options	-	-	0.2
Denominator for diluted earnings (loss) per share - adjusted weighted - average and assumed conversions	70.3	66.1	65.6

Our convertible debt securities consist of our 6% Convertible Junior Subordinated Debentures Held by Subsidiary Trust, 5.0% Convertible Notes and 4.5% Convertible Notes. Approximately 17.9 million, 17.9 million and 14.0 million potential common shares related to convertible debt securities were excluded from the computation of diluted earnings per share in 2005, 2004 and 2003, respectively, because they were antidilutive. In addition, approximately 12.1 million in 2005, 6.2 million in 2004 and 5.3 million in 2003 of weighted average options to purchase shares of our common stock were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares or the effect of including the options would have been antidilutive.

NOTE 4 - LONG-TERM DEBT

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

	2005	2004
Secured		
Notes payable, interest rates of 5.0% to 8.5%, (weighted average rate of 6.90% as of December 31, 2005) payable through 2019	$2,832	$3,147
Floating rate notes, interest rates of LIBOR (4.54% on December 31, 2005) plus 0.45% to 1.6%; Eurodollar (4.52% on December 31, 2005) plus 1.375%, payable through 2014	925	872
Floating rate notes, interest rate of LIBOR plus 5.375%, payable in 2011	350	- -
Floating rate notes, interest rate of LIBOR plus 2.5% to 4.5%, payable through 2016	208	343
Floating rate notes, interest rate of LIBOR plus 4.53%, payable through 2007	104	123

Floating rate notes, interest rate of LIBOR plus 7.5%, payable through 2007	97	97
Other	79	17
Unsecured		
Convertible junior subordinated debentures, interest rate of 6.0%, payable in 2030	248	248
Convertible notes, interest rate of 4.5%, payable in 2007	200	200
Senior notes payable, interest rate of 8.0%, payable in 2005	-	195
Convertible notes, interest rate of 5.0%, callable beginning in 2010	175	175
Note payable, interest rate of 8.1%, payable in 2008	112	112
Other	-	8
	5,330	5,537
Less: current maturities	524	642
Total	$4,806	$4,895

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

Year ending December 31,	
2006	$524
2007	937
2008	632
2009	460
2010	602

Substantially all of our property and equipment, spare parts inventory, certain routes, and the outstanding common stock and substantially all of the other assets of our wholly-owned subsidiaries Air Micronesia, Inc. ("AMI") and CMI are subject to agreements securing our indebtedness. We do not have any debt obligations that would be accelerated as a result of a credit rating downgrade.

We also have letters of credit and performance bonds relating to various real estate and customs obligations at December 31, 2005 in the amount of $54 million with expiration dates through June 2008.

Secured Loan Facility. In June 2005, we and our two wholly-owned subsidiaries, AMI and CMI, closed on a $350 million secured loan facility. AMI and CMI have unconditionally guaranteed the loan made to us, and we and AMI have unconditionally guaranteed the loan made to CMI.

The facility consists of two loans, both of which have a term of six years and are non-amortizing, except for certain mandatory prepayments described below. The loans accrue interest at a floating rate determined by reference to the three-month London Interbank Offered Rate, known as LIBOR, plus 5.375% per annum. The loans and guarantees are secured by certain of our U.S.-Asia routes and related assets, all of the outstanding common stock of AMI and CMI and substantially all of the other assets of AMI and CMI, including route authorities and related assets.

The loan documents require us to maintain a minimum balance of unrestricted cash and short-term investments of $1.0 billion dollars at the end of each month. The loans may become due and payable immediately if we fail to maintain the monthly minimum cash balance and upon the occurrence of other customary events of default under the loan documents. If we fail to maintain a minimum balance of unrestricted cash and short-term investments of $1.125 billion, we and CMI will be required to make a mandatory aggregate $50 million prepayment of the loans. In addition, if the ratio of the outstanding loan balance to the value of the collateral securing the loans, as determined by periodic appraisals, is greater than 48%, we and CMI will be required to post additional collateral or prepay the loans to reestablish a loan-to-collateral value ratio of not greater than 48%. We are currently in compliance with these covenants.

Credit Card Marketing Agreement. In March 2005, we extended our current agreement with Chase Manhattan Bank USA, N.A. ("Chase") to jointly market credit cards. In addition to reaching an agreement on advertising and other marketing commitments, Chase agreed to increase the rate it pays for mileage credits under our frequent flyer program. In April 2005, Chase purchased $75 million of mileage credits under the program, which will be redeemed for mileage purchases in 2007 and 2008 and recognized as other revenue consistent with other mileage sales in 2007 and 2008. In consideration for the advance purchase of mileage credits, we have provided a security interest to Chase in certain transatlantic routes. The $75 million purchase of mileage credits has been treated as a loan from Chase and will be reduced ratably in 2007 and 2008 as the mileage credits are redeemed. The new agreement expires at the end of 2009.

Notes Secured by Spare Parts Inventory. Our $97 million of Floating Rate Secured Subordinated Notes due December 2007, which bear interest at the three month LIBOR plus 7.5% (the "Junior Notes"), and our $195 million of Floating Rate Secured Notes due December 2007, which bear interest at the three-month LIBOR plus 0.9% (the "Senior Notes"), are secured by a portion of our spare parts inventory. In connection with these notes, we have entered into a collateral maintenance agreement requiring us, among other things, to maintain a loan-to-collateral value ratio of not greater than 45% with respect to the Senior Notes and a loan-to-collateral value ratio of not greater than 67.5% with respect to both the Senior Notes and the Junior Notes combined. We must also maintain a certain level of rotable components within the spare parts collateral pool. The ratios are calculated semi-annually based on an independent appraisal of the spare parts collateral pool. If any of the collateral ratio requirem ents are not met, we must take action to meet all ratio requirements by adding additional eligible spare parts to the collateral pool, purchasing or redeeming some of the outstanding notes, providing other collateral acceptable to the bond insurance policy provider for the Senior Notes, or any combination of the above. We met the collateral ratio requirements at December 25, 2005, the most recent valuation date.

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

The sole assets of the trust are 6% Convertible Junior Subordinated Debentures ("Convertible Subordinated Debentures") with an aggregate principal amount of $248 million as of December 31, 2005 issued by us and which mature on November 15, 2030. The Convertible Subordinated Debentures are redeemable by us, in whole or in part, on or after November 20, 2003 at designated redemption prices. If we redeem the Convertible Subordinated Debentures, the Trust must redeem the TIDES on a pro rata basis having an aggregate liquidation value equal to the aggregate principal amount of the Convertible Subordinated Debentures redeemed. Otherwise, the TIDES will be redeemed upon maturity of the Convertible Subordinated Debentures, unless previously converted.

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

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

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

NOTE 5 - LEASES

We lease certain aircraft and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, maintenance facilities, training centers and general offices. Most aircraft leases include both renewal options and purchase options. Because renewals of our existing leases are not considered to be reasonably assured, rental payments that would be due during the renewal periods are not included in the determination of rent expense until the leases are renewed. Leasehold improvements are amortized over the shorter of the contractual lease term, which does not include renewal periods, or their useful life. The purchase options are generally effective at the end of the lease term at the then-current fair market value. Our leases do not include residual value guarantees.

At December 31, 2005, the scheduled future minimum lease payments under capital leases and the scheduled future minimum lease rental payments required under operating leases, that have initial or remaining noncancelable lease terms in excess of one year, are as follows (in millions):

	Capital Leases	Operating Leases	
		Aircraft	Non-aircraft
Year ending December 31,			
2006	$ 39	$ 1,003	$ 429
2007	40	966	400
2008	46	955	377
2009	16	910	374
2010	16	924	364
Later years	457	6,310	4,987
Total minimum lease payments	614	$11,068	$6,931
Less: amount representing interest	341		
Present value of capital leases	273		
Less: current maturities of capital leases	22		
Long-term capital leases	$251		

At December 31, 2005, we had 482 aircraft under operating leases and three aircraft under capital leases, including aircraft subleased to ExpressJet. These operating leases have remaining lease terms ranging up to 19 years. Projected sublease income to be received from ExpressJet through 2022, not included in the above table, is approximately $3.0 billion. Rent expense for non-aircraft operating leases totaled $466 million, $426 million and $407 million for the years ended December 31, 2005, 2004 and 2003, respectively.

NOTE 6 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

We account for these instruments as cash flow hedges. They are recorded at fair value in other assets in the accompanying consolidated balance sheets with the offset to accumulated other comprehensive income (loss), net of applicable income taxes and hedge ineffectiveness, and recognized as passenger revenue when the underlying service is provided. We measure hedge effectiveness of average rate options and forward contracts based on the forward price of the underlying currency. Hedge ineffectiveness is included in other nonoperating income (expense) in the accompanying consolidated statement of operations and was not material for the years ended December 31, 2005, 2004 and 2003. Our net gain (loss) on our foreign currency forward and option contracts was $5 million for the year ended December 31, 2005, $(10) million for the year ended December 31, 2004 and was not material in the year ended December 31, 2003. These gains (losses) are included in passenger revenue in the accompanying consolidated statement of operations.

At December 31, 2005, we had forward contracts outstanding to hedge a portion of our projected Canadian dollar-denominated cash flows for 2006. At December 31, 2004, we had foreign currency forward or option contracts outstanding to hedge portions of our projected Japanese yen, British pound, Canadian dollar and euro-denominated cash flows for 2005. These hedges had a liability fair value that was not material at December 31, 2005 and was $7 million at December 31, 2004.

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

Fuel Price Risk Management. We had no fuel hedges outstanding at December 31, 2005, December 31, 2004 or at any time during 2005, although we did have fuel hedges in place prior to December 31, 2004. In February 2006, we entered into petroleum swap contracts to hedge a minimal portion of our projected 2006 fuel usage. In the past, we have used a combination of petroleum call options, petroleum swap contracts and/or jet fuel purchase commitments to provide us with short-term hedge protection (generally three to six months) against sudden and significant increases in jet fuel prices, while simultaneously ensuring that we are not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel.

We account for the call options and swap contracts as cash flow hedges. They are recorded at fair value in other assets in the accompanying consolidated balance sheet with the offset to accumulated other comprehensive income (loss), net of applicable income taxes and hedge ineffectiveness, and recognized as a component of fuel expense when the underlying fuel being hedged is used. The ineffective portion of these call options and swap agreements is determined based on the correlation between West Texas Intermediate Crude Oil prices and jet fuel prices. Hedge ineffectiveness is included in other nonoperating income (expense) in the accompanying consolidated statement of operations and was not material for the years ended December 31, 2004 and 2003. Our gain related to these hedging instruments, net of premium expense, was $74 million in 2004 and $4 million in 2003.

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

a. Cash Equivalents and Restricted Cash. Cash equivalents and restricted cash are carried at cost and consist primarily of commercial paper with original maturities of three months or less and approximate fair value due to their short-term maturity.
b. Short-term Investments. Short-term investments consist primarily of commercial paper, asset-backed securities and U.S. government agency securities with original maturities in excess of three months but less than one year and approximate fair value due to their short-term maturity.
c. Investment in Affiliates. Shares of Copa Holdings, S.A. ("Copa"), the parent company of Copa Airlines, and Holdings are publicly traded. At December 31, 2005, based on market prices, our investment in Copa shares, with a carrying value of $87 million, had a fair value of $325 million and our investment in Holdings shares, with a carrying value of $19 million, had a fair value of $38 million. See Note 14 for further discussion of investments in affiliates.
d. Debt. The fair value of our debt with a carrying value of $4.8 billion at December 31, 2005 and $4.9 billion at December 31, 2004 was approximately $4.5 billion and $4.3 billion, respectively. These estimates were based on the discounted amount of future cash flows using our current incremental rate of borrowing for similar liabilities or market prices. The fair value of the remaining debt was not practical to estimate.
e. Investment in Company Owned Life Insurance (COLI) Products. In connection with certain of our supplemental retirement plans, we have company owned life insurance policies on certain of our employees. As of December 31, 2005 and 2004, the carrying value of the underlying investments was $39 million and $38 million, respectively, which approximated fair value.
f. Note Receivable from Holdings. The fair value of our note receivable from Holdings with a carrying value of $18 million and $99 million at December 31, 2005 and 2004, respectively, approximated carrying value. The fair value was estimated based on anticipated future cash flows discounted using ExpressJet's current incremental borrowing rate.
g. Accounts Receivable and Accounts Payable. The fair values of accounts receivable and accounts payable approximated carrying value due to their short-term maturity. We had $515 million of accounts receivable and $846 million of accounts payable at December 31, 2005, and $472 million of accounts receivable and $766 million of accounts payable at December 31, 2004.

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

NOTE 7 - PREFERRED AND COMMON STOCK

Preferred Stock. We have ten million shares of authorized preferred stock. We currently have one share of Series B preferred stock outstanding, which is held by Northwest Airlines, Inc. The Series B preferred stock ranks junior to all classes of capital stock other than our common stock upon liquidation, dissolution or winding up of the company. No dividends are payable on the Series B preferred stock.

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

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

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

- Northwest Airlines, Inc. or certain of its affiliates transfers or encumbers the Series B preferred stock;
- Northwest Airlines Corporation or certain of its affiliates experiences a "change of control" as defined by the certificate of designations establishing the Series B preferred stock;
- Our alliance with Northwest Airlines Corporation terminates or expires (other than as a result of a breach by us); or
- Northwest Airlines Corporation or certain of its affiliates materially breaches its standstill obligations to us or triggers our rights agreement.

Common Stock. We currently have one class of common stock issued and outstanding, Class B common stock. Each share of common stock is entitled to one vote per share. On October 24, 2005, we completed a public offering of 18 million shares of common stock, raising $203 million in cash. At December 31, 2005, approximately 37 million shares were reserved for future issuance related to the conversion of convertible debt securities and the issuance of stock under our stock incentive plans.

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

The rights become exercisable upon the earlier of (1) the tenth day following a public announcement or public disclosure of facts indicating that a person or group of affiliated or associated persons has acquired beneficial ownership of 15% (25% in the case of an institutional investor) or more of the total number of votes entitled to be cast generally by holders of our common stock then outstanding, voting together as a single class (such person or group being an "Acquiring Person"), or (2) the tenth business day (or such later date as may be determined by action of our Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in any person becoming an Acquiring Person. Certain entities related to us are exempt from the definition of "Acquiring Person"; however, Northwest Airlines is not an exempt entity.

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

If at any time after a person becomes an Acquiring Person, (1) we merge into any other person, (2) any person merges into us and all of our outstanding common stock does not remain outstanding after such merger, or (3) we sell 50% or more of our consolidated assets or earning power, each holder of a right (other than the Acquiring Person and its affiliates and associates) will have the right to receive, upon the exercise thereof, that number of shares of common stock of the acquiring corporation (including us as successor thereto or as the surviving corporation) which at the time of such transaction will have a market value of two times the exercise price of the right.

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

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

Restrictions on Dividends and Share Repurchases. Our agreement with the union representing our pilots provides that we will not declare a cash dividend or repurchase our outstanding common stock for cash until we have contributed at least $500 million to the pilot defined benefit pension plan, measured from March 30, 2005. Through December 31, 2005, we have made $112 million of such contributions to the plan.

NOTE 8 - STOCK PLANS AND AWARDS

Stock Options. We have a number of equity incentive plans which permit the issuance of shares of our common stock. One of these plans provides for awards in the form of stock options, restricted stock, performance awards and incentive awards. Each of the other plans permits awards of either stock options or restricted stock. In general, our plans permit awards to be made to the non-employee directors of the company or the employees of the company or its subsidiaries. Stock issued under the plans may be originally issued shares, treasury shares or a combination thereof. Approximately 3.3 million shares remained for award under the plans as of December 31, 2005.

Stock options are awarded under the plans with exercise prices equal to the fair market value of the stock on the date of grant and typically vest over a three to four-year period. Employee stock options generally have five to eight-year terms, while outside director stock options have ten-year terms. Under the terms of the plans, a change in control would result in all outstanding options under these plans becoming exercisable in full and restricted shares being fully vested.

In connection with pay and benefit cost reductions, on March 30, 2005 we issued to substantially all employees, except flight attendants, officers, employees of CMI and certain international employees, stock options for approximately 8.6 million shares of our common stock with an exercise price of $11.89 per share. Additionally, on February 1, 2006, we issued to our flight attendants stock options for approximately 1.1 million shares of our common stock with an exercise price of $20.31 per share. The exercise price for each grant was the closing price of our common stock on the date of grant. The options become exercisable in three equal installments on the first, second and third anniversaries of the dates of grant, and have terms of either six or eight years.

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

	2005		2004		2003	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	6,175	$17.10	6,469	$17.86	6,871	$18.28
Granted	8,648	$11.91	729	$11.99	296	$15.00
Exercised	(1,178)	$15.52	(181)	$14.62	(306)	$15.62
Cancelled	(935)	$19.12	(842)	$19.10	(392)	$24.82
Outstanding at end of year	12,710	$13.57	6,175	$17.10	6,469	$17.86
Options exercisable at end of year	3,896	$17.17	4,837	$17.91	5,018	$18.27

The following tables summarize the range of exercise prices and the weighted average remaining contractual life of the options outstanding and the range of exercise prices for the options exercisable at December 31, 2005 (share data in thousands):

	Options Outstanding		
Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.65-$11.87	631	3.39	$11.19
$11.89	8,123	5.98	$11.89
$11.96-$15.78	3,580	1.69	$15.66
$15.79-$56.81	376	3.00	$33.86
$3.65-$56.81	12,710	4.55	$13.57

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	Options Exercisable	
Range of Exercise Prices	Exercisable	Weighted Average Exercise Price
$3.65-$11.87	196	$10.68
$11.96-$15.78	3,396	$15.73
$15.79-$56.81	304	$27.40

$15.79-$56.81	304	$57.40
$3.65-$56.81	3,896	$17.17

Restricted Stock. In April 2002, we awarded 444,750 shares of restricted stock. The restricted stock was awarded pursuant to our equity incentive plans and had a fair value on the grant date of $12 million ($28.10 per share). The restricted stock vests in 25% increments on the first four anniversaries of the date of grant.

Employee Stock Purchase Plan. All of our employees (including CMI employees) are eligible to participate in the 2004 Employee Stock Purchase Plan. At the end of each fiscal quarter, participants may purchase shares of our common stock at a discount of 15% off the fair market value of the stock on either the first day or the last day of the quarter (whichever is lower), subject to a minimum purchase price of $10 per share. This discount is reduced to zero as the fair market value approaches $10 per share. If the fair market value is below the $10 per share minimum price on the last day of a quarter, then the participants will not be permitted to purchase common stock for such quarterly purchase period and we will refund to those participants the amount of their unused payroll deductions. In the aggregate, 3,000,000 shares may be purchased under the plan. These shares may be originally issued shares, treasury shares or a combination thereof. During 2005 and 2004, 573,848 shares and 249,160 shares, respectively, of common stock were issued to participants at a weighted-average purchase price of $10.06 and $10.00 per share, respectively.

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

	2005	2004	2003
Risk-free interest rate	3.4%	3.3%	2.5%
Dividend yield	0%	0%	0%
Expected market price volatility of our common stock	74%	78%	77%
Weighted-average expected life of options (years)	3.7	3.5	3.2
Weighted-average fair value of options granted	$6.47	$6.59	$7.77

For purposes of the pro forma SFAS 123 calculation, the fair value of the purchase rights under the stock purchase plan that was begun in 2004 was also estimated using the Black-Scholes model with the following weighted-average assumptions indicated below for the year ended December 31:

	2005	2004
Risk-free interest rate	3.0%	1.4%
Dividend yield	0%	0%
Expected market price volatility of our common stock	55%	48%
Weighted-average expected life of the purchase rights (years)	0.25	0.25
Weighted-average fair value of purchase rights granted	$6.77	$3.40

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

Restricted Stock Units. During 2004, we implemented the RSU program. This program is designed to reward our officers for specified increases in our stock price over multi-year performance periods. If our stock price averages at least the target price for 20 consecutive trading days during the relevant performance period, the officers are paid cash for each unit equal to the average stock price for the 20 trading days preceding the date specified below. As of December 31, 2005, there were awards outstanding with respect to two performance periods that began on April 1, 2004 and end as follows:

	Units (In thousands)	Target Price per Share
March 31, 2006	955	$20.48
December 31, 2007	1,195	22.48
	2,150	

As of December 31, 2005, our stock price had not achieved either of the target prices and, accordingly, we had recorded no expense or liability related to the RSU program. In January 2006, our stock price achieved the target for the awards for the performance period ending March 31, 2006. However, on February 1, 2006, our officers surrendered their RSU awards for this performance period in light of the pay and benefit reductions taken by our employees. As discussed in Note 2, we will account for the RSUs on a fair value basis effective with the adoption of SFAS 123R on January 1, 2006.

NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Minimum Pension Liability	Unrealized Gain/(Loss) on Derivative Instruments	Total

Balance at December 31, 2002	$(388)	$ (7)	$(395)
Current year net change in accumulated other comprehensive loss	(20)	(2)	(22)
Balance at December 31, 2003	(408)	(9)	(417)
Current year net change in accumulated other comprehensive loss	(176)	6	(170)
Balance at December 31, 2004	(584)	(3)	(587)
Current year net change in accumulated other comprehensive loss	(96)	8	(88)
Balance at December 31, 2005	$(680)	$ 5	$(675)

The minimum pension liability recorded in other comprehensive loss before applicable income taxes was $914 million and $818 million at December 31, 2005 and 2004, respectively.

NOTE 10 - EMPLOYEE BENEFIT PLANS

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

Defined Benefit Pension Plans. Under the new collective bargaining agreement with our pilots ratified on March 30, 2005, which we refer to as the "pilot agreement," future defined benefit accruals for pilots ceased and retirement benefits accruing in the future are provided through two new pilot-only defined contribution plans. As required by the pilot agreement, defined benefit pension assets and obligations related to pilots in our primary defined benefit pension plan (covering substantially all U.S. employees other than Chelsea Food Services ("Chelsea") and CMI employees) were spun out into a separate pilot-only defined benefit pension plan, which we refer to as the "pilot defined benefit pension plan." Subsequently, on May 31, 2005, future benefit accruals for pilots ceased and the pilot defined benefit pension plan was "frozen." As of that freeze date, all existing accrued benefits for pilots (including the right to receive a lump sum payment upon retirement) were preserved in the pilo t defined benefit pension plan. Accruals for non-pilot employees under our primary defined benefit pension plan continue.

The following table sets forth the defined benefit pension plans' change in projected benefit obligation at December 31 (in millions):

	2005	2004
Accumulated benefit obligation	$2,494	$2,412
Projected benefit obligation at beginning of year	$2,863	$2,362
Service cost	86	151
Interest cost	151	152
Plan amendments	7	(6)
Actuarial losses	105	310
Benefits paid	(310)	(113)
Plan curtailment	(272)	-
Other	-	7
Projected benefit obligation at end of year	$2,630	$2,863

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

	2005	2004
Fair value of plan assets at beginning of year	$1,281	$1,280
Actual gain on plan assets	69	113
Employer contributions	381	1
Benefits paid	(310)	(113)
Fair value of plan assets at end of year	$1,421	$1,281

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

	2005	2004
Funded status of the plans - net underfunded	$(1,209)	$(1,582)
Unrecognized net actuarial loss	1,051	1,275
Unrecognized prior service cost	54	101
Net amount recognized	$ (104)	$ (206)

Accrued benefit liability	$(1,078)	$ (1,132)
Intangible asset	60	108
Accumulated other comprehensive loss	914	818
Net amount recognized	$ (104)	$ (206)

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

	2005	2004
Weighted average assumed discount rate	5.68%	5.75%
Weighted average rate of compensation increase	2.25%	3.0%

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

	2005	2004	2003
Service cost	$ 86	$ 151	$156
Interest cost	151	152	134
Expected return on plan assets	(124)	(116)	(72)
Amortization of prior service cost	11	19	20
Amortization of unrecognized net actuarial loss	73	87	90
Net periodic benefit expense	197	293	328
Curtailment loss (included in special charges)	43	-	-
Settlement charge (included in special charges)	40	-	-
Net benefit expense	$ 280	$293	$328

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

In March 2005, we recorded a $43 million non-cash curtailment charge in accordance with SFAS No. 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," ("SFAS 88") in connection with freezing the portion of our defined benefit pension plan related to our pilots, using actuarial assumptions consistent with those we used at December 31, 2004. SFAS 88 requires curtailment accounting if an event eliminates, for a significant number of employees, the accrual of defined benefits for some or all of their future services. In the event of a curtailment, a loss must be recognized for the unrecognized prior service cost associated with years of expected future service that will no longer be recognized for benefit accrual purposes. Additionally, the projected benefit obligation was reduced by $272 million to reflect the fact that related future pay increases assumed in the opening projected benefit obligation will no longer be considered in c alculating the projected benefit obligations.

During 2005, we recorded non-cash settlement charges totaling $40 million related to lump sum distributions from our benefit pension plans to pilots who retired. SFAS 88 requires the use of settlement accounting if, for a given year, the cost of all settlements exceeds, or is expected to exceed, the sum of the service cost and interest cost components of net periodic pension expense for the plan. Under settlement accounting, unrecognized plan gains or losses must be recognized immediately in proportion to the percentage reduction of the plan's projected benefit obligation. We anticipate that we will have additional non-cash settlement charges in the future in conjunction with lump-sum distributions to retiring pilots.

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

	2005	2004	2003
Weighted average assumed discount rate	5.71%	6.25%	6.75%
Expected long-term rate of return on plan assets	9.00%	9.00%	9.00%
Weighted average rate of compensation increase	2.48%	2.87%	3.34%

The plans' assets consist primarily of equity and fixed-income securities. As of December 31, 2005, the plans held 4.3 million shares of Holdings common stock, which had a fair value of $34 million. As of December 31, the asset allocations by category were as follows:

	2005	2004
U.S. equities	49%	49%
International equities	21	17
Fixed income	22	28
Other	8	6
Total	100%	100%

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

	Percent of Total	Expected Long-Term Rate of Return
U.S. equities	35-55%	9.4%
International equities	15-25	9.4
Fixed income	15-25	6.8
Other	0-15	12.4

Funding obligations for our defined benefit plans are determined under applicable law. In 2005, we contributed $224 million in cash and 12.1 million shares of Holdings common stock valued at $130 million to our defined benefit plans. Due to high fuel prices, the weak revenue environment and our desire to maintain adequate liquidity, we elected in 2004 and 2005 to use deficit contribution relief under the Pension Funding Equity Act of 2004. As a result, we were not required to make any contributions to our primary defined benefit pension plan in 2004 and did not do so. The elections also allowed us to make smaller contributions to our defined benefit pension plans in 2005, and will allow smaller contributions in 2006, than would have been otherwise required. Based on current assumptions and applicable law, we will be required to contribute $258 million to our defined benefit pension plans in 2006 to meet our minimum funding obligations.

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

2006	$ 185
2007	273
2008	251
2009	193
2010	214
2011 through 2015	1,023

Defined Contribution Plans for Pilots. As required by the new pilot agreement, two new pilot-only defined contribution plans were established effective September 1, 2005. One of these plans is a money purchase pension plan -- a type of defined contribution plan subject to the minimum funding rules of the Internal Revenue Code. Contributions under that plan are generally expressed as a percentage of applicable pilot compensation, subject to limits under the Internal Revenue Code. The initial contribution to that plan was based on applicable compensation for a period beginning July 1, 2005. The other new pilot-only defined contribution plan is a 401(k) plan that was established by transferring the pilot accounts from our pre-existing primary 401(k) plan (covering substantially all of our U.S. employees other than CMI employees) to a separate pilot-only 401(k) plan. Pilots may make elective pre-tax and/or post-tax contributions to the pilot-only 401(k) plan. In addition, the pilot agreement ca lls for employer contributions to the pilot-only 401(k) plan based on pre-tax profits during a portion of the term of the pilot agreement. To the extent the Internal Revenue Code limits preclude employer contributions called for by the pilot agreement, the disallowed amount will be paid directly to the pilots as current wages under a corresponding nonqualified arrangement. Our expense related to the defined contribution plans for pilots was $20 million in the year ended December 31, 2005.

We have also agreed with each of the unions representing our major work groups that for a limited time period we will not seek to reject or modify the collective bargaining agreements or retiree benefits in the event of our bankruptcy, subject to certain exceptions.

Other 401(k) Plans. Our other two defined contribution 401(k) employee savings plans cover substantially all domestic employees except for pilots (beginning in 2005). Company matching contributions are made in cash. For the years ended December 31, 2005, 2004 and 2003, total expense for the defined contribution plans was $22 million, $30 million and $35 million, respectively. During the second quarter of 2005, company matching contributions were terminated for substantially all employees other than flight attendants, mechanics and CMI employees subject to collective bargaining agreements. Company matching contributions for flight attendants were terminated in the first quarter of 2006.

Retiree Medical Benefits. Effective April 1, 2005, we made changes to certain retiree medical programs available to eligible retirees. The retiree medical programs are self-insured arrangements that permit retirees who meet certain age and service requirements to continue medical coverage between retirement and Medicare eligibility. Eligible employees are required to pay a portion of the costs of their retiree medical benefits, which in some cases may be offset by accumulated unused sick time at the time of their retirement. Plan benefits are subject to co-payments, deductibles and other limits as described in the plans. Previously, we offered these benefits on a workgroup-by-workgroup basis and had the periodic option of discontinuing the benefits. As a result of revising and extending these benefits, we now account for them as if they are permanent.

We account for the retiree medical benefits plan under SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions," which requires recognition of the expected cost of benefits over the employee's service period. The following table sets forth the retiree medical benefits plan's change in projected benefit obligation during 2005 (in millions):

Projected benefit obligation at inception of plan	$246
Service cost	8
Interest cost	11
Actuarial gain	(7)
Participant contributions	1
Benefits paid	(9)
Projected benefit obligation at end of year	$250

The retiree medical benefits plan is unfunded. Retiree medical benefits plan cost recognized in the accompanying consolidated balance sheets at December 31, 2005 is computed as follows (in millions):

	2005
Funded status of the plan - net underfunded	$(250)

Unrecognized net gain	(7)
Unrecognized prior service cost	231
Net amount recognized	$ (26)
Accrued benefit liability	$ (26)

The following actuarial assumptions were used to determine the actuarial present value of our projected benefit obligation and our net periodic benefit expense at December 31, 2005:

	2005
Weighted average assumed discount rate	5.57%
Health care cost trend	9%, decreasing to 5% by 2010

Net periodic retiree medical benefit expense for the year ended December 31, 2005 included the following components (in millions):

Service cost	$ 8
Interest cost	11
Amortization of prior service cost	15
Net periodic benefit expense	$34

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

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

2006	$ 11
2007	13
2008	16
2009	17
2010	19
2011 through 2015	113

A one percent increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of December 31, 2005 by approximately $24 million and our run-rate annual expense by approximately $3 million. A one percent decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation as of December 31, 2005 by approximately $21 million and our run-rate annual expense by approximately $3 million.

Profit Sharing Plan. In January 2005, we announced an enhanced profit sharing plan. The new plan, which will be in place through 2009, creates an award pool of 30% of the first $250 million of pre-tax income, 25% of the next $250 million and 20% of amounts over $500 million, subject to certain adjustments. Half of the profit-sharing pool will be allocated based on the relative share of pay and benefit concessions of each work group and the other half will be allocated based on the relative wages of each work group. Substantially all Continental employees (other than employees who participate in our management or officer bonus programs and certain non-U.S. employees) will participate in the plan. We paid no profit sharing to Continental employees in 2005, 2004 or 2003.

NOTE 11 - INCOME TAXES

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

	2005	2004	2003
Federal:			
Current	$ -	$ -	$ (7)
Deferred	(5)	147	(89)
State:			
Current	-	-	(5)
Deferred	(3)	13	(7)
Foreign:			
Current	-	-	(1)
Deferred	(1)	-	-
Valuation allowance	9	(120)	-
Total income tax benefit (expense)	$ -	$ 40	$(109)

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

	Amount			Percentage		
	2005	2004	2003	2005	2004	2003
Income tax benefit (expense) at United States statutory rates	$ 24	$157	$ (65)	35.0%	35.0%	35.0%
State income tax benefit (expense), net of federal benefit	2	8	(8)	3.4	1.8	4.3
Tax on equity in the income of subsidiary	- -	- -	(16)	- -	- -	8.6
Non-deductible loss on contribution of Holdings stock to defined benefit pension plan	(27)	- -	(9)	(39.6)	- -	4.8
Meals and entertainment disallowance	(7)	(6)	(8)	(11.0)	(1.3)	4.3
Valuation allowance	9	(120)	-	13.8	(26.6)	-
Other	(1)	1	(3)	(1.6)	-	1.6
Income tax benefit (expense)	$ -	$ 40	$(109)	0.0%	8.9%	58.6%

For financial reporting purposes, income tax benefits recorded on losses result in deferred tax assets for financial reporting purposes. We are required to provide a valuation allowance for deferred tax assets to the extent management determines that it is more likely than not that such deferred tax assets will ultimately not be realized. Due to our continued losses, we were required to provide a valuation allowance on deferred tax assets beginning in the first quarter of 2004. As a result, all of our 2005 losses and the majority of our 2004 losses were not reduced by any tax benefit. Furthermore, we expect to be required to provide additional valuation allowance in conjunction with deferred tax assets recorded on losses in the future.

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

In 2005 and 2003, we contributed shares of Holdings common stock valued at approximately $130 million and $100 million, respectively, to our primary defined benefit pension plan. For tax purposes, our deductions were limited to the market value of the shares contributed. Since our tax basis in the shares was higher than the market value at the time of the contributions, the nondeductible portion increased our tax expense by $27 million and $9 million, respectively.

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

	2005	2004
Fixed assets, intangibles and spare parts	$ 1,571	$ 1,574
Other, net	198	165
Gross deferred tax liabilities	1,769	1,739
Net operating loss carryforwards	(1,544)	(1,209)
Pension liability	(343)	(343)
Accrued liabilities	(318)	(295)
Basis in subsidiary stock	(59)	(84)
Gross deferred tax assets	(2,264)	(1,931)
Valuation allowance	495	404
Net deferred tax liability	-	212
Less: current deferred tax asset	(154)	(166)
Non-current deferred tax liability	$ 154	$ 378

At December 31, 2005, we had estimated tax NOLs of $4.1 billion for federal income tax purposes that will expire beginning in 2006 through 2025.

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 4.40% for December 2005). Any unused annual limitation may be carried over to later years. The amount of the limitation may, under certain circumstances, be increased by built-in gains held by us at the time of the change that are recognized in the five-year period after the change. If we were to have an ownership change under current conditions, our annual NOL utilization could be limited to approximately $81 million per year, before consideration of any built-in gains.

During 2005, we entered into a final settlement agreement with the Internal Revenue Service ("IRS") resolving all matters raised by the IRS during its examination of our federal income tax returns through the year ended December 31, 1999. As a result of the settlement with the IRS and the associated deferred tax account reconciliation, deferred tax liabilities and long-term assets (primarily routes and airport operating rights, which values were established upon our emergence from bankruptcy in April 1993) were reduced by $215 million to reflect the ultimate resolution of tax uncertainties existing at the point we emerged from bankruptcy. The composition of the individual elements of deferred taxes recorded on the balance sheet was also adjusted; however, the net effect of these changes was entirely offset by an increase in the deferred tax valuation allowance due to our prior determination that it is more likely than not that our net deferred tax assets will ultimately not be realized. The settlem ent did not have a material impact on our results of operations, financial condition or liquidity.

NOTE 12 - SPECIAL CHARGES

Special Charges. In 2005, we recorded special charges of $67 million. In the first quarter of 2005, we recorded a $43 million non-cash curtailment charge relating to the freezing of the portion of our defined benefit pension plan attributable to pilots. In the third and fourth quarters of 2005, we recorded non-cash settlement charges totaling $40 million related to lump sum distributions from our pilot defined benefit pension plans to pilots who retired. These charges are discussed further in Note 10. Also in 2005, we reduced our allowance for future lease payments and return conditions related to permanently grounded aircraft by $16 million following negotiated settlements with the aircraft lessors in an improved aircraft market.

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

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

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

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

	Beginning Balance	Accrual	Payments	Other	Ending Balance
2005					
Allowance for future lease payments and return conditions	$116	$ -	$(61)	$(16) (A)	$ 39
Closure/under-utilization of facilities	14	-	(2)	-	12
2004					
Allowance for future lease payments and return conditions	$ 83	$ 87	$(57)	$ 3	$116
Closure/under-utilization of facilities	17	-	(3)	-	14
2003					
Allowance for future lease payments and return conditions	$107	$ 21	$(45)	$ -	$ 83
Closure/under-utilization of facilities	22	-	(5)	-	17

A. Primarily reserve reductions on permanently grounded aircraft, recorded as a credit to special charges in our consolidated statement of operations.

We expect these accruals to be substantially paid during 2006.

Out-of-Service Aircraft. We had 14 MD-80 aircraft permanently removed from service as of December 31, 2005. The eight owned out-of-service MD-80 aircraft are being carried at an aggregate fair market value of $14 million, and the remaining rentals on the six leased out-of-service MD-80 aircraft have been accrued. We are currently exploring lease or sale opportunities for the out-of-service aircraft. We cannot predict when or if purchasers, lessees or sublessees can be found, and it is possible that our owned MD-80 aircraft could suffer additional impairment.

Additionally, we own seven out-of-service Empresa Brasileira de Aeronautica S.A. ("Embraer")120 turboprop aircraft. These aircraft are being carried at fair value of $6 million. We are currently exploring lease or sale opportunities for the remaining out-of-service aircraft, subject to the same uncertainties as the out-of-service mainline aircraft discussed above.

NOTE 13 - SECURITY FEE REIMBURSEMENT

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

U.S. air carriers as of the date of enactment of the law, together with other items.

NOTE 14 - INVESTMENT IN AFFILIATES

At December 31, 2005, investment in affiliates includes our investments in Copa and Holdings. In prior years, we also had investments in Orbitz and Hotwire, two internet travel companies.

Copa. As of December 31, 2005, we had a 27% interest in Copa with a carrying value of $87 million. This investment is accounted for using the equity method of accounting. The carrying amount of our investment exceeds the amount of underlying equity in Copa's net assets by $23 million. This difference is treated as goodwill and is not amortized.

In December 2005, we completed the sale of 9.1 million shares of common stock in the initial public offering ("IPO") of Copa. The sale decreased our percentage ownership in Copa from 49% to 27%, resulting in a $17 million decrease in the associated goodwill balance. We received $172 million cash from the sale and recognized a gain of $106 million. At December 31, 2005, we continue to hold 11.9 million shares of Copa.

We record our equity in Copa's earnings on a one-quarter lag. Copa's results of operations on a stand-alone basis were as follows (in millions):

	Nine Months Ended September 30, 2005	Year Ended December 31, 2004	2003
Revenue	$429	$400	$342
Operating income	82	82	58
Net income	65	69	48

Copa's balance sheet information at December 31, 2004, the latest fiscal year end available as of the date of this report, was as follows (in millions):

Current assets	$156
Total assets	702
Current liabilities	143
Stockholders' equity	174

Audited financial statements of Copa as of December 31, 2004 are incorporated by reference from Exhibit 99.1 to this report into Item 15. "Exhibits and Financial Statement Schedules" of this report. Copa's audited financial statements as of December 31, 2005 will be filed as an amendment to this report on or before June 30, 2006.

ExpressJet Holdings. We held an 8.6% interest in Holdings at December 31, 2005. See notes 15 and 16 for a discussion of this investment and our capacity purchase agreement with ExpressJet. Holdings' stand-alone financial statements and the calculation of our equity in Holdings' earnings in our consolidated financial statements are based on Holdings' results of operations under the capacity purchase agreement, which differ from the amounts presented for our regional segment in Note 18. Holdings' results of operations on a stand-alone basis were as follows (in millions):

	Year Ended December 31,		
	2005	2004	2003
Revenue	$1,563	$1,508	$1,311
Operating income	157	205	182
Net income	98	123	108

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

	2005	2004
Current assets	$280	$254
Total assets	560	543
Current liabilities	150	207
Stockholders' equity	209	114

Audited financial statements of Holdings as of December 31, 2005 are incorporated by reference from Exhibit 99.2 to this report into Item 15. "Exhibits and Financial Statement Schedules" of this report.

Orbitz. During 2003 and 2004, we sold all of our investment in Orbitz in two separate transactions. On December 19, 2003, we sold approximately 28% of our investment in Orbitz in connection with its IPO, reducing our interest in Orbitz from approximately 13% to 9%, for proceeds of $34 million, net of underwriting discount. Our gain on the sale was $32 million. Subsequent to the IPO in 2003, we accounted for our investment in Orbitz in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." We designated the remaining investment as a "trading security," based on our intention to dispose of the securities of Orbitz that we owned. Therefore, the remaining investment was carried at its fair value, with changes in the fair value reported in our statement of operations. The fair value adjustment on the Orbitz shares during 2004 was $15 million and is included in other nonoperating income in the accompanying consolidated statement of operations, as was t he gain recognized on the disposition of Orbitz in 2003. On November 12, 2004, we sold our remaining Orbitz shares for proceeds of $98 million.

Hotwire. In November 2003, we sold all of our investment in Hotwire, Inc. for $42 million in cash, resulting in a gain of $40 million. This gain is included in other nonoperating income in the accompanying consolidated statement of operations.

NOTE 15 - VARIABLE INTEREST ENTITIES

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), requires the consolidation of certain types of entities in which a company absorbs a majority of another entity's expected losses, receives a majority of the other entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the other entity. These entities are called "variable interest entities." The principal characteristics of variable interest entities are (1) an insufficient amount of equity to absorb the entity's expected losses, (2) equity owners as a group are not able to make decisions about the entity's activities, or (3) equity that does not absorb the entity's losses or receive the entity's residual returns. "Variable interests" are contractual, ownership or other monetary interests in an entity that change with fluctuations in the entity's net asset value. As a result, variable interest entities can arise from items such as lease agreements, loan arrangements, guarantees or service contracts.

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

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

Aircraft Leases. We are the lessee in a series of operating leases covering the majority of our leased aircraft. The lessors are trusts established specifically to purchase, finance and lease aircraft to us. These leasing entities meet the criteria for variable interest entities. We are generally not the primary beneficiary of the leasing entities if the lease terms are consistent with market terms at the inception of the lease and do not include a residual value guarantee, fixed-price purchase option or similar feature that obligates us to absorb decreases in value or entitles us to participate in increases in the value of the aircraft. This is the case for many of our operating leases; however, leases of approximately 75 mainline jet aircraft contain a fixed-price purchase option that allows us to purchase the aircraft at predetermined prices on specified dates during the lease term. Additionally, leases of approximately 127 regional jet aircraft contain an option to purchase the aircra ft at the end of the lease term at prices that, depending on market conditions, could be below fair value. We have not consolidated the related trusts upon application of FIN 46 because, even taking into consideration these purchase options, we are still not the primary beneficiary based on our cash flow analysis. Our maximum exposure under these leases is the remaining lease payments, which are reflected in future lease commitments in Note 5.

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

Subsidiary Trust. We have a subsidiary trust that has Mandatorily Redeemable Preferred Securities outstanding with a liquidation value of $248 million. The trust is a variable interest entity under FIN 46 because we have a limited ability to make decisions about its activities. However, we are not the primary beneficiary of the trust. Therefore, the trust and the Mandatorily Redeemable Preferred Securities issued by the trust are not reported on our balance sheets. Instead, we report our 6% Convertible Junior Subordinated Debentures held by the trust as long-term debt and interest on the notes is recorded as interest expense for all periods presented in the accompanying financial statements.

Capacity Purchase Agreement. Holdings and ExpressJet each meet the criteria for a variable interest entity because the 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. This occurred on November 12, 2003. Therefore, we deconsolidated Holdings as of that date. See Note 16 for further discussion of our ownership of Holdings and our capacity purchase agreement with Holdings and ExpressJet.

NOTE 16 - INVESTMENT IN EXPRESSJET AND REGIONAL 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 ownership of Holdings to below 31%. We recognized gains totaling $173 million in 2003 as a result of these transactions. We continued to consolidate Holdings because, under FIN 46, we were the primary beneficiary until November 12, 2003, when, as a result of sales of Holdings shares to unrelated parties by our defined benefit pension plan, the combined amount of Holdings common stock owned by us and our defined benefit pension plan fell below 41%, the point at which we no longer were the primary beneficiary under FIN 46. Therefore, in accordance with FIN 46, we deconsolidated Holdings as of November 12, 2003 and began to account for our interest in Holdings using the equity method of accounting. As a result, after deconsolidation, we continue to record the related passenger revenue and related expenses, with payments under the capacity purchase agreement reflected as a separate operating expense. Prior to November 12, 2003, expenses under the capacity purchase agreement were eliminated in consolidation and the portion of 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. After deconsolidation, nonoperating income has increased due to our equity in Holdings' earnings and earnings under our tax sharing agreement with Holdings. Additionally, after deconsolidation, we no longer record minority interest on either our balance sheet or statement of operations.

On January 6, 2005, we contributed 6.0 million shares of Holdings common stock to our defined benefit pension plan. We recognized a gain of $51 million in the first quarter of 2005 related to this transaction. On April 7, 2005, we contributed an additional 6.1 million shares of Holdings common stock to our defined benefit pension plan. We recognized a gain of $47 million in the second quarter of 2005 related to this transaction. Our ownership of Holdings common stock following these transactions was 4.7 million shares, or an 8.6% interest in Holdings. These 4.7 million shares had a market value of $38 million at December 31, 2005. 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 all of our shares of Holdings common stock in the future. Additionally, during 2005 we relinquished our right to appoint a director to Holdings' Board of Directors. However, we will continue to account for our intere st in Holdings using the equity method of accounting because of our ongoing ability to influence Holdings' operations significantly through our capacity purchase agreement.

In addition to the Holdings shares we own, our defined benefit pension plans owned 4.2 million shares of Holdings common stock at December 31, 2005, which represented a 7.9% interest in Holdings. The independent fiduciary for our defined benefit pension plans, which exercises sole and exclusive control over the voting and disposition of all securities owned by our defined benefit pension plans, sold 7.9 million shares to third parties during 2005. Our ownership of Holdings common stock, together with the shares held by our defined benefit pension plans (which shares are subject to the exclusive control of the independent fiduciary), totaled 8.9 million shares, or 16.5% of Holdings' outstanding shares, at December 31, 2005.

Capacity Purchase Agreement with ExpressJet

General. Under our capacity purchase agreement (the "agreement"), ExpressJet currently flies all of its aircraft (which consist entirely of regional jet aircraft) on our behalf, and we handle scheduling, ticket prices and seat inventories for these flights. In exchange for ExpressJet's operation of the flights and performance of other obligations under the agreement, we pay them for each scheduled block hour based on an agreed formula. Under the agreement, we recognize all passenger, cargo and other revenue associated with each flight, and are responsible for all revenue-related expenses, including commissions, reservations, catering and passenger ticket processing expenses.

Compensation and Operational Responsibilities. Under the agreement, we pay ExpressJet a base fee for each scheduled block hour based on a formula that was in place through December 31, 2005. The formula was designed to provide ExpressJet with an operating margin of approximately 10% before taking into account variations in some costs and expenses that are generally controllable by them, the most significant of which is wages, salaries and benefits. In addition, ExpressJet's prevailing margin, which is the operating margin excluding certain revenues and costs as specified in the agreement, will be capped at 10% before certain incentive payments. Pursuant to the terms of the agreement, the block hour rate portion of the compensation we pay to ExpressJet is re-negotiated annually.

Payments made under the capacity purchase agreement are reported as ExpressJet capacity purchase, net in our consolidated statement of operations. ExpressJet capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. Such capacity purchase, net payments totaled $1.6 billion, $1.4 billion and $1.1 billion in 2005, 2004 and 2003, respectively. Prior to November 12, 2003, these amounts were eliminated in our consolidated financial statements.

Our future payments under the capacity purchase agreement are dependent on numerous variables, and are therefore difficult to predict. The most important of those variables is the number of scheduled block hours, which takes into account the number of ExpressJet aircraft and our utilization rates of such aircraft. Set forth below are estimates of our future minimum noncancelable commitments under the capacity purchase agreement. These estimates of our future minimum noncancelable commitments under the capacity purchase agreement do not include the portion of the underlying obligations for aircraft and facility rent that are disclosed as part of our consolidated operating lease commitments. For purposes of calculating these estimates, we have assumed (1) that ExpressJet's aircraft deliveries continue as scheduled through June 2006, (2) that applicable expenses include a 10% margin, (3) a constant fuel rate of 71.2 cents per gallon, including fuel taxes, (4) that aircraft are removed from the c apacity purchase agreement beginning December 28, 2006 based on a withdrawal schedule provided to ExpressJet, (5) we exercise our right to initiate termination of the capacity purchase agreement on March 1, 2006 with a wind-down beginning in June 2007 after the withdrawal (noted in (4) above) is completed, (6) an average daily utilization rate of 9.7 for 2006 through 2008, (7) cancellations are at historical levels resulting in no incentive compensation payable to ExpressJet and (8) that inflation is 2% per year. Based on these assumptions, our future minimum noncancelable commitments under the capacity purchase agreement at December 31, 2005 are estimated as follows (in millions):

2006	$1,339
2007	922
2008	107
Total	$2,368

It is important to note that in making the assumptions used to develop these estimates, we are attempting to estimate our minimum noncancelable commitments and not the amounts that we currently expect to pay to ExpressJet. In addition, our actual minimum noncancelable commitments to ExpressJet could differ materially from the estimates discussed above, because actual events could differ materially from the assumptions described above. For example, a 10% increase or decrease in scheduled block hours (whether a result of change in delivery dates of aircraft or average daily utilization) in 2006 would result in a corresponding increase or decrease in cash obligations under the capacity purchase agreement of approximately 7.8%, or $105 million.

ExpressJet's base fee includes compensation for scheduled block hours associated with some cancelled flights, based on historical cancellation rates constituting rolling five-year monthly averages. To the extent that ExpressJet's rate of controllable or uncontrollable cancellations is less than its historical cancellation rate, ExpressJet will be entitled to additional payments. ExpressJet is also entitled to receive a small per-passenger fee and incentive payments for first flights of a day departing on time and baggage handling performance. As a result of a better-than-expected completion rate and other incentives, ExpressJet earned an additional $7 million, $17 million and $16 million in 2005, 2004, and 2003, respectively.

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

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

Capacity and Fleet Matters. The capacity purchase agreement covers all of ExpressJet's existing fleet, as well as the final eight Embraer regional jets currently on order. Under the agreement, we have the right to give no less than twelve months' notice to ExpressJet reducing the number of its aircraft covered by the contract. In December 2005, we gave notice to ExpressJet that we would withdraw 69 of the 274 regional jet aircraft (including 2006 deliveries) from the capacity purchase agreement because we believe the rates charged by ExpressJet for regional capacity are above the current market. While our discussions with ExpressJet continue, we have requested proposals from numerous regional jet operators to provide regional jet service to replace the withdrawn capacity. Any transition of service from ExpressJet to a new operator would begin in January 2007 and be completed during the summer of 2007.

Under our agreement with ExpressJet, once we have given notice of withdrawal of aircraft from the agreement, ExpressJet will have the option to decide, within nine months of that notice, to (1) fly any of the withdrawn aircraft for another airline (subject to its ability to obtain facilities, such as gates, ticket counters, hold rooms and other operations-related facilities, and subject to its arrangement with us that prohibits ExpressJet during the term of the agreement from flying under its or another carrier's code in or out of our hub airports), (2) fly any of the withdrawn aircraft under ExpressJet's own flight designator code, subject to its ability to obtain facilities and subject to ExpressJet's arrangement with us respecting our hubs, or (3) decline to fly any of the withdrawn aircraft, return the aircraft to us and cancel the related subleases with us. If ExpressJet elects to retain the aircraft, the implicit interest rate used to calculate the scheduled lease payments under our aircraft su bleases with ExpressJet will automatically increase by 200 basis points to compensate us for our continued participation in ExpressJet's lease financing arrangements. Should ExpressJet retain the withdrawn aircraft, we anticipate that the new operator will supply any aircraft needed for its operations for us.

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

Service Agreements. We provide various services to ExpressJet and charge them at rates in accordance with the capacity purchase agreement. The services provided to ExpressJet by us include loading fuel into aircraft, certain customer services such as ground handling and infrastructure services, including but not limited to insurance, technology (including transaction processing), treasury, tax, real estate, environmental affairs, corporate security, human resources, internal corporate accounting, payroll, accounts payable and risk management. For providing these services, we charged ExpressJet approximately $101 million, $135 million and $117 million in 2005, 2004 and 2003, respectively.

Note Receivable from ExpressJet. At December 31, 2005 we had a $18 million note receivable from ExpressJet. In accordance with our amended and restated promissory note agreement dated November 5, 2002, principal and accrued interest on the note are payable quarterly by ExpressJet. We anticipate that the final payment will be made on March 31, 2006. The interest rate is fixed for each quarter at a rate equal to the three-month London interbank offered rate ("LIBOR") on the second business day prior to such quarter plus 1.25% per annum, subject to an aggregate cap of 6.72% in 2004. There is no such cap in subsequent years.

Leases. As of December 31, 2005, ExpressJet leased all 266 of its aircraft under long-term operating leases from us. ExpressJet's lease agreements with us have substantially the same terms as the lease agreements between us and the lessors and expire between 2013 and 2020. ExpressJet leases or subleases, under various operating leases, ground equipment and substantially all of its ground facilities, including facilities at public airports, from us or the municipalities or agencies owning and controlling such airports. If ExpressJet defaults on any of its payment obligations with us, we are entitled to reduce any payments required to be made by us to ExpressJet under the capacity purchase agreement by the amount of the defaulted payment. ExpressJet's total rental expense related to all leases with us was approximately $323 million, $293 million and $281 million in 2005, 2004 and 2003, respectively. After deconsolidation of Holdings on November 12, 2003, our related aircraft rental income is reported as a reduction to ExpressJet capacity purchase, net.

Income Taxes. In conjunction with Holdings' IPO, our tax basis in the stock of Holdings and the tax basis of ExpressJet's tangible and intangible assets were increased to fair value. The increased tax basis should result in additional tax deductions available to ExpressJet over a period of 15 years. To the extent ExpressJet generates taxable income sufficient to realize the additional tax deductions, our tax sharing agreement with ExpressJet provides that it will be required to pay us a percentage of the amount of tax savings actually realized, excluding the effect of any loss carrybacks. ExpressJet is required to pay us 100% of the first third of the anticipated tax benefit, 90% of the second third and 80% of the last third. However, if the anticipated benefits are not realized by the end of 2018, ExpressJet will be obligated to pay us 100% of any benefits realized after that date. We recognize the benefit of the tax savings associated with ExpressJet's asset step-up for financial reporti ng purposes in the year paid to us by ExpressJet due to the uncertainty of realization. Income from the tax sharing agreement totaled $28 million, $52 million and $17 million in 2005, 2004 and 2003, respectively, and is included in income from affiliates in the accompanying statement of operations.

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

NOTE 17 - RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions that occurred during 2005, 2004 and 2003, other than those discussed elsewhere in the Notes to Consolidated Financial Statements. The payments to and from the related parties in the ordinary course of business were based on prevailing market rates and do not include interline billings, which are common among airlines for transportation-related services.

Northwest Airlines. Northwest Airlines, Inc. holds the one share of our Series B Preferred Stock issued and outstanding. We have a long-term global alliance with Northwest involving extensive codesharing, frequent flyer reciprocity and other cooperative activities. The services provided are considered normal to the daily operations of both airlines. As a result of these activities, we paid Northwest $28 million, $32 million and $47 million in 2005, 2004 and 2003, respectively, and Northwest paid us $26 million, $26 million and $24 million in 2005, 2004 and 2003, respectively.

Copa Airlines. As of December 31, 2005, we had a 27% interest in Copa. We have a long-term global alliance with Copa Airlines involving extensive codesharing, frequent flyer reciprocity and other cooperative activities. The services provided are considered normal to the daily operations of both airlines. As a result of these activities, we paid Copa $1 million, $2 million and $3 million in 2005, 2004 and 2003, respectively, and Copa paid us $6 million, $8 million and $5 million in 2005, 2004 and 2003, respectively.

Orbitz. Until November 2004, we had an investment in Orbitz, a comprehensive travel planning website, as more fully discussed in Note 14. Other airlines also owned equity interests in Orbitz until November 2004 and distribute air travel tickets through Orbitz. We paid Orbitz approximately $6 million and $7 million for services during 2004 and 2003, respectively. Customers booked approximately $226 million and $229 million of air travel on us via Orbitz in 2004 and 2003, respectively. The distribution services provided by Orbitz are considered normal to the daily operations of both Orbitz and us.

Hotwire. Until November 2003, we and other airlines had an investment in Hotwire, Inc., a web-based travel services company. We have a marketing agreement with Hotwire pursuant to which we make available to Hotwire tickets for air travel. The base term of the agreement expired on January 7, 2006, but the agreement remains in effect unless terminated by either party. Other airlines also sell tickets to Hotwire. Prior to the sale of their indirect interests in Hotwire during 2003, two of our former directors, David Bonderman and William Price, controlled approximately 27% of Hotwire's general voting power. We sold Hotwire approximately $38 million of tickets during 2003. The distribution services provided to us by Hotwire are considered normal to both their and our daily operations.

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

NOTE 18 - SEGMENT REPORTING

We have two reportable segments: mainline and regional. The mainline segment consists of flights to cities using jets with a capacity of greater than 100 seats while the regional segment consists of flights using jets with a capacity of 50 or fewer seats. The regional segment is operated by ExpressJet through a capacity purchase agreement. See Note 16 for further discussion of the capacity purchase agreement and the impact of the deconsolidation of Holdings effective November 12, 2003.

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

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

	2005	2004	2003
Operating Revenue:			
Mainline	$ 9,377	$8,327	$7,690
Regional	1,831	1,572	1,311
Total Consolidated	$11,208	$9,899	$9,001
Depreciation and amortization expense:			
Mainline	$ (378)	$ (404)	$ (419)
Regional	(11)	(11)	(28)
Total Consolidated	$ (389)	$ (415)	$ (447)
Special Charges (Note 12):			
Mainline	$ (67)	$(121)	$ (91)
Regional	-	-	(9)
Total Consolidated	$ (67)	$(121)	$ (100)
Operating Income (Loss):			
Mainline	$ 215	$ (7)	$ 219
Regional	(254)	(231)	(31)
Total Consolidated	$ (39)	$(238)	$ 188

Interest Expense:			
Mainline	$ (393)	$(371)	$ (372)
Regional	(17)	(18)	(27)
Intercompany Eliminations	-	-	6
Total Consolidated	$ (410)	$(389)	$ (393)
Interest Income:			
Mainline	$ 69	$ 25	$ 16
Regional	3	4	9
Intercompany Eliminations	-	-	(6)
Total Consolidated	$ 72	$ 29	$ 19
Income Tax Benefit (Expense):			
Mainline	$ -	$ 8	$ (105)
Regional	-	32	(4)
Total Consolidated	$ -	$ 40	$ (109)
Net Income (Loss):			
Mainline	$ 189	$(215)	$ 121
Regional	(257)	(194)	(93)
Total Consolidated	$ (68)	$(409)	$ 28

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

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

	2005	2004	2003
Domestic (U.S.)	$ 6,914	$6,570	$6,181
Atlantic	1,993	1,489	1,203
Latin America	1,427	1,139	1,050
Pacific	874	701	567
	$11,208	$9,899	$9,001

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

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Purchase Commitments. We have substantial commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. As of December 31, 2005, we had firm commitments for 52 new aircraft from Boeing, with an estimated cost of $2.5 billion, and options to purchase 30 additional Boeing aircraft. We are scheduled to take delivery of six new 737-800 aircraft in 2006, with delivery of the remaining 46 new Boeing aircraft occurring from 2007 through 2011. In addition, we are scheduled to take delivery of two used 757-300 aircraft in 2006 under operating leases.

We have backstop financing for six 737-800 aircraft to be delivered in 2006 and two 777-200ER aircraft to be delivered in 2007. By virtue of these agreements, we have financing available for all Boeing aircraft scheduled to be delivered through 2007. However, we do not have backstop financing or any other financing currently in place for the remainder of the aircraft. Further financing will be needed to satisfy our capital commitments for our firm aircraft and other related capital expenditures. We can provide no assurance that sufficient financing will be available for the aircraft on order or other related capital expenditures, or for our capital expenditures in general.

As of December 31, 2005, ExpressJet had firm commitments for the final eight regional jets currently on order from Embraer with an estimated cost of approximately $0.2 billion. ExpressJet currently anticipates taking delivery of these regional jets in 2006. ExpressJet does not have an obligation to take any of these firm Embraer aircraft that are not financed by a third party and leased to either ExpressJet or us. Under the capacity purchase agreement between us and ExpressJet, we have agreed to lease as lessee and sublease to ExpressJet the regional jets that are subject to ExpressJet's firm purchase commitments. In addition, under the capacity purchase agreement with ExpressJet, we generally are obligated to purchase all of the capacity provided by these new aircraft as they are delivered to ExpressJet.

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, excluding the US Airways contingent liability discussed below. These bonds, issued by various municipalities and other governmental entities, 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.

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 $156 million at December 31, 2005 and a final scheduled maturity in 2015. If US Airways defaults on these obligations, we would be obligated to cure the default and we would have the right to occupy the terminal after US Airways' interest in the lease had been terminated.

We also have letters of credit and performance bonds relating to various real estate and customs obligations at December 31, 2005 in the amount of $54 million with expiration dates through June 2008.

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

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

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

In our financing transactions that include loans, we typically agree to reimburse lenders for any reduced returns with respect to loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on LIBOR, for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to certain mitigation obligations of the lenders. At December 31, 2005, we had $1.0 billion of floating rate debt and $0.3 billion of fixed rate debt, with remaining terms of up to 10 years, that is subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 10 years and an aggregate carrying value of $1.1 billion, we bear the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions. In addition, in cross-border air craft 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 withholding taxes, subject to customary exclusions. These capital leases for two 757 aircraft expire in 2008 and have a carrying value of $49 million at December 31, 2005.

We cannot estimate the potential amount of future payments under the foregoing indemnities and agreements due to unknown variables related to potential government changes in capital adequacy requirements or tax laws.

Credit Card Processing Agreement. Our bank-issued credit card processing agreement contains financial covenants which require, among other things, that we maintain a minimum EBITDAR (generally, earnings before interest, taxes, depreciation, amortization, aircraft rentals and income from affiliates, adjusted for special items) to fixed charges (interest and aircraft rentals) ratio of 0.9 to 1.0 through June 30, 2006 and 1.1 to 1.0 thereafter. The liquidity covenant requires us to maintain a minimum level of $1.0 billion of unrestricted cash and short-term investments and a minimum ratio of unrestricted cash and short-term investments to current liabilities of .27 to 1.0 through June 30, 2006 and .29 to 1.0 thereafter. The agreement also requires that we must maintain a debt rating of at least Caa3 as rated by Moody's or CCC- as rated by Standard & Poor's. Although we are currently in compliance with all of the covenants, failure to maintain compliance would result in our being required to post up to an additional $330 million of cash collateral, which would adversely affect our liquidity. Depending on our unrestricted cash and short-term investments balance at the time, the posting of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the $1.0 billion minimum balance requirement under our $350 million secured loan facility, resulting in a default under such facility.

Employees. As of December 31, 2005, we had approximately 42,200 employees, or 39,530 full-time equivalent employees, consisting of approximately 16,895 customer service agents, reservations agents, ramp and other airport personnel, 8,570 flight attendants, 5,925 management and clerical employees, 4,420 pilots, 3,610 mechanics and 110 dispatchers. While there can be no assurance that our generally good labor relations and high labor productivity will continue, we have established as a significant component of our business strategy the preservation of good relations with our employees, approximately 44% of whom are represented by unions.

Environmental Matters. We could 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 ("CRWQCB") mandated a field study of the site and it was completed in September 2001. In April 2005, under the threat of a CRWQCB enforcement action, we began environmental remediation of jet fuel contamination surrounding our aircraft maintenance hangar pursuant to a work plan submitted to (and approved by) the CRWQCB and our landlord, the Los Angeles World Airports.

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 expect our total losses from environmental matters to be approximately $45 million, for which we were fully accrued at December 31, 2005. We have evaluated and recorded this accrual for environmental remediation costs separately from any related insurance recovery. We have not recognized any material receivables related to insurance recoveries at December 31, 2005.

Based on currently available information, we believe that our reserves for potential environmental remediation costs are adequate, although reserves could be adjusted as further information develops or circumstances change. However, we do not expect these items to materially impact our results of operations, financial condition or liquidity.

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 two remaining lawsuits brought by travel agencies that purportedly opted out of a prior class action entitled Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C., Eastern District of North Carolina), filed on June 21, 2000, in which the defendant airlines prevailed on summary judgment that was upheld on appeal. These similar suits against Continental and other major carriers allege violations of antitrust laws in reducing and ultimately eliminating the base commission formerly paid to travel agents. The pending cases are Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 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. Another such similar lawsuit, styled Paula Fausky, et al. v. American Airlines, et al. (U.S.D.C., Northern District of Ohio) and filed on May 8, 2003, was dismissed without prejudice in July 2005. By order dated November 10, 2003, the remaining actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has commenced.

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 results of operations, financial condition or liquidity.

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. Although the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on our results of operations, financial condition or liquidity, 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 results of operations, financial condition or liquidity.

NOTE 20 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 2005 and 2004 is as follows (in millions, except per share data):

	Three Months Ended			
	March 31	June 30	September 30	December 31
2005				
Operating revenue	$2,505	$2,857	$3,001	$2,845

Operating income (loss)	(173)	119	109	(94)
Nonoperating income (expense), net	(13)	(19)	(48)	51
Net income (loss)	(186)	100	61	(43)
Earnings (Loss) per share:				
Basic	$(2.79)	$1.49	$0.91	$(0.53)
Diluted	$(2.79)	$1.26	$0.80	$(0.53)
2004				
Operating revenue	$2,307	$2,553	$2,602	$2,437
Operating income (loss)	(137)	40	22	(163)
Nonoperating expense, net	(58)	(68)	(40)	(45)
Net loss	(155)	(28)	(18)	(208)
Loss per share:				
Basic	$(2.36)	$(0.41)	$(0.28)	$(3.14)
Diluted	$(2.37)	$(0.43)	$(0.29)	$(3.16)

The sum of the four quarterly earnings (loss) per share amounts does not agree with the earnings per share as calculated for the full year due to the fact that the full year calculation uses a weighted average number of shares based on the sum of the four quarterly weighted average shares divided by four quarters.

The quarter results are impacted by the following significant items:

In the first quarter of 2005, we recognized a gain of $51 million related to the contribution of 6.0 million shares of Holdings common stock to our primary defined benefit pension plan. We also recorded a $43 million non-cash curtailment charge relating to the freezing of the portion of our defined benefit pension plan attributable to pilots.

In the second quarter of 2005, we recognized a gain of $47 million related to the contribution of 6.1 million shares of Holdings common stock to our primary defined benefit pension plan.

In the third quarter of 2005, we recorded an $18 million non-cash settlement charge related to lump sum distributions from our defined benefit pension plans to pilots who retired. Also in the third quarter of 2005, we reduced our allowance for future lease payments and return conditions related to permanently grounded aircraft by $15 million following negotiated settlements with the aircraft lessors in an improved aircraft market.

In the fourth quarter of 2005, we recorded a gain of $106 million related to our sale of 9.1 million shares of Copa common stock in Copa's IPO. We also recorded special charges of $21 million consisting primarily of a non-cash settlement charge relating to lump-sum distributions from our defined benefit pension plans.

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

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

In the first quarter of 2004, we recorded a non-cash charge of $34 million related to the termination of a 1993 service agreement with United Micronesia Development Association.

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

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

ITEM 9A. CONTROLS AND PROCEDURES.

Management's Conclusion on the Effectiveness of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. They concluded that the controls and procedures were effective as of December 31, 2005 to provide reasonable assurance that the information required to be disclosed by the Company in reports it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. While our disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well it may be designed or administered.

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 was conducted. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on their assessment, management concluded that, as of December 31, 2005, the Company's internal control over financial reporting was effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting appears below.

Changes in Internal Controls

There was no change in our internal control over financial reporting during the quarter ended December 31, 2005, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Continental Airlines, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Continental Airlines, Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2005 and 2004, and the related consolidated statements of operations, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005, and our report dated February 24, 2006, expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas

February 24, 2006

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 6, 2006.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 6, 2006.

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

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 6, 2006 and from Item 5. "Market for Registrant's Common Equity and Related Stockholder Matters" of this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 6, 2006.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Incorporated herein by reference from our definitive proxy statement for the annual meeting of stockholders to be held on June 6, 2006.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

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

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Operations for each of the Three Years in the Period Ended December 31, 2005
Consolidated Balance Sheets as of December 31, 2005 and 2004
Consolidated Statements of Cash Flows for each of the Three Years in the Period Ended December 31, 2005
Consolidated Statements of Common Stockholders' Equity for each of the Three Years in the Period Ended December 31, 2005
Notes to Consolidated Financial Statements

b. Financial Statement Schedules:

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

The following separate financial statements of fifty-percent or less owned persons are incorporated by reference herein as described below:

Exhibit 99.1 to this report, Copa Holdings, S.A.'s audited consolidated financial statements for the fiscal years ended December 31, 2004 and 2003, is incorporated by reference into this Annual Report on Form 10-K as the "Separate Financial Statements of Fifty-Percent or Less Owned Persons," financial statements required as part of this report. Copa Holdings, S.A.'s audited consolidated financial statements as of December 31, 2005 will be filed as an amendment to this report on or before June 30, 2006.

Exhibit 99.2 to this report, ExpressJet Holdings, Inc.'s audited consolidated financial statements for the fiscal years ended December 31, 2005 and 2004, is incorporated by reference into this Annual Report on Form 10-K as the "Separate Financial Statements of Fifty-Percent or Less Owned Persons," financial statements required as part of this report.

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

c. See accompanying Index to Exhibits.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the consolidated financial statements of Continental Airlines, Inc. (the "Company") as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005 and have issued our report thereon dated February 24, 2006 (included elsewhere in this Annual Report on Form 10-K). Our audits also included the financial statement schedule listed in Item 15(b) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

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

ERNST & YOUNG LLP

Houston, Texas
February 24, 2006

CONTINENTAL AIRLINES, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2005, 2004, and 2003
(In millions)

	Balance at Beginning of Year	Additions Charged to Expense	Deductions from Reserve	Other Adjustments		Balance at End of Year
2005						
Allowance for Doubtful Accounts	22	6	(13)	- -		15
Allowance for Obsolescence	93	7	(16)	11		95
Valuation Allowance on Deferred Tax Asset	404	(9)	- -	100	(a)	495
Environmental Reserves	50	-	(5)	-		45

2004						
Allowance for Doubtful Accounts	19	11	(8)	- -		22
Allowance for Obsolescence	98	11	(16)	-		93
Valuation Allowance on Deferred Tax Asset	219	120	- -	65	(b)	404
Environmental Reserves	52	1	(3)	-		50
2003						
Allowance for Doubtful Accounts	30	1	(12)	- -		19
Allowance for Obsolescence	98	15	(5)	(10)	(c)	98
Valuation Allowance on Deferred Tax Asset	219	- -	- -	- -		219
Valuation Allowance - Net Tax Agreement Obligations	384	- -	- -	(384)	(c)	- -
Environmental Reserves	50	2	-	-		52

a. Relates primarily to our final settlement with the Internal Revenue Service and the associated deferred tax reconciliation, as further discussed in Note 11 to our consolidated financial statements included in Item 8 of this report, and an increase in the minimum pension liability.
b. Relates to increase in minimum pension liability.
c. Relates to the deconsolidation of ExpressJet Holdings, Inc. on November 12, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONTINENTAL AIRLINES, INC.

By /s/ JEFFREY J. MISNER

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer

(On behalf of Registrant)

Date: February 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on February 28, 2006.

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

Douglas McCorkindale

HENRY L. MEYER III* Director

Henry L. Meyer III

OSCAR MUNOZ* Director

Oscar Munoz

GEORGE G. C. PARKER* Director

George G. C. Parker

/s/ JEFFERY A. SMISEK Director

Jeffery A. Smisek

KAREN HASTIE WILLIAMS* Director

Karen Hastie Williams

RONALD B. WOODARD* Director

Ronald B. Woodard

CHARLES A. YAMARONE* Director

Charles A. Yamarone

*By /s/ Jennifer L. Vogel

Jennifer L. Vogel
Attorney-in-fact
February 28, 2006

INDEX TO EXHIBITS OF
CONTINENTAL AIRLINES, INC.

3.1	Amended and Restated Certificate of Incorporation of Continental - incorporated by reference to Exhibit 3.1 to Continental's Annual Report on Form 10-K for the year ended December 31, 2000 (File no. 1-10323) (the "2000 10-K").
3.1(a)	Certificate of Designation of Series A Junior Participating Preferred Stock, included as Exhibit A to Exhibit 3.1.
3.1(a)(i)	Certificate of Amendment of Certificate of Designation of Series A Junior Participating Preferred Stock - incorporated by reference to Exhibit 3.1(b) to Continental's Annual Report on Form 10-K for the year ended December 31, 2001 (File no. 1-10323) (the "2001 10-K").
3.1(b)	Certificate of Designation of Series B Preferred Stock - incorporated by reference to Exhibit 3.1(b) to the 2000 10-K.
3.1(c)	Corrected Certificate of Designations of Series B Preferred Stock - incorporated by reference to the Exhibit 3.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File no. 1-10323) (the "2003 Q-1 10-Q").
3.2	Bylaws of Continental, as amended through February 26, 2003 - incorporated by reference to Exhibit 3.2 to the 2003 Q-1 10-Q.
4.1	Specimen Series B Preferred Stock Certificate of Continental - incorporated by

	reference to Exhibit 3.1(c) to the 2000 10-K.
4.2	Specimen Class B Common Stock Certificate of Continental - incorporated by reference to Exhibit 4.1 to Continental's Form S-1 Registration Statement (No. 33-68870) (the "1993 S-1").
4.3	Amended and Restated Rights Agreement, dated as of November 15, 2000, between Continental and ChaseMellon Shareholder Services, LLC - incorporated by reference to Exhibit 99.11 to Continental's Current Report on Form 8-K dated November 15, 2000 (File no. 1-10323) (the "11/00 8-K").
4.3(a)	Form of Right Certificate, included as Exhibit B to Exhibit 4.3 - incorporated by reference to Exhibit 99.11 to the 11/00 8-K.

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

10.1(g)	Supplemental Agreement No. 17 to the Terminal C Lease - incorporated by reference to Exhibit 10.1(f) to Continental's Annual Report on Form 10-K for the year ended December 31, 1999 (File no. 1-10323) (the "1999 10-K").
10.1(h)	Supplemental Agreement No. 18 to the Terminal C Lease - as incorporated by reference to Exhibit 10.5 to the 2003 Q-1 10-Q.
10.1(i)	Supplemental Agreement No. 19 to the Terminal C Lease - incorporated by reference to Exhibit 10.4 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File no. 1-10323).
10.1(j)	Supplemental Agreement No. 20 - to the Terminal C Lease - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for quarter ended September 30, 2003 (File no. 1-10323) (the "2003 Q-3 10-Q").
10.1(k)	Supplemental Agreement No. 21 dated as of June 1, 2003 to Agreement of Lease between the Company and the Port Authority of New York and New Jersey regarding Terminal C at Newark Liberty International Airport - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 1-10323) (the "2005 Q-2 10-Q").
10.1(l)	Supplemental Agreement No. 22 - to the Terminal C Lease - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (File No. 1-10323) (the "2004 Q-1 10-Q").
10.1(m)	Supplemental Agreement No. 23 - to the Terminal C Lease. (3)
10.1(n)	Supplemental Agreement No. 24 - to the Terminal C Lease. (3)
10.2	Airport Use and Lease Agreement dated as of January 1, 1998 between Continental and the City of Houston, Texas ("Houston") regarding George Bush Intercontinental Airport - incorporated by reference to Exhibit 10.30 to Continental's Annual Report on Form 10-K for the year ended December 31, 1998 (File no. 1-1-323) (the "1998 10-K").
10.2(a)	Special Facilities Lease Agreement dated as of March 1, 1997 between Continental and Houston regarding an automated people mover project at Bush Intercontinental - incorporated by reference to Exhibit 10.30(a) to the 1998 10-K.
10.2(b)	Amended and Restated Special Facilities Lease Agreement dated as of December 1, 1998 by and between Continental and Houston regarding certain terminal improvements projects at Bush Intercontinental - incorporated by reference to Exhibit 10.30(b) to the 1998 10-K.
10.2(c)	Amended and Restated Special Facilities Lease Agreement dated December 1, 1998 by and between Continental and Houston regarding certain airport improvement projects at Bush Intercontinental - incorporated by reference to Exhibit 10.30(c) to the 1998 10-K.
10.2(d)	Terminal E Lease and Special Facilities Lease Agreement dated as of August 1, 2001 between Continental and Houston regarding Bush Intercontinental - incorporated by reference to Exhibit 10.8 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (File no. 1-10323) (the "2001 Q-3 10-Q").
10.2(e)	Supplement to Terminal E Lease and Special Facilities Lease Agreement dated as of August 1, 2001 - incorporated by reference to Exhibit 10.2(e) to Continental's Annual Report on Form 10-K for the year ended December 31, 2002 (File no. 1-10323) (the "2002 10-K").

10.3	Agreement and Lease dated as of May 1987, as supplemented, between Continental and the City of Cleveland, Ohio ("Cleveland") regarding Hopkins International Airport - incorporated by reference to Exhibit 10.6 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 (File no. 1-10323).
10.3(a)	Special Facilities Lease Agreement dated as of October 24, 1997 by and between Continental and Cleveland regarding certain concourse expansion projects at Hopkins International (the "1997 SFLA") - incorporated by reference to Exhibit 10.31(a) to the 1998 10-K.
10.3(b)	First Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1997 SFLA - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (File no. 1-10323) (the "1999 Q-1 10-Q").
10.3(c)	Special Facilities Lease Agreement dated as of December 1, 1989 by and between Continental and Cleveland regarding Hopkins International (the "1989 SFLA") - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (File no. 1-10323) (the "1999 Q-3 10-Q").
10.3(d)	First Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1989 SFLA - incorporated by reference to Exhibit 10.1(a) to the 1999 Q-3 10-Q.
10.3(e)	Second Supplemental Special Facilities Lease Agreement dated as of March 1, 1998, and relating to the 1989 SFLA - incorporated by reference to Exhibit 10.1(b) to the 1999 Q-3 10-Q.
10.3(f)	Amendment No. 1, dated January 1, 2006, to Agreement and Lease dated as of May 1987, as supplemented, between Continental and Cleveland regarding Hopkins International Airport. (3)
10.4*	Employment Agreement dated as of April 14, 2004 between the Company and Lawrence W. Kellner - incorporated by reference to Exhibit 10.16 to the 2004 Q-1 10-Q.
10.4(a)*	Compensation Reduction Agreement for Lawrence W. Kellner dated December 22, 2004 - incorporated by reference to Exhibit 99.1 to Continental's Current Report on Form 8-K dated December 22, 2004 (File no. 1-10323) (the "12/04 8-K").
10.4(b)*	Amendment to Compensation Reduction Agreement for Lawrence W. Kellner dated February 15, 2005 - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 1-10323) (the "2005 Q-1 10-Q").
10.5*	Employment Agreement dated as of August 12, 2004 between the Company and Jeffery A. Smisek - incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-10323) (the "2004 Q-3 10-Q").
10.5(a)*	Compensation Reduction Agreement for Jeffery A. Smisek dated December 22, 2004 - incorporated by reference to Exhibit 99.2 to the 12/04 8-K.
10.5(b)*	Amendment to Compensation Reduction Agreement for Jeffery A. Smisek dated February 15, 2005 - incorporated by reference to Exhibit 10.2 to the 2005 Q-1 10-Q.
10.6*	Employment Agreement dated as of August 12, 2004 between the Company and Jeffrey J. Misner - incorporated by reference to Exhibit 10.6 to Continental's Annual Report on Form 10-K for the year ended December 31, 2004 (File no. 1-10323) (the "2004 10-K").

10.6(a)*	Compensation Reduction Agreement for Jeffrey J. Misner dated December 22, 2004 - incorporated by reference to Exhibit 10.6(a) to the 2004 10-K.
10.6(b)*	Amendment to Compensation Reduction Agreement for Jeffrey J. Misner dated February 15, 2005 - incorporated by reference to Exhibit 10.3 to the 2005 Q-1 10-Q.
10.7*	Employment Agreement dated as of August 12, 2004 between the Company and Mark J. Moran. (3)
10.7(a)*	Compensation Reduction Agreement for Mark J. Moran dated December 22, 2004. (3)
10.7(b)*	Amendment to Compensation Reduction Agreement for Mark J. Moran dated February 15, 2005. (3)
10.8*	Employment Agreement dated as of August 12, 2004 between the Company and James E. Compton - incorporated by reference to Exhibit 10.8 to the 2004 10-K.
10.8(a)*	Compensation Reduction Agreement for James E. Compton dated December 22, 2004 - incorporated by reference to Exhibit 10.8(a) to the 2004 10-K.
10.8(b)*	Amendment to Compensation Reduction Agreement for James E. Compton dated February 15, 2005 - incorporated by reference to Exhibit 10.4 to the 2005 Q-1 10-Q.
10.9*	Continental Airlines, Inc. 1994 Incentive Equity Plan ("1994 Incentive Plan") - incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration Statement (No. 33-81324).
10.9(a)*	Form of Employee Stock Option Grant pursuant to the 1994 Incentive Plan - incorporated by reference to Exhibit 10.10(e) to the 1997 10-K.
10.9(b)*	Form of Outside Director Stock Option Grant pursuant to the 1994 Incentive Plan - incorporated by reference to Exhibit 10.10(f) to the 1997 10-K.
10.10*	Continental Airlines, Inc. 1997 Stock Incentive Plan ("1997 Incentive Plan") - incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration Statement (No. 333-23165).
10.10(a)*	Form of Employee Stock Option Grant pursuant to the 1997 Incentive Plan - incorporated by reference to Exhibit 10.1 to the 2001 Q-3 10-Q.
10.10(b)*	Form of Outside Director Stock Option Grant pursuant to the 1997 Incentive Plan - incorporated by reference to Exhibit 10.11(c) to the 1997 10-K.
10.10(c)*	Form of Restricted Stock Agreement pursuant to the 1997 Incentive Plan - incorporated by reference to Exhibit 10.9 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File no. 1-10323) (the "2002 Q-2 10-Q").
10.11*	Amendment and Restatement of the 1994 Incentive Plan and the 1997 Incentive Plan - incorporated by reference to Exhibit 10.19 to the 1998 10-K.
10.12*	Continental Airlines, Inc. 1998 Stock Incentive Plan ("1998 Incentive Plan") - incorporated by reference to Exhibit 4.3 to Continental's Form S-8 Registration

	Statement (No. 333-57297).
10.12(a)*	Amendment No. 1 to 1998 Incentive Plan, 1997 Incentive Plan and 1994 Incentive Plan - incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File no. 1-10323) (the "2001 Q-2 10-Q").
10.12(b)*	Form of Employee Stock Option Grant pursuant to the 1998 Incentive Plan, as amended - incorporated by reference to Exhibit 10.2 to the 2001 Q-3 10-Q.
10.12(c)*	Form of Restricted Stock Agreement pursuant to the 1998 Incentive Plan - incorporated by reference to Exhibit 10.10 to the 2002 Q-2 10-Q.
10.12(d)*	Amendment to 1998 Incentive Plan, 1997 Incentive Plan and 1994 Incentive Plan - incorporated by reference to Exhibit 10.5 to the 2004 Q-1 10-Q.
10.13*	Continental Airlines, Inc. Incentive Plan 2000, as amended and restated ("Incentive Plan 2000") - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (File no. 1-10323) (the "2002 Q-1 10-Q").
10.13(a)*	Form of Employee Stock Option Agreement pursuant to the Incentive Plan 2000 - incorporated by reference to Exhibit 10.3 to the 2001 Q-3 10-Q.
10.13(b)*	Form of Outside Director Stock Option Agreement pursuant to the Incentive Plan 2000 - incorporated by reference to Exhibit 10.14(b) to the 2000 10-K.
10.13(c)*	Form of Restricted Stock Agreement pursuant to the Incentive Plan 2000 - incorporated by reference to Exhibit 10.4 to the 2001 Q-3 10-Q.
10.13(d)*	Amendment to the Incentive Plan 2000 - incorporated by reference to Exhibit 10.6 to the 2004 Q-1 10-Q.
10.14*	Continental Airlines, Inc. Officer Retention and Incentive Award Program, as amended - incorporated by reference to Exhibit 10.7(a) to the 2001 Q-3 10-Q.
10.14(a)*	Form of Officer Retention and Incentive Award Notice - incorporated by reference to Exhibit 10.7 to the 2001 Q-3 10-Q.
10.14(b)*	Amendment to Officer Retention and Incentive Award Program, effective as of March 12, 2004 - incorporated by reference to Exhibit 10.9 to the 2004 Q-1 10-Q.
10.14(c)*	Second Amendment to Officer Retention and Incentive Award Program, dated February 11, 2005 - incorporated by reference to Exhibit 10.7 to the 2005 Q-1 10-Q.
10.15*	Amended and Restated Annual Executive Bonus Program. (3)
10.15(a)*	Form of Award Notice pursuant to Continental Airlines, Inc. Amended and Restated Annual Executive Bonus Program. (3)
10.16*	Continental Airlines, Inc. Long-Term Incentive and RSU Program - as incorporated by reference to Exhibit 10.11 to the 2004 Q-1 10-Q.
10.16(a)*	Form of Award Notice pursuant to Continental Airlines, Inc. Long-Term Incentive and RSU Program (RSU Awards) - incorporated by reference to

	Exhibit 10.11(a) to the 2004 Q-1 10-Q.
10.16(b)*	Form of Award Notice pursuant to Continental Airlines, Inc. Long-Term Incentive and RSU Program (NLTIP Award). (3)
10.16(c)*	Previous Form of Award Notice pursuant to Continental Airlines, Inc. Long-Term Incentive and RSU Program (NLTIP Award) -- incorporated by reference to Exhibit 10.11(b) to the 2004 Q-1 10-Q.
10.16(d)*	First Amendment to Long-Term Incentive and RSU Program, dated November 30, 2004 - incorporated by reference to Exhibit 10.18(c) to the 2004 10-K.
10.17*	Continental Airlines, Inc. 2005 Broad Based Employee Stock Option Plan - incorporated by reference to Exhibit 10.8 to the 2005 Q-1 10-Q.
10.18*	Continental Airlines, Inc. 2005 Pilot Supplemental Option Plan - incorporated by reference to Exhibit 10.9 to the 2005 Q-1 10-Q
10.19*	Summary of Non-Employee Director compensation - incorporated by reference to Exhibit 10.19 to the 2004 10-K.
10.20*	Form of Letter Agreement relating to certain flight benefits between the Company and each of its non-employee directors - incorporated by reference to Exhibit 10.18 to the 2000 10-K.
10.21	Credit and Guaranty Agreement dated as of June 1, 2005 among Continental and Continental Micronesia, Inc., as borrowers and guarantors, Air Micronesia, Inc., as a guarantor, Merrill Lynch Mortgage Capital Inc., as administrative agent, and the lenders party thereto - incorporated by reference to Exhibit 10.2 to the 2005 Q-2 10-Q. (2)
10.22	Purchase Agreement No. 1951, including exhibits and side letters thereto, between the Company and Boeing, dated July 23, 1996, relating to the purchase of Boeing 737 aircraft ("P.A. 1951") - incorporated by reference to Exhibit 10.8 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (File no. 1-10323) (the "1996 Q-2 10-Q). (1)
10.22(a)	Supplemental Agreement No. 1 to P.A. 1951, dated October 10, 1996 - incorporated by reference to Exhibit 10.14(a) to Continental's Annual Report on Form 10-K for the year ended December 31, 1996 (File no. 1-1-323) (the "1996 10-K"). (1)
10.22(b)	Supplemental Agreement No. 2 to P.A. 1951, dated March 5, 1997 - incorporated by reference to Exhibit 10.3 to Continental's Quarterly Report on Form 10-Q for the quarter ending March 31, 1997 (File no. 1-10323) (the "1997 Q1 10-Q"). (1)
10.22(c)	Supplemental Agreement No. 3, including exhibit and side letter, to P.A. 1951, dated July 17, 1997 - incorporated by reference to Exhibit 10.14(c) to the 1997 10-K. (1)
10.22(d)	Supplemental Agreement No. 4, including exhibits and side letters, to P.A. 1951, dated October 10, 1997 - incorporated by reference to Exhibit 10.14(d) to the 1997 10-K. (1)
10.22(e)	Supplemental Agreement No. 5, including exhibits and side letters, to P.A. 1951, dated October 10, 1997 - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File no. 1-10323). (1)
10.22(f)	

	Supplemental Agreement No. 6, including exhibits and side letters, to P.A. 1951, dated July 30, 1998 - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File no. 1-10323) (the "1998 Q-3 10-Q). (1)
10.22(g)	Supplemental Agreement No. 7, including side letters, to P.A. 1951, dated November 12, 1998 - incorporated by reference to Exhibit 10.24(g) to the 1998 10-K. (1)
10.22(h)	Supplemental Agreement No. 8, including side letters, to P.A. 1951, dated December 7, 1998 - incorporated by reference to Exhibit 10.24(h) to the 1998 10-K. (1)
10.22(i)	Letter Agreement No. 6-1162-GOC-131R1 to P.A. 1951, dated March 26, 1998 - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (File no. 1-10323). (1)
10.22(j)	Supplemental Agreement No. 9, including side letters, to P.A. 1951, dated February 18, 1999 - incorporated by reference to Exhibit 10.4 to the 1999 Q-1 10-Q. (1)
10.22(k)	Supplemental Agreement No. 10, including side letters, to P.A. 1951, dated March 19, 1999 - incorporated by reference to Exhibit 10.4(a) to the 1999 Q-1 10-Q. (1)
10.22(l)	Supplemental Agreement No. 11, including side letters, to P.A. 1951, dated March 14, 1999 - incorporated by reference to Exhibit 10.4(a) to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File no. 1-10323) (the "1999 Q-2 10-Q"). (1)
10.22(m)	Supplemental Agreement No. 12, including side letters, to P.A. 1951, dated July 2, 1999 - incorporated by reference to Exhibit 10.8 to the 1999 Q-3 10-Q. (1)
10.22(n)	Supplemental Agreement No. 13 to P.A. 1951, dated October 13, 1999 - incorporated by reference to Exhibit 10.25(n) to the 1999 10-K. (1)
10.22(o)	Supplemental Agreement No. 14 to P.A. 1951, dated December 13, 1999 - incorporated by reference to Exhibit 10.25(o) to the 1999 10-K. (1)
10.22(p)	Supplemental Agreement No. 15, including side letters, to P.A. 1951, dated January 13, 2000 - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (File no. 1-10323) (the "2000 Q-1 10-Q"). (1)
10.22(q)	Supplemental Agreement No. 16, including side letters, to P.A. 1951, dated March 17, 2000 - incorporated by reference to the 2000 Q-1 10-Q. (1)
10.22(r)	Supplemental Agreement No. 17, including side letters, to P.A. 1951, dated May 16, 2000 - incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File no. 1-10323). (1)
10.22(s)	Supplemental Agreement No. 18, including side letters, to P.A. 1951, dated September 11, 2000 - incorporated by reference to Exhibit 10.6 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File no. 1-10323). (1)
10.22(t)	Supplemental Agreement No. 19, including side letters, to P.A. 1951, dated October 31, 2000 - incorporated by reference to Exhibit 10.20(t) to the 2000 10-K. (1)

10.22(u)	Supplemental Agreement No. 20, including side letters, to P.A. 1951, dated December 21, 2000 - incorporated by reference to Exhibit 10.20(u) to the 2000 10-K. (1)
10.22(v)	Supplemental Agreement No. 21, including side letters, to P.A. 1951, dated March 30, 2001 - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File no. 1-10323) (the "2001 Q-1 10-Q"). (1)
10.22(w)	Supplemental Agreement No. 22, including side letters, to P.A. 1951, dated May 23, 2001 - incorporated by reference to Exhibit 10.3 to the 2001 Q-2 10-Q. (1)
10.22(x)	Supplemental Agreement No. 23, including side letters, to P.A. 1951, dated June 29, 2001 - incorporated by reference to Exhibit 10.4 to the 2001 Q-2 10-Q. (1)
10.22(y)	Supplemental Agreement No. 24, including side letters, to P.A. 1951, dated August 31, 2001 - incorporated by reference to Exhibit 10.11 to the 2001 Q-3 10-Q. (1)
10.22(z)	Supplemental Agreement No. 25, including side letters, to P.A. 1951, dated December 31, 2001 - incorporated by reference to Exhibit 10.22(z) to the 2001 10-K. (1)
10.22(aa)	Supplemental Agreement No. 26, including side letters, to P.A. 1951, dated March 29, 2002 - incorporated by reference to Exhibit 10.4 to the 2002 Q-1 10-Q. (1)
10.22(ab)	Supplemental Agreement No. 27, including side letters, to P.A. 1951, dated November 6, 2002 - incorporated by reference to Exhibit 10.4 to the 2002 Q-1 10-Q. (1)
10.22(ac)	Supplemental Agreement No. 28, including side letters, to P.A. 1951, dated April 1, 2003 - incorporated by reference to Exhibit 10.2 to the 2003 Q-1 10-Q. (1)
10.22(ad)	Supplemental Agreement No. 29, including side letters, to P.A. 1951, dated August 19, 2003 - incorporated by reference to Exhibit 10.2 to the 2003 Q-3 10-Q. (1)
10.22(ae)	Supplemental Agreement No. 30 to P.A. 1951, dated as of November 4, 2003 - incorporated by reference to Exhibit 10.23(ae) to Continental's Annual Report on Form 10-K for the year ended December 31, 2003 (File no. 1-10323) (the "2003 10-K"). (1)
10.22(af)	Supplemental Agreement No. 31 to P.A. 1951, dated as of August 20, 2004 - incorporated by reference to Exhibit 10.4 to the 2004 Q-3 10-Q. (1)
10.22(ag)	Supplemental Agreement No. 32 to P.A. 1951, including side letters, dated as of December 29, 2004 - incorporated by reference to Exhibit 10.21(ag) to the 2004 10-K. (2)
10.22(ah)	Supplemental Agreement No. 33 to P.A. 1951, including side letters, dated as of December 29, 2004 - incorporated by reference to Exhibit 10.21(ah) to the 2004 10-K. (2)
10.22(ai)	Supplemental Agreement No. 34 dated June 22, 2005 to P.A. 1951 - incorporated by reference to Exhibit 10.3 to the 2005 Q-2 10-Q. (2)
10.22(aj)	Supplemental Agreement No. 35 dated June 30, 2005 to P.A. 1951 - incorporated by reference to Exhibit 10.4 to the 2005 Q-2 10-Q. (2)

10.22(ak)	Supplemental Agreement No. 36 dated July 28, 2005 to P.A. 1951 - incorporated by reference to Exhibit 10.1 to Continental's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (File No. 1-10323) (the "2005 Q-3 10-Q"). (2)
10.23	Aircraft General Terms Agreement between the Company and Boeing, dated October 10, 1997 - incorporated by reference to Exhibit 10.15 to the 1997 10-K. (1)
10.23(a)	Letter Agreement No. 6-1162-GOC-136 between the Company and Boeing, dated October 10, 1997, relating to certain long-term aircraft purchase commitments of the Company - incorporated by reference to Exhibit 10.15(a) to the 1997 10-K. (1)
10.24	Purchase Agreement No. 2060, including exhibits and side letters, between the Company and Boeing, dated October 10, 1997, relating to the purchase of Boeing 767 aircraft ("P.A. 2060") - incorporated by reference to Exhibit 10.16 to the 1997 10-K. (1)
10.24(a)	Supplemental Agreement No. 1 to P.A. 2060 dated December 18, 1997 - incorporated by reference to Exhibit 10.16(a) to the 1997 10-K. (1)
10.24(b)	Supplemental Agreement No. 2 to P.A. 2060 dated June 8, 1999 - incorporated by reference to Exhibit 10.8 to the 1999 Q-2 10-Q. (1)
10.24(c)	Supplemental Agreement No. 3 to P.A. 2060 dated October 31, 2000 - incorporated by reference to Exhibit 10.22(c) to the 2000 10-K. (1)
10.24(d)	Supplemental Agreement No. 4 to P.A. 2060 dated December 1, 2000 - incorporated by reference to Exhibit 10.22(d) to the 2000 10-K. (1)
10.24(e)	Supplemental Agreement No. 5 to P.A. 2060, dated February 14, 2001 - incorporated by reference to Exhibit 10.2 to the 2001 Q-1 10-Q. (1)
10.24(f)	Supplemental Agreement No. 6 to P.A. 2060, dated July 11, 2001 - incorporated by reference to Exhibit 10.12 to the 2001 Q-3 10-Q. (1)
10.24(g)	Supplemental Agreement No. 7 to P.A. 2060, dated August 31, 2001 - incorporated by reference to Exhibit 10.13 to the 2001 Q-3 10-Q. (1)
10.24(h)	Supplemental Agreement No. 8 to P.A. 2060, dated December 31, 2001 - incorporated by reference to Exhibit 10.24(h) to the 2001 10-K. (1)
10.24(i)	Supplemental Agreement No. 9 to P.A. 2060, dated August 5, 2002 - incorporated by reference to Exhibit 10.2 to Continental's Quarterly Report for the quarter ended September 30, 2002 (File no. 1-10323) (the "2002 Q-3 10-Q"). (1)
10.25	Purchase Agreement No. 2061, including exhibits and side letters, between the Company and Boeing, dated October 10, 1997, relating to the purchase of Boeing 777 aircraft ("P.A. 2061") - incorporated by reference to Exhibit 10.17 to the 1997 10-K. (1)
10.25(a)	Supplemental Agreement No. 1 to P.A. 2061 dated December 18, 1997 - incorporated by reference to Exhibit 10.17(a) as to the 1997 10-K. (1)
10.25(b)	Supplemental Agreement No. 2, including side letter, to P.A. 2061, dated July 30, 1998 - incorporated by reference to Exhibit 10.27(b) to the 1998 10-K. (1)

10.25(c)	Supplemental Agreement No. 3, including side letter, to P.A. 2061, dated September 25, 1998 - incorporated by reference to Exhibit 10.27(c) to the 1998 10-K. (1)
10.25(d)	Supplemental Agreement No. 4, including side letter, to P.A. 2061, dated February 3, 1999 - incorporated by reference to Exhibit 10.5 to the 1999 Q-1 10-Q. (1)
10.25(e)	Supplemental Agreement No. 5, including side letter, to P.A. 2061, dated March 26, 1999 - incorporated by reference to Exhibit 10.5(a) to the 1999 Q-1 10-Q. (1)
10.25(f)	Supplemental Agreement No. 6 to P.A. 2061, dated June 25, 2002 - incorporated by reference to Exhibit 10.12 to the 2002 Q-2 10-Q. (1)
10.25(g)	Supplemental Agreement No. 7, including side letter, to P.A. 2061, dated October 31, 2000 - incorporated by reference to Exhibit 10.23(g) to the 2000 10-K. (1)
10.25(h)	Supplemental Agreement No. 8, including a side letter, to P.A. 2061, dated June 29, 2001 - incorporated by reference to Exhibit 10.5 to the 2001 Q-2 10-Q. (1)
10.25(i)	Supplemental Agreement No. 9 to P.A. 2061, dated June 25, 2002 - incorporated by reference to Exhibit 10.12 to the 2002 Q-2 10-Q. (1)
10.25(j)	Supplemental Agreement No. 10 to P.A. 2061, dated November 4, 2003 - incorporated by reference to Exhibit 10.26(j) to the 2003 10-K. (1)
10.25(k)	Supplemental Agreement No. 11 to P.A. 2061, dated July 28, 2005 - incorporated by reference to Exhibit 10.2 to the 2005 Q-3 10-Q. (2)
10.26	Letter Agreement 6-1162-CHL-048 between the Company and Boeing, dated February 8, 2002, amending P.A. 1951, 2333, 2211, 2060 and 2061 - incorporated by reference to Exhibit 10.44 to the 2001 10-K. (1)
10.27	Purchase Agreement No. 2484, including exhibits and side letters, between the Company and Boeing, dated December 29, 2004, relating to the purchase of Boeing 7E7 aircraft (now known as 787 aircraft) ("P.A. 2484") - incorporated by reference to Exhibit 10.27 to the 2004 10-K. (2)
10.27(a)	Supplemental Agreement No. 1 to P.A. 2484, dated June 30, 2005 - incorporated by reference to Exhibit 10.5 to the 2005 Q-2 10-Q. (2)
10.27(b)	Supplemental Agreement No. 2, including exhibits and side letters, to P.A. 2484, dated January 20, 2006. (2)(3)
10.28	Letter Agreement 6-1162-MSA-576 between Boeing and the Company, dated February 28, 2005 - incorporated by reference to Exhibit 10.10 to the 2005 Q-1 10-Q.
10.29	Letter Agreement dated December 29, 2004 between the Company and Boeing Capital Corporation relating to the lease of 757-300 aircraft - incorporated by reference to Exhibit 10.28 to the 2004 10-K. (2)
10.29(a)	Letter Agreement between Boeing Capital Corporation and the Company dated February 28, 2005 - incorporated by reference to Exhibit 10.11 to the 2005 Q-1 10-Q. (2)

10.29(b)	Letter Agreement between Boeing Capital Corporation and the Company dated March 31, 2005 amending letter agreement dated December 29, 2004 - incorporated by reference to Exhibit 10.12 to the 2005 Q-1 10-Q.
10.30	Amended and Restated Letter Agreement No. 11 between Continental and General Electric Company, dated August 8, 2005, relating to certain long-term engine purchase commitments of Continental - incorporated by reference to Exhibit 10.3 to the 2005 Q-3 10-Q. (2)
10.31	Standstill Agreement dated as of November 15, 2000 among the Company, Northwest Airlines Holdings Corporation, Northwest Airlines Corporation and Northwest Airlines, Inc. - incorporated by reference to Exhibit 99.8 to the 11/00 8-K.
10.32	Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated April 17, 2002 - incorporated by reference to Exhibit 10.11 to the 2002 Q-2 10-Q. (1)
10.32(a)	First Amendment to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. and dated as of March 27, 2003 - incorporated by reference to Exhibit 10.1 to the 2003 Q-1 10-Q.
10.32(b)	Second Amendment to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated as of December 9, 2003 - incorporated by reference to Exhibit 10.32(b) to the 2003 10-K. (1)
10.32(c)	Third Amendment to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated as of September 28, 2004 - incorporated by reference to Exhibit 10.5 to the 2004 Q-3 10-Q.
10.32(d)	Fourth Amendment to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated as of March 11, 2005 - incorporated by reference to Exhibit 10.13 to the 2005 Q-1 10-Q. (2)
10.32(e)	Notice of Withdrawal - incorporated by reference to Exhibit 99.1 to Continental's Current Report on Form 8-K dated December 28, 2005 (File no. 1-10323).
10.33	Purchase Agreement No. GPJ-003/96, between Empresa Brasileira de Aeronautica S.A. ("Embraer") and ExpressJet Airlines, Inc. (successor in interest to Continental Express, Inc.) ("ExpressJet") dated August 5, 1996 relating to the purchase of EMB 145 aircraft ("P.A. 3/96") - incorporated by reference to Exhibit 10.3 to Amendment No. 1 to Embraer's Form F-1 Registration Statement (No. 333-12220) (the "Embraer F-1"). (1)
10.33(a)	Amendment No. 1 to P.A. 3/96 dated September 26, 1996 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(b)	Amendment No. 2 to P.A. 3/96 dated May 22, 1997 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(c)	Amendment No. 3 to P.A. 3/96 dated August 20, 1997 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(d)	Amendment No. 4 to P.A. 3/96 dated October 1, 1997 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(e)	Amendment No. 5 to P.A. 3/96 dated November 12, 1997 - incorporated by

10.33(e)	Amendment No. 5 to P.A. 3/96 dated November 12, 1997 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(f)	Amendment No. 6 to P.A. 3/96 dated August 19, 1998 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(g)	Amendment No. 7 to P.A. 3/96 dated February 19, 1999 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(h)	Amendment No. 8 to P.A. 3/96 dated March 31, 1999 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(i)	Amendment No. 9 to P.A. 3/96 dated October 29, 1999 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(j)	Amendment No. 10 to P.A. 3/96 dated October 20, 1999 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(k)	Amendment No. 11 to P.A. 3/96 dated December 15, 1999 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(l)	Amendment No. 12 to P.A. 3/96 dated February 18, 2000 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(m)	Amendment No. 13 to P.A. 3/96 dated April 28, 2000 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(n)	Amendment No. 14 to P.A. 3/96 dated April 28, 2000 - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.33(o)	Amendment No. 15 to P.A. 3/96 dated July 25, 2000 - incorporated by reference to Exhibit 10.33(o) to the 2000 10-K. (1)
10.33(p)	Amendment No. 16 to P.A. 3/96 dated July 24, 2000 - incorporated by reference to Exhibit 10.33(p) to the 2000 10-K. (1)
10.33(q)	Amendment No. 17 to P.A. 3/96 dated November 7, 2000 - incorporated by reference to Exhibit 10.33(q) to the 2000 10-K. (1)
10.33(r)	Amendment No. 18 to P.A. 3/96 dated November 17, 2000 - incorporated by reference to Exhibit 10.33(r) to the 2000 10-K. (1)
10.33(s)	Amendment No. 19 to P.A. 3/96 dated July 31, 2001 - incorporated by reference to Exhibit 10.35(s) to the 2001 10-K. (1)
10.33(t)	Amendment No. 20 to P.A. 3/96 dated July 31, 2001 - incorporated by reference to Exhibit 10.35(t) to the 2001 10-K. (1)
10.33(u)	Amendment No. 21 to P.A. 3/96 dated October 10, 2001 - incorporated by reference to Exhibit 10.35(u) to the 2001 10-K. (1)
10.33(v)	Amendment No. 22 to P.A. 3/96 dated January 24, 2002 - incorporated by reference to Exhibit 10.35(v) to the 2001 10-K. (1)
10.33(w)	

	Amendment No. 23 to P.A. 3/96 dated February 28, 2002 - incorporated by reference to Exhibit 10.6 to the 2002 Q-1 10-Q. (1)
10.33(x)	Amendment No. 24 to P.A. 3/96 dated March 28, 2002 - incorporated by reference to Exhibit 10.7 to the 2002 Q-1 10-Q. (1)
10.33(y)	Amendment No. 25 to P.A. 3/96 dated July 9, 2002 - incorporated by reference to Exhibit 10.3 to the 2002 Q-3 10-Q. (1)
10.33(z)	Amendment No. 26 to P.A. 3/96 dated August 30, 2002 - incorporated by reference to Exhibit 10.4 to the 2002 Q-3 10-Q. (1)
10.33(aa)	Amendment No. 27 to P.A. 3/96 dated December 28, 2002 - incorporated by reference to Exhibit 10.4 to the 2002 Q-3 10-Q. (1)
10.33(ab)	Amendment No. 28 to P.A. 3/96 dated February 20, 2003 - as incorporated by reference to Exhibit 10.7 to the 2003 Q-1 10-Q. (1)
10.33(ac)	Amendment No.29 to P.A. 3/96 dated February 26, 2003 - as incorporated by reference to Exhibit 10.8 to the 2003 Q-1 10-Q.
10.33(ad)	Amendment No. 30 to P.A. 3/96 dated January 12, 2004 - as incorporated by reference to Exhibit 10.2 to the 2004 Q-1 10-Q. (1)
10.33(ae)	Amendment No. 31 to P.A. 3/96 dated March 16, 2004 - as incorporated by reference to Exhibit 10.3 to the 2004 Q-1 10-Q. (1)
10.33(af)	Amendment No. 32 to P.A. 3/96 dated May 31, 2005 - as incorporated by reference to Exhibit 10.6 to the 2005 Q-2 10-Q. (2)
10.33(ag)	Amendment No. 33 to P.A. 3/96 dated December 1, 2005. (2) (3)
10.34	Letter of Agreement No. GPJ-004/96 dated August 5, 1996 between Embraer and ExpressJet ("L.A. 4/96") - incorporated by reference to Exhibit 10.3 to the Embraer F-1. (1)
10.34(a)	Amendment No. 1 to L.A. 4/96 dated August 31, 1996 - incorporated by reference to Exhibit 10.34(a) to the 2000 10-K.
10.34(b)	Amendment No. 2 to L.A. 4/96 and Amendment No. 1 to L.A. 4A/96 (defined below) dated August 31, 1996 between Embraer and ExpressJet - incorporated by reference to Exhibit 10.34(b) to the 2000 10-K. (1)
10.34(c)	Amendment No. 3 to L.A. 4/96 and Amendment No. 1 to L.A. 4A/96 (defined below) dated January 24, 2002 between Embraer and ExpressJet - incorporated by reference to Exhibit 10.36(c) to the 2001 10-K. (1)
10.34(d)	Amendment No. 4 to L.A. 4/96 dated January 12, 2004 - incorporated by reference to Exhibit 10.4 to the 2004 Q-1 10-Q. (1)
10.35	Letter of Agreement No. PCJ-004A/96 dated August 31, 1996 among Continental, ExpressJet and Embraer ("L.A. 4A/96") - incorporated by reference to Exhibit 10.3 to the Embraer F-1.
10.36	Letter Agreement DCT 059/2000 dated October 27, 2000 between ExpressJet and Embraer - incorporated by reference to Exhibit 10.36 to the 2000 10-K. (1)

10.37	Letter of Agreement DCT-055/98 dated December 23, 1998 between ExpressJet and Embraer ("L.A. 55/98") - incorporated by reference to Exhibit 10.38 to the 2000 10-K. (1)
10.37(a)	Amendment No. 1 to L.A. 55/98 dated July 24, 2000 - incorporated by reference to Exhibit 10.38(a) to the 2000 10-K. (1)
10.38	EMB-135 Financing Letter of Agreement dated March 23, 2000 among Continental, ExpressJet and Embraer ("L.A. 135") - incorporated by reference to Exhibit 10.39 to the 2000 10-K. (1)
10.38(a)	Amendment No. 1 to L.A. 135 - incorporated by reference to Exhibit 10.39(a) to the 2000 10-K. (1)
10.38(b)	Amendment No. 2 to L.A. 135 - incorporated by reference to Exhibit 10.39(b) to the 2000 10-K. (1)
10.38(c)	Amendment No. 3 to L.A. 135 dated October 27, 2000 - incorporated by reference to Exhibit 10.39(c) to the 2000 10-K. (1)
10.39	Letter Agreement DCT-058/2000 dated October 27, 2000 between Embraer and ExpressJet - incorporated by reference to Exhibit 10.40 to the 2000 10-K. (1)
10.40	Agreement between the Company and the United States of America, acting through the Transportation Security Administration, dated May 7, 2003 - incorporated by reference to Exhibit 10.1 to the 2003 Q-2 10-Q.
21.1	List of Subsidiaries of Continental. (3)
23.1	Consent of Ernst & Young LLP. (3)
23.2	Consent of Ernst & Young LLP. (3)
24.1	Powers of attorney executed by certain directors and officers of Continental. (3)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. (3)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. (3)
32	Section 1350 Certifications. (4)
99.1	Copa Holdings, S.A.'s audited consolidated financial statements for the fiscal years ended December 31, 2004 and 2003. (5)
99.2	ExpressJet Holdings, Inc.'s audited consolidated financial statements for the fiscal years ended December 31, 2005 and 2004.

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

1. The Commission has granted confidential treatment for a portion of this exhibit.
2. Continental has applied to the Commission for confidential treatment of a portion of this exhibit.
3. Filed herewith.
4. Furnished herewith.
5. Copa Holdings, S.A.'s audited consolidated financial statements as of December 31, 2005 will be filed as an amendment to this report on or before June 30, 2006.

EXHIBIT 10.1(m)

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. 23

Facility: Newark Liberty International Airport

SUPPLEMENTAL AGREEMENT

THIS SUPPLEMENTAL AGREEMENT, dated as of January 1, 2002, by and between THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY (hereinafter called "Port Authority") and CONTINENTAL 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 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 1st 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. Effective as of January 1, 2002, paragraph (a) of Article IV to Schedule M of the Lease, as set forth in paragraph 2 of Supplement No. 15 to the Lease, shall be and be deemed deleted and the following new subparagraph "(a)" shall be deemed substituted in lieu thereof:

   "(a) The Port Authority may in its discretion purchase an item or perform a project involving capital improvements and replacements other than the Monorail Construction Work in connection with the Monorail System, including but not limited to any expenses related to an overhaul capital project incurred by the Port Authority, and in the event it does so, the Port Authority shall determine the portion of the Monorail Construction Costs paid or incurred by the Port Authority in connection therewith from and after the Monorail Fee Commencement Date up to and including December 31st for the calendar year during which the Monorail Fee Commencement Date occurs, or such subsequent calendar year during which such capital item or project is purchased or performed in connection with the Monorail System, which shall be the total of the elements of costs set forth in subparagraph (a)(1) of Section II hereof, said portion being hereinafter called the "Additional Capital Investment.""

2. In 2002, the Port Authority made payments to the Monorail operator totaling Twenty Million Six Hundred Thousand Dollars and No Cents ($20,600,000.00) for system enhancements and accelerated mid-life overhaul work associated with the Monorail System. The Lessee acknowledges and agrees that effective as of January 1, 2002, the $20,600,000 in operating expenses incurred by the Port Authority shall be treated as Additional Capital Investment as set forth in Schedule M and be included as part of future Additional Construction Factors but shall be amortized over the remaining term of the original Monorail System. The Lessee further acknowledges and agrees that any future operating costs associated with the mid-life overhaul of the Monorail System shall be treated as Additional Capital Investment as set forth in Schedule M and included as part of future Additional Construction Factors but shall be amortized over the remaining term of the original Monorail System.
3. 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 this Supplemental Agreement.
4. 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.
5. As hereby amended, all of the terms, covenants, provisions, conditions and agreements of the Lease shall be and remain in full force and effect.
6. 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/ Karen E. Eastman By /s/ Francis A. Dimola

Secretary Francis A. Dimola

(Title) Assistant Director

Aviation Department

ATTEST: CONTINENTAL AIRLINES, INC.

/s/ Lori A. Gobillot By /s/ Holden Shannon

Asst Secretary

(Title) Holden Shannon

(Corporate Seal)

Senior Vice President

Global Real Estate

and Security

FORM XLD - Ack., N.J. 51380

For the Port Authority

STATE OF NEW YORK)

) ss.

COUNTY OF NEW YORK)

On the 6 day of January in the year 2005, before me, the undersigned, a Notary Public in and for said state, personally appeared Francis A. Dimola. Personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

/s/ Peggy M. Spinnelli

(notarial seal and stamp)

Peggy M. Spinnelli

Notary Public, State of New York

No. 015P6057870

Qualified in New York County

Commission Expires April 30, 2007

For the Lessee

STATE OF)

) ss.

COUNTY OF)

On this 8th day of October, 2005, before me, the subscriber, a Notary Public, personally appeared Holden Shannon the Senior Vice President of Global Real Estate & Security, who I am satisfied is the person who has signed the within instrument; and I having first made known to him the contents thereof, he did acknowledge that he signed, sealed with the corporate seal and delivered the same as such officer aforesaid and that the within instrument is the voluntary act and deed of such corporation, made by virtue of the authority of its Board of Directors.

/s/ Dashawanda D. Mitchell

(notarial seal and stamp)

Dashawanda D. Mitchell

Notary Public

State of Texas

Comm Exp 04-04-2006

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. 24

Facility: Newark Liberty International Airport

SUPPLEMENTAL AGREEMENT

THIS SUPPLEMENTAL AGREEMENT, dated as of January 1, 2003, by and between THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY (hereinafter called "Port Authority") and CONTINENTAL 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 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 1st 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. Effective as of January 1, 2003 subparagraph "(d)" to section VIII of Schedule A to the Lease shall be deemed deleted and the following new subparagraph "(d)" shall be deemed substituted in lieu thereof:

   "(d) "Fixed charges on Port Authority investment" shall mean amortization and interest on Port Authority investment in items completed subsequent to December 31, 1964. Such fixed charges shall be determined on the basis of an equal annual payment method. Port Authority investment that is taken out of service ("retired") and has a remaining unamortized balance shall not incur an accelerated fixed charge in the year in which it was retired, but shall continue to be amortized in accordance with Port Authority accounting practice over the estimated useful life first established when the investment was placed into service. The interest factor used in determining the fixed charges for all of the foregoing shall be the weighted average coupon rate for the twelve months ending November 30, of each year, rounded to the nearest hundredth percent, on all long-term bonds outstanding, the proceeds of which were made available for construction at the Airport.""

2. Commencing on January 1, 2003, in order to facilitate airfield improvements at the Airport, the Port Authority demolished Building No. 10 (the old Port Authority administration building). In 2003 the Port Authority's fixed charges (un-amortized investment) associated with Building No. 10 totaled Nine Million Six Hundred Ninety-seven Thousand Two Hundred Ninety Dollars and No Cents ($9,697,290.00). The Lessee acknowledges and agrees that, effective as of January 1, 2003, the $9,697,290.00 un-amortized investment (plus the appropriate interest factor as provided in paragraph 1 above) will be included in future fixed charge calculations on Port Authority investment in Airport Services pursuant to Schedule A of the Lease. However, notwithstanding paragraph 1 above, such $9,697,290.00 amount will be amortized using an equal annual payment method over the period beginning January 1, 2003 and continuing until December 31, 2018.
3. 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 this Supplemental Agreement.
4. 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.
5. As hereby amended, all of the terms, covenants, provisions, conditions and agreements of the Lease shall be and remain in full force and effect.
6. 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/ Karen E. Eastman By /s/ Francis A. Dimola

Secretary Francis A. Dimola

(Title) Assistant Director, Aviation Department

ATTEST: CONTINENTAL AIRLINES, INC.

/s/ Jennifer L. Vogel By /s/ Holden E. Shannon

Jennifer L. Vogel Holden E. Shannon

Senior Vice President, (Title) Senior Vice President Global Real Estate

General Counsel And Secretary and Security

FORM XLD - Ack., N.J. 51380

For the Port Authority

STATE OF NEW YORK)

) ss.

COUNTY OF NEW YORK)

On the 6 day of January in the year 2005, before me, the undersigned, a Notary Public in and for said state, personally appeared Francis A. Dimola. Personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

/s/ Peggy M. Spinnelli

(notarial seal and stamp)

Peggy M. Spinnelli

Notary Public, State of New York

No. 015P6057870

Qualified in New York County

Commission Expires April 30, 2007

For the Lessee

STATE OF)

) ss.

COUNTY OF)

On this 8 day of October, 2005, before me, the subscriber, a Notary Public personally appeared Holden Shannon the Senior Vice President of Global Real Estate & Security, who I am satisfied is the person who has signed the within instrument; and I having first made known to him the contents thereof, he did acknowledge that he signed, sealed with the corporate seal and delivered the same as such officer aforesaid and that the within instrument is the voluntary act and deed of such corporation, made by virtue of the authority of its Board of Directors.

/s/ Dashawanda D. Mitchell

(notarial seal and stamp)

Dashawanda D. Mitchell

Notary Public

State of Texas

Comm Exp 04-04-2006

Exhibit 10.3(f)

Contract No. 38171

CLEVELAND HOPKINS INTERNATIONAL AIRPORT

AMENDMENT NO. 1

to

AGREEMENT AND LEASE

between

City of Cleveland, Ohio

Lessor

and

Continental Airlines, Inc.

Lessee

TABLE OF CONTENTS

THIS AMENDMENT NO. 1 TO AGREEMENT AND LEASE (hereinafter referred to as the "First Amendment "), effective January 1, 2006, is entered into by and between the City of Cleveland, Ohio, a municipal corporation and political subdivision of the State of Ohio ("City"), through its Director of Port Control, pursuant to the authority of Ordinance No. 1961-04, passed by the Council of the City on November 15, 2004, and Continental Airlines, Inc., a corporation organized and existing under the laws of the State of Delaware and authorized to do business as a foreign corporation in the State of Ohio ("Airline"), duly authorized by resolution of its Board of Directors, represented herein by an authorized officer.

All capitalized terms contain herein and not otherwise defined are used as defined in the Original Agreement identified below.

WITNESSETH:

WHEREAS, the City owns and operates the Airport; and

WHEREAS, the Airline is a Scheduled Airline that operates at the Airport and desires to use or lease from the City certain premises and facilities at the Airport and to acquire from the City certain rights and privileges in connection with its use of those premises and facilities at the Airport; and

WHEREAS, the existing agreement between the City and the Airline terminates at midnight, December 31, 2005 ("Original Agreement"); and

WHEREAS, the City and the Airline desire to amend the Original Agreement and extend the term of the Original Agreement, as amended, to December 31, 2015 (the Original Agreement as amended by this First Amendment is referred to as the "Agreement").

NOW THEREFORE, in consideration of the premises and of the mutual promises made in the Agreement, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the City and the Airline hereby agree to amend certain provisions of the Original Agreement between the parties as follows:

ARTICLE I - DEFINITIONS

Article I is amended and restated to read in its entirety as follows:

The following words, terms and phrases, whenever used in the Agreement shall, for the purpose of the Agreement, have the following meanings:

1.01 "Additional Revenue Bonds" means the additional revenue bonds issued pursuant to the Agreement and the Indenture.

1.02 "Additional Term" means each 12-month period commencing on January 1 and ending on the following December 31.

1.03 "Affiliate" shall mean an Air Carrier that is (i) a parent or subsidiary of Airline, or shares an International Air Transport Association (IATA) flight designator code with Airline at the Airport (Code-Sharing Partner), and (ii) otherwise operates at the Airport under essentially the same trade name as Airline, or a derivative thereof, and uses essentially the same livery as Airline; provided that no major airline, as such term is defined by the FAA, shall be classified as an Affiliate of another major airline, unless clause (i) and clause (ii) above define the relationship between such airlines at the Airport; and provided, further, that Airline may at any time give the City ninety (90) days prior written notice that such an Air Carrier otherwise meeting the def inition of an "Affiliate" hereunder shall no longer be considered an Affiliate of Airline for purposes of the Agreement.

1.04 "Air Carrier" means a carrier certificated by the Secretary of Transportation under 49 U.S.C. Section 41102.

1.05 "Airfield Area" means those portions of the Airport, including the Ramp Area, as they now exist or hereafter may be modified, changed or expanded, providing for the landing and takeoff, handling, servicing, loading and unloading, and other operations of aircraft. The Airfield Area and the Terminal Complex in their present condition are shown on Exhibit __ of the First Amendment.

1.06 "Airline" means Continental Airlines, Inc., a corporation organized and existing under and by virtue of the laws of the State of Delaware.

1.07 "Airline Constructed Space" means space located within the Terminal Complex at the Airport constructed at the sole cost and expense of an Air Carrier.

1.08 "Airport" means Cleveland Hopkins International Airport, more fully described in Exhibit __ of the First Amendment, as it now exists or hereafter may be changed, modified or expanded.

1.09 "Airport Development Fund" means the Special Fund created under the Sixth Supplemental Indenture**,** consisting of the Airport Account and the Airline Account.

1.10 "Airport Revenue Bonds" means the revenue bonds authorized and issued by City pursuant to the Agreement and the Indenture.

1.11 "Airport Revenues" means: (a) all rentals, charges, landing fees, use charges and concession revenue now or hereafter received by or on behalf of City in its proprietary capacity as the owner of the Airport System in connection with the operation, improvement and enlargement of the Airport System, or any part thereof; (b) subject to the provisions of the Indenture, all income or revenues resulting from the investment of any of the Special Funds; and (c) all gifts, grants, reimbursements or payments received from governmental units or public agencies for the benefit of the Airport System which are (i) not restricted in application to a special purpose and (ii) otherwise lawfully available for the payment of charges with respect to the Revenue Bonds. Airport Revenues shall not include any revenue or incom e from any Special Facility to the extent such revenue or income is pledged to pay principal, interest or any other charges for Special Revenue Bonds or other obligations issued in anticipation thereof, or to the extent such revenue or income is for the use of City in reimbursement of costs incurred by it in the construction or provision of Special Facilities.

1.12 "Airport System" means the Airport and Burke Lakefront Airport.

1.13 "Airport System Cost Centers" means those cost centers more fully defined in Exhibit __ of the First Amendment.

1.14 "Annual Budget" means the budget referred to in Section 8.03 of the Agreement prepared by the Director of Port Control and approved by resolution of the Board of Control.

1.15 "Annual Reports" means the reports prepared by the Director of Port Control pursuant to Section 8.03 of the Agreement.

1.16 "Authorizing Legislation" means the legislation enacted by the Council from time to time authorizing the Revenue Bonds, as the same may from time to time be lawfully amended, modified or supplemented.

1.17 "Board of Control" means the Board of Control of City or such division, department, bureau or agency as may from time to time be designated by the City to exercise functions equivalent or similar to those now exercised by the Board of Control with respect to the Airport System or any part thereof.

1.18 "Burke Lakefront Airport" means the reliever airport facility operated by City more fully described in Exhibit __ of the First Amendment , as it now exists or may hereafter be changed, expanded or modified.

1.19 "Commissioner of Airports" means the Commissioner of Cleveland Hopkins International Airport as designated by City, or such other person, division, department, bureau or agency as may from time to time exercise functions equivalent or similar to those now exercised by the Commissioner of Airports.

1.20 "Common Use Facilities" means facilities at the Airport under the control of the City, managed by the City or by a third party contracted by the City, and made available to itinerant users on the terms and conditions described in the City's Common Use Policy as in effect from time to time.

1.21 "Concourse" means, respectively, the A, B, C and D Concourses, as they now exist or hereafter may be changed, expanded or modified. For purposes of the Concourse Improvement Factor referred to in Section 8.04(a)(iii) of Article VIII, "Concourse" shall not mean any expansion of the A, B, C, or D Concourses built at the sole cost and expense of a Scheduled Airline and not financed by Revenue Bonds or General Obligation Debt. The A, B, C and D Concourses are shown in their present condition in Exhibits __, __ and __ of the First Amendment.

1.22 "Council" means the City Council of City or such other division, department, bureau or agency as may from time to time be designated by Council to exercise functions equivalent or similar to those now exercised by the Council with respect to the Airport System or any part thereof.

1.23 "CPI" means the Consumer Price Index for All Urban Consumers - All Items (1982-1984 = 100), U.S. City Average, published by the United States Department of Labor, Bureau of Labor Statistics. In the event the Bureau of Labor Statistics issues a revised index with a conversion table by which the CPI can be made applicable and the CPI is no longer published, the revised index, as converted, shall be applicable.

1.24 "Credit Support Instruments" means letters of credit, lines of credit, stand-by, contingent, or firm securities purchase agreements, insurance, surety arrangements, guarantees, and other arrangements that provide for direct or contingent payment of Bond service charges on Revenue Bonds, debt charges on Subordinated Indebtedness or General Obligation Debt or amounts owed under Hedge Agreements, or for security in the event of nonpayment of those Bond service charges, debt charges or other amounts, or upon certain conditions occurring under put or similar arrangements, or for otherwise supporting the credit or liquidity of Revenue Bonds, Subordinated Indebtedness, General Obliga tion Debt or Hedge Agreements, and includes credit, reimbursement, marketing, remarketing, indexing, carrying, and subrogation agreements, and other agreements and arrangements for payment and reimbursement of the person providing the credit support.

1.25 "Director of Port Control " means the person so designated by City or such other person, division, department, bureau or agency as may from time to time exercise functions equivalent or similar to those now exercised by the Director of Port Control.

1.26 "Environmental Laws" means each and every applicable law, statute, ordinance, regulation, rule, judicial or administrative order or decree, permit, license, approval, authorization or similar requirement of each and every applicable federal, state and local governmental authority relating to any Hazardous Substances, including but not limited to the Clean Water Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Hazardous Materials Transportation Act, the Resource Conservation and Recovery Act, the Hazardous Substances Account Act, the Hazardous Substances Act, the Underground Storage Tank Act of 1984, the Toxic Substances Control Act, and the Superfund Amendments and Reauthorization Act.

1.27 "Exclusive Leased Premises" means any portions of the Leased Premises in the Terminal Complex that are under control of Airline and no other Scheduled Airline, as specifically described in Exhibit ____ of the First Amendment .

1.28 "Federal Aviation Administration" means the Federal Aviation Administration, created by the United States Government under the Federal Aviation Act of 1958, as amended, or such other agency or agencies of the United States Government as may from time to time have similar jurisdiction over Airline or its business.

1.29 "F.I.S." means the federal inspection facility at the Airport that is operated by agencies of the United States Government for the inspection of internationally arrived passengers, cargo and freight, or such other division, department, bureau or agency as may from time to time exercise functions equivalent or similar to those now exercised at the F.I.S. with respect to the Airport System or any part thereof.

1.30 "Fiscal Year" means the twelve-month period commencing on January 1 and expiring on December 31 during the period of the Agreement.

1.31 "General Obligation Debt" means any general obligation notes and bonds issued by City in connection with the financing of improvements and additions to the Airport System. As of January 1, 2006 there is no outstanding General Obligation Debt of the City relating to the Airport System.

1.32 "Hazardous Substance(s)" means any substance, material, condition, mixture or waste which is now or hereafter: (a) defined as a "hazardous waste", "hazardous material", "hazardous substance", "extremely hazardous waste", or "restricted hazardous waste" under any provision of State, federal or other applicable law; (b) classified as radioactive materials; (c) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Section 1251 et seq. (33 U.S.C. Section 1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. Section 1317); (d) defined as a "hazardous waste" pursuant to the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (42 U.S.C. Section 6903); (e) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive En vironmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. 9601); (f) determined to be a "hazardous chemical substance or mixture" pursuant to the Toxic Substance Control Act, 15 U.S.C. Section 2601 et seq. (15 U.S.C. Section 2605);or (g) determined by State, federal or local governmental authorities to pose or be capable of posing a risk of injury to human health, safety or property (including but not limited to petroleum and petroleum byproducts, asbestos, polychlorinated biphenyls, polynuclear aromatic hydrocarbons, cyanide, lead, mercury, acetone, styrene and "hazardous air pollutants" listed pursuant to the Clean Air Act, 42 U.S.C. Section 7412).

1.33 "Hedge Agreement" means interest rate swaps, swap option, rate cap, rate collar and other arrangements undertaken with respect to Revenue Bonds or Subordinated Indebtedness to reduce costs of borrowing or optimize relative amounts of fixed and variable rate obligations or reduce the risk of variations in debt service costs, including without limitation, arrangements by which different interest costs or receipts at, between or among fixed or variable interest rates, or at different fixed or variable interest rates or maturities are exchanged in respect of Revenue Bonds or Subordinated Indebtedness.

1.34 "Indenture" means the Trust Indenture, dated as of November 1, 1976, between City and J.P. Morgan Trust Company National Association, as successor Trustee, including the Authorizing Legislation, as the same may be duly amended, modified or supplemented in accordance with the provisions thereof.

1.35 "Joint Leased Premises" means the Leased Premises in the Terminal Complex that are under the control of Airline and one or more other Scheduled Airlines, as specifically described in Exhibit ____ of the First Amendment.

1.36 "Joint Use Formula" is a formula pursuant to which (i) twenty per cent of any specified charge shall be prorated equally among those Scheduled Airlines using the Joint Leased Premises, and (ii) eighty per cent of any specified charge shall be based on a percentage representing that Scheduled Airline's number of passengers deplaning at the Airport as a percentage of the total number of deplaning passengers of all Scheduled Airlines at the Airport during the latest year for which such figures are available as to all Scheduled Airlines. For the purposes of the Agreement, the term "deplaning" shall relate to only those passengers disembarking an aircraft at the Airport who do not immediately board another aircraft departing from the Airport.

1.37 "Leased Premises" means, with respect to the Airline, its Exclusive Leased Premises, its Preferential Leased Premises and its Joint Leased Premises.

1.38 "Majority In Interest" means, except with respect to the Terminal Complex, either: (i) fifty percent or more in number of all the Scheduled Airlines, which percentage has, on the date in question, more than fifty percent of the aggregate by Maximum Landing Weight of Revenue Aircraft Arrivals of all Scheduled Airlines at the Airport during the latest twelve-month period for which such figures are available as to all Scheduled Airlines; or, alternatively, (ii) forty percent or more in number of all Scheduled Airlines, which percentage has, on the date in question, more than seventy percent of the aggregate by Maximum Landing Weight of Revenue Aircraft Arrivals of all Scheduled Airlines at the Airport during the latest twelve-month period for which such figures are available as to all Scheduled Airlines. "Majority in Interest" with respect to the T erminal Complex means fifty percent or more in number of all Scheduled Airlines having Exclusive Leased Premises and Preferential Leased Premises in the Terminal Complex, which percentage has, on the date in question, more than fifty percent of the total Exclusive Leased Premises and Preferential Leased Premises of all Scheduled Airlines, on a square foot basis, in the Terminal Complex.

1.39 "Maximum Landing Weight" means the maximum weight, in 1,000 pound units, at which each aircraft operated by Airline or the Scheduled Airlines is authorized to land at the Airport, as specified in Airline's flight manual approved by the Federal Aviation Administration governing that type of aircraft.

1.40 "Non-Scheduled Airlines" means any Air Carrier that is not a Scheduled Airline.

1.41 "Other Available Funds" means any moneys transferred to the Revenue Fund by the City from any other Special Fund, including without limitation, moneys transferred to the Revenue Fund from the Improvement Fund or the Surplus Fund or the Airport Development Fund, and any moneys not otherwise constituting Airport Revenues and deposited in, or transferred to, the Revenue Fund or the Bond Fund, including without limitation, Passenger Facility Charges; provided that any such moneys have not been taken into account in the calculation of the amount of Bond service charges on outstanding Revenue Bonds with the effect of reducing those Bond service charges.

1.42 "Preferential Leased Premises" means the space within the Terminal Complex described in Exhibit __ of the First Amendment that is leased to Airline on a preferential, nonexclusive use basis as provided in Section 2.02. Premises shall be assigned on a preferential leased basis only to Scheduled Airlines.

1.43 "Ramp Area" means the aircraft parking and maneuvering areas adjacent to the Terminal Building and the Concourses.

1.44 "Revenue Aircraft Arrivals" means any aircraft arrival at the Airport for which Airline has received or made a monetary fee or charge, including, without limitation, scheduled trips, charters, sightseeing, and other trips for which revenue is received. Such term shall also include training and test flights, ferry, courtesy, inspection, or other trips for which no fee or charge is received, but only to the extent that the number of such flights operated by Airline during any calendar month is in excess of five percent of the number of Revenue Aircraft Arrivals of Airline at the Airport during such calendar month. A revenue flight which returns to the Airport because of mechanical, meteorological, or other precautionary reasons, without landing at another airport, shall not be considered a Revenue Aircraft Arrival.

1.45 "Revenue Bonds" means any or all of the Airport Revenue Bonds and Additional Revenue Bonds. In determining the interest payable with respect to any Revenue Bonds, there shall be included any amounts owed by the City to a provider of a Credit Support Instrument for those Revenue Bonds and to a counterparty under any Hedge Agreement relating to those Revenue Bonds in respect of periodic, interest equivalent payments but not any amounts owed in respect of early termination of any Hedge Agreement or Credit Support Instrument.

1.46 "Scheduled Airline(s)" means any Air Carrier that either: (a) has entered into an agreement with the City in all material respects equivalent to the Agreement and commits to lease from the City one or more preferential use aircraft gates or in the case of an all cargo Air Carrier commits to concurrently sign a lease for a cargo building or other premises containing at least 5,000 square feet, if that space is available. If that minimum amount of square footage is not available for lease to an all cargo Air Carrier, the Director of Port Control may grant Scheduled Airline status to an all cargo Air Carrier leasing a lesser amount of space, provided that if additional cargo premises becomes available, the cargo Air Carrier shall commit to increase the space leased from the City or ot her on-Airport lessee, or; (b) an existing lease from the City under which the Air Carrier leases one or more exclusive use aircraft gates, provided that the scheduled expiration of such lease is expected to occur after the scheduled expiration of the Agreement and such Air Carrier has signed (or is then willing to sign) an agreement in all material respects equivalent to the Agreement (with no additional requirement that additional space be leased).

1.47 "Special Facility or Facilities" means any hangar, maintenance buildings, or any other facility, improvement, or structure, acquired or constructed on the Airport System, the cost of construction, acquisition, maintenance and operation of which are financed by Special Revenue Bonds and user charges.

1.48 "Special Funds" means any and all funds or accounts identified in Article IX and held and administered by the Trustee or City.

1.49 "Special Revenue Bonds" means City's revenue bonds or other obligations authorized and issued for the purpose of acquiring, constructing or improving a Special Facility to be leased to, or contracted for operation by, any person or entity, including City, with the income therefrom to be used for the payment of sums adequate to pay all principal, interest, redemption premiums, if any, and reserves, if any, as required in the legislation authorizing such Special Revenue Bonds and all operating expenses incurred in the operation of the Special Facility. Special Revenue Bonds are not issued under or secured by the Indenture.

1.50 "Subordinated Indebtedness" means any obligation or evidence of indebtedness incurred by the City in accordance with the Indenture, the debt service charges of which are payable and secured on a basis subordinate to Bond service charges on Revenue Bonds. In determining the interest payable with respect to any Subordinated Indebtedness, there shall be included any amounts owed by the City to a provider of a Credit Support Instrument for that Subordinated Indebtedness and to a counterparty under any Hedge Agreement relating to that Subordinated Indebtedness in respect of periodic, interest equivalent payments but not any amounts owed in respect of early termination of any Hedge Agreement or Credit Support Instrument.

1.51 "Terminal Building" means the terminal building and the parking and roadway system, as they now exist or hereafter may be expanded, changed or modified. Those facilities are shown in their present condition on Exhibit __ of the First Amendment.

1.52 "Terminal Complex" means the Terminal Building, the Concourses and any Airline Constructed Space.

ARTICLE II - RIGHTS, PRIVILEGES AND PREMISES

Sections 2.01 and 2.02 of the Original Agreement are amended and restated, and a new Section 2.06 is added to the Original Agreement as follows:

2.01 Use of Airport and Leased Premises

Subject to the terms and conditions hereinafter set forth, the rules and regulations prescribed by City and such other agreements as Airline may have with City as are not terminated (as herein provided for), Airline shall have the right to operate at the Airport its air transportation system for the carriage of persons, property and mail, including, to the extent such are normally incidental to such air transportation system, the following:

(a) The use, in common with other duly authorized users, of the Airfield Area and the public areas of the Terminal Complex.

(b) The right of landing, taking off, taxiing, pushing, towing, loading, unloading, repairing, maintaining, conditioning, catering, servicing, testing or parking its aircraft of its choice or other equipment owned or operated by Airline, including the right to provide or handle all or part of the operations or services of another air transportation company.

(c) The right of purchase, sale, disposal and exchange of Airline's aircraft, engines, accessories, fuel, oil, lubricants and other equipment, and materials or supplies.

(d) The right of servicing of aircraft and other equipment owned, or operated, by Airline or other Scheduled Airlines, by truck or otherwise, with fuel, oil, lubricants, parts, or aircraft supplies, at aircraft loading and unloading aprons and other locations designated by City for such servicing; provided, however, that any entity providing such service at the Airport, other than a Scheduled Airline, may be required to first secure and thereafter hold a valid lease, license or other agreement with City for the right to operate at the Airport, and shall pay City such reasonable rentals, fees and/or percentages of the charges for such services as City and such entity may agree upon for such right.

(e) The right of ticketing passengers, of loading and unloading persons, property and mail at the Airport by such motor vehicles or other means of conveyance as Airline may require as is consistent with normal airport practice; provided, however, that any entity providing such service at the Airport, other than a Scheduled Airline, may be required to first secure and thereafter hold a valid lease, license or other agreement with City for the right to operate at the Airport, and shall pay City such reasonable rentals, fees and/or percentages of the charges for such services as City and such entity may agree upon for such right; and provided, further, that any ground transportation commercial carrier (including Airline, except for such ground transportation as Airline may provide solely for the benefit of its employees) regularly transporting persons or their baggage to and from the Airport shall first secure and thereafter hold a valid lease, license or other agree ment with City for the right to carry persons or their baggage to and from the Airport and shall pay City such rentals, fees and/or percentages of the charges for such ground transportation as City and such carrier may agree upon for such right.

(f) The right to install at Airline's expense identifying signs on the Leased Premises, the number, type, size, design and location of all such signs as may be subject to graphic standards adopted by City. Airline shall have in each instance the prior written approval of City, and such right shall be subject to City's right to lease space for advertising signs throughout the Terminal Complex, excluding the Exclusive Leased Premises. City will provide Airline information concerning the content of any advertising that will be placed in the Preferential Leased Premises occupied by Airline in advance of placement. Unless Airline objects to the content of the advertising by written notice delivered to the Director of Port Control within two business days of Airline's receipt of the information, Airline shall be deemed to have no objection to the advertising. If Airline timely objects to the advertising, City shall seek Airline's consent to alternative content.

(g) The right to install, maintain and operate such radio, communication, meteorological, security screening and aerial navigation equipment and facilities as may be necessary, in the opinion of Airline, for its operation; provided, however, that the location of such equipment and facilities must be first approved by City and shall not interfere with the full and proper use of the Airport System.

a. Airline shall not install or operate pay telephones in the Terminal Complex but may have pay telephones installed by companies having agreements with City for such installations, if such shall be for the use of Airline's employees and located in areas not available to the general public; provided, however, that if such company or companies choose not to install such devices, Airline may make arrangements for installation of such devices, subject to City's standard fees and charges and provided City shall have the right to charge for the cost of electric power used in the operation of the pay telephones.

b. Airline shall have the right to install drink vending machines and food vending machines in its non-publicly accessible Leased Premises for the sole use of Airline's employees, contractors and agents. For avoidance of doubt, it is agreed that neither Airline nor any such vendor shall be required to pay the City any concession or privilege fee with respect to those vending machines. Vending machines shall not be within the view of the general public and all machine locations are subject to the prior approval of City. City shall have the mutual right to install drink vending machines and food vending machines in its non-publicly accessible areas for the sole use of City's employees, contractors and agents.

Section 2.02 Preferential Leased Premises

(a) City grants to Airline the nonexclusive use in accordance with the Agreement of the areas in and around the Terminal Complex that are described in Exhibit __ of the First Amendment (the Preferential Leased Premises). Airline shall have priority in using the Preferential Leased Premises. City seeks to maintain open access to the Airport and to achieve balanced utilization of the Airport and, accordingly, City may require the shared use of the Preferential Leased Premises as provided in this Section.

(b) If an Air Carrier seeks to expand its services at the Airport or an Air Carrier seeks entry at the Airport and, in either case, the City cannot meet the space needs of that Air Carrier from then unleased space in the Terminal Complex, the City shall direct that Air Carrier to request one or more Scheduled Airlines to voluntarily permit that Air Carrier to use portions of the Scheduled Airlines' preferentially leased space. If the Air Carrier makes that request of Airline, Airline shall make a reasonable effort to accommodate the request in a timely manner from any of its Preferential Leased Premises.

(c) In the event that:

(1) an Air Carrier has requested space from the Scheduled Airlines because the City was not able to meet its space needs from unleased space, and

(2) that Air Carrier was unable to obtain the space or facilities needed for its operations from any of the Scheduled Airlines, and

(3) that Air Carrier has demonstrated to the satisfaction of the City that it contacted all Scheduled Airlines and exhausted all reasonable efforts to find reasonable accommodations for its proposed operations,

then, upon receipt by the City from that Air Carrier of a written request for space or facilities of a type leased by the City to the Scheduled Airlines on a preferential basis, the City may grant that Air Carrier the right of temporary or shared use of a designated portion of Airline's Preferential Leased Premises, including the use of passenger loading bridges and other equipment reasonably necessary for the effective use of the space, whether owned by the City or by Airline, but excluding Airline's members-only clubs within its Preferential Leased Premises. The City shall follow the provisions in paragraph (d) of this Section in connection with any grant to an Air Carrier of the right to use any portion of Airline's Preferential Leased Premises.

(d) Upon determining that an Air Carrier needs space or facilities leased to Scheduled Airlines on a preferential basis, the City shall serve written notice to all Scheduled Airlines of that determination and of the City's intention to make a decision in not less than fifteen (15) calendar days as to how the Air Carrier will be accommodated. In determining how to accommodate the Air Carrier, the City will assess the degree of utilization of space in the Terminal Complex by all Scheduled Airlines. The City will consider all factors it deems relevant. Those factors may include: the average number of flight arrivals and departures per aircraft parking position per day; flight scheduling considerations; potential labor conflicts; the number, availability and type of aircraft parking position locations (e.g. wide body or narrow body); the preferences of the Scheduled Airlines as to which of their specific premises are designated for temporary or shared use by the Air Carrier requesting space; and other operational considerations.

The Air Carrier requesting space shall enter into written agreements with the City and with each Scheduled Airline providing space. Those agreements shall provide for the indemnification of the City and each Scheduled Airline providing space on terms substantially similar to the indemnification provided to the City by Airline under the Agreement. Those agreements further shall provide for the provision of insurance, naming both the City and the Scheduled Airlines providing space as additional insureds, providing coverage substantially similar to that provided to the City by Airline under the Agreement.

The Air Carrier shall agree to pay each Scheduled Airline providing the shared space an amount equal to (x) the pro rata share of the sum of the rentals and other amounts payable by each Scheduled Airline under its agreement with the City with respect to the use of space in the Terminal Complex for the portion of that space to be used by the Air Carrier, plus (y) an amount sufficient to recover each Scheduled Airline's direct costs, operation and maintenance expenses and any capital and equipment costs reasonably allocable to the property owned by the Scheduled Airline that is to be shared with the Air Carrier. Airline agrees that, in the event that Airline is one of the Scheduled Airlines providing the shared premises to the Air Carrier, it will provide the City and the Air Carrier an estimate of Airline's direct costs, operation and maintenance expenses and any capital and equipment costs reasonably alloc able to the space to be shared or temporarily used. The City may, in its sole discretion, review Airline's allocation methodology and/or audit its costs. In the event the Air Carrier fails to make prompt and full payment to any Scheduled Airline providing shared space, the Scheduled Airline shall not have any obligation to continue to provide the shared space.

The written agreement between the Air Carrier obtaining shared space and the Scheduled Airline providing the shared space shall be submitted to the City for review and written approval prior to the effective date of that agreement.

In the event that Airline is required to share with an Air Carrier a portion of its Preferential Leased Premises, Airline shall have priority in all aspects of the use of the shared portion of the Preferential Leased Premises (including overnight parking of its aircraft) over all other Air Carriers using those Preferential Leased Premises. Airline shall provide not less than thirty (30) days' prior written notice to the Airport and the Air Carrier sharing the Airline's Preferential Leased Premises of any change in Airline's scheduling or ordinary course of usage of those premises that may affect the availability of the premises for use by the Air Carrier sharing them.

(e) Notwithstanding anything in the Agreement to the contrary, the City may grant an Air Carrier the right to temporarily use a designated portion of Airline's Preferential Leased Premises (excluding Airline's member-only clubs) in nonrecurring emergency or safety related circumstances so long as such use will not unreasonably adversely affect Airline's air transportation operations at the Airport. Airline shall not be responsible for any damage, destruction or loss of property caused by such Air Carrier's temporary use of the Airline's Preferential Leased Premises. The City agrees to make commercially reasonable efforts to cause any Air Carrier that damages or destroys any portion of Airline's Preferential Leased Premises to pay all costs of repairing and restoring any property so damaged or destroyed. Airline shall cooperate with the City to enable the City to make any necessary repairs to the damaged Pr eferential Leased Premises, including making those Premises available to the City, making personnel available to the City and providing drawings or other relevant documents to the City. Airline shall not be charged rent for any such damaged or destroyed Preferential Leased Premises, during the period of time those Premises are not available for use by Airline, and Airline shall not be responsible for any such damage or destruction.

Section 2.06 Rights May be Extended to Affiliate. Airline may submit a written request to the City that the rights and obligations of Airline under the Agreement be given to one or more entities meeting the standards for an Affiliate of Airline (and also that Airline may provide services that are permitted under the Agreement to be performed by Airline for that Affiliate) without the payment of any additional fees, charges, or premiums, including that the Affiliate shall (1) be charged at the same landing fee rates as Airline, (2) be considered as one party with Airline for purposes of calculating any joint use or shared use space charges, and (3) participate in any reconciliation process related to landing fees. That written request shall be accompanied by (a) information concerning the legal organization of the Affiliate, its legal relationship to the Airline, c opies of its most recent audited financial statements and other information about its organization, operations and financial condition as may reasonably be requested by the City, (b) a written guarantee from Airline, in a form acceptable to the Director of Law of the City, of the payment of all terminal rentals, landing fees or other scheduled rates and charges owed in respect of such Affiliates(s) operations under the Agreement, and (c) an agreement between the City and the Affiliate, substantially in the form of the Agreement between Airline and City, signed by authorized officials of the Affiliate. Upon receipt of that information and that guarantee and agreement, and so long as Airline remains a signatory to the Agreement, City, agrees to treat that Air Carrier as an Affiliate of Airline under the Agreement. If Airline notifies the City that such Air Carrier shall no longer be considered an Affiliate of Airline under the Agreement, its guarantee shall not apply to any fees or charges incurred by such A ir Carrier after the effective date of termination of "Affiliate" status as provided in Section 1.03 of the Agreement. Affiliate will not be entitled to a separate Majority In Interest vote as a result of this relationship to Airline; provided that Affiliate's operational statistics shall be consolidated with Airline's for purposes of determining Airline's Majority In Interest voting status.

ARTICLE III - OCCUPANCY; TERM

Sections 3.01 and 3.03 are amended and restated as follows:

3.01 Term

The Original Agreement as amended by the First Amendment, and all obligations, including rentals, charges and fees payable pursuant thereto, shall commence on the date of the First Amendment and terminate at midnight, December 31, 2015, except rentals, charges and fees accruing or incurred prior to the termination date shall be paid thereafter by Airline as otherwise provided in Article VII, and any excess or deficit of Airport Revenue over Airport System Expense (as defined in Article VIII hereof) for the final Additional Term shall be payable by City or Airline, as the case may be, upon receipt of the annual statements referred to in Section 20.16 for such final Additional Term.

3.03 Termination of Agreement

If Airline does not continue to lease Preferential Leased Premises and Airline's scheduled service decreases below three departures per calendar day and such decrease continues for more than thirty (30) consecutive calendar days, then the Agreement may be terminated by the City and Airline shall be subject to the same obligations, fees and charges as other airlines using the Airport which are not Scheduled Airlines as defined in the Agreement.

ARTICLE VII - RENTALS, CHARGES AND FEES

Section 7.02 of the Agreement is amended and restated in its entirety as follows:

7.02. Rates and Charges

The Agreement governs the methods of determining the rentals, charges and fees to be paid by Airline during the term of the Agreement. Section 20.03 of the Agreement shall not be construed to permit, and accordingly the City agrees that it shall not enter into, any modification, supplement or amendment to the Indenture that would prejudice the rights of the Airline under the Agreement. The City represents to Airline that, as of the date hereof, nothing in the Agreement materially conflicts with the provisions of the Indenture.

ARTICLE VIII - READJUSTMENT OF RENTALS AND LANDING FEE.

Sections 8.03, 8.04, 8.05, 8.06 and 8.09 are amended and restated as follows:

8.03 Annual Reports

(a) At least 120 days prior to the end of the then current Additional Term, the Scheduled Airlines, including Airline, shall submit to City in writing their composite Maximum Landing Weight forecast for the succeeding Additional Term. At least 90 days prior to the end of the then current Additional Term, City shall submit to the Scheduled Airlines the following Annual Reports as to each Airport System Cost Center:

(1) Its proposed Annual Budget for the succeeding Additional Term reflecting all estimated Airport System maintenance, operating and administrative expenses, including administrative expenses of City to be vouchered to the Airport System during the succeeding Additional Term, and all capital improvements at the Airport System for the succeeding Additional Term which are not separately scheduled pursuant to subsection (4) hereof and the amounts of all loans or advances which may have been made by City, in its discretion, to the Airport for the payment of Airport System Expenses which are to be repaid in the succeeding Additional Term.

(2) A schedule of the principal and interest payments to accrue during the succeeding Additional Term in connection with the Revenue Bonds, any Subordinated Indebtedness and any General Obligation Debt. A statement of any amounts owed with respect to Credit Support Instruments or Hedge Agreements.

(3) A statement of estimated Airport Revenues for the succeeding Additional Term from other than the Scheduled Airlines.

(4) A schedule of the capital improvements at the Airport System proposed for the succeeding Additional Term, the inclusion of which as capital improvements in such succeeding Additional Term is subject to the provisions of Section 8.07 hereof.

(5) City's calculation of adjusted Rentals and Landing Fees for the succeeding Additional Term.

(b) Within thirty days after receipt of the Annual Reports, a formal discussion shall be held between representatives of City and the Scheduled Airlines at which the Scheduled Airlines may present objections to the Annual Reports, or any item therein. City shall give due consideration to any suggestions, comments or requests of Airline. Before the beginning of the succeeding Additional Term, City shall, through resolution of its Board of Control, adopt the Annual Budget substantially in accordance with the proposed Annual Budget submitted as part of the Annual Reports, as it may have been revised as a result of City's discussions with the Scheduled Airlines and shall promptly furnish Airline with a copy of such approved Annual Budget together with its resulting calculation of Rentals and Landing Fees which shall be effective from and after January 1 of such Additional Term. If an Annual Budget shall not have been so adopted by the Board of Control prior to commencement of such Additional Term, the Rentals and Landing Fees in effect in the preceding Term shall remain in effect until a new Annual Budget has been so adopted by the Board of Control and City has calculated Rentals and Landing Fees in accordance therewith, which revised Rentals and Landing Fees shall be effective retroactively to January 1 of such Additional Term.

8.04 Adjustment of Rentals

The Rentals shall be adjusted annually in the following manner:

(a) An average rental rate for the Terminal Building, an average rental rate for each Concourse, and an average rental rate for Airline Constructed Space shall be computed for each Additional Term as follows:

(i) The total estimated maintenance, operating and administrative expenses of the Terminal Building, all Concourses, Airline Constructed Space and the Parking and Roadways Cost Centers for the succeeding Additional Term, all as set forth in the Annual Reports, shall be divided by the total square footage of Terminal Complex space leased to Scheduled Airlines, as may be adjusted for any operating and maintenance expenses directly allocable to specific areas of the Terminal Complex, the resulting quotient being referred to as the Terminal and Concourse Maintenance Factor.

(ii) The total amount to be accrued in the succeeding Additional Term for payment of Revenue Bonds, any Subordinated Indebtedness, any General Obligation Debt, any Credit Support Instruments and any Hedge Agreements allocated to the Terminal Building Cost Center, plus the cost of capital improvements, all as contained in the Annual Reports for the Terminal Building, shall be divided by the total square footage of Terminal Building space leased to the Scheduled Airlines, with the resulting quotient being referred to as the Terminal Improvement Factor.

(iii) The total amount to be accrued in the succeeding Additional Term for payment of Revenue Bonds, any Subordinated Indebtedness, any General Obligation Debt, any Credit Support Instruments and any Hedge Agreements allocated to each Concourse Cost Center, plus the cost of capital improvements, all as contained in the Annual Reports for each such Concourse, shall be divided by the total square footage in each such Concourse of space leased to the Scheduled Airlines, with the resulting quotients for each Concourse being referred to as the Concourse Improvement Factor for such Concourse. For purposes of this Section 8.04(a)(iii) of Article VIII, the definition of "Concourse" shall not include any expansion of any of the A, B, C and/or D Concourses built at the sole cost and expense of a Scheduled Airline and not financed by Revenue Bonds, Subordinated Indebtedness or General Obligation Debt.

(iv) In the event that space originally constructed as Airline Constructed Space is subsequently improved by City expenditures, the total amount to be accrued in the succeeding Additional Term for payment of any Revenue Bonds, any Subordinated Indebtedness, any General Obligation Debt, any Credit Support Instruments and any Hedge Agreements allocated to Airline Constructed Space, plus the cost of capital improvements, all as contained in the Annual Reports for such Airline Constructed Space, shall be divided by the total square footage of such Airline Constructed Space leased to the Scheduled Airlines, with the resulting quotient being referred to as the Airline Constructed Space Improvement Factor.

(v) The total amount to be accrued in the succeeding Additional Term for payment of Revenue Bonds, any Subordinated Indebtedness, any General Obligation Debt, any Credit Support Instruments and any Hedge Agreements allocated to the Parking and Roadways Cost Center, plus the cost of capital improvements, all as contained in the Annual Reports for Parking and Roadways, shall be divided by the total square footage of Terminal Complex space leased to the Scheduled Airlines, with the resulting quotient being referred to as the Parking Improvement Factor.

(vi) The sum of the Terminal and Concourse Maintenance Factor, the Terminal Improvement Factor and the Parking Improvement Factor shall be the average rental rate for the Terminal Building. The sum of the Terminal and Concourse Maintenance Factor, the respective Concourse Improvement Factors, any Airline Constructed Space Improvement Factor and the Parking Improvement Factor shall be the average rental rate for each Concourse and any Airline Constructed Space.

References to capital improvements in this Section 8.04(a) means capital improvements that have been reviewed with the Scheduled Airlines as required under Section 8.07 of the Agreement and any capital improvements that are not subject to that review as provided in Section 8.07.

(b) The average annual rental rates so determined shall be weighted for the various categories of Leased Premises, as follows: ticket counter, holdroom and passenger-related space, at 100% of the premium rate; baggage make-up facilities at 50% of the premium rate; baggage and roadway (tug road) facilities at 30% of the premium rate; operations facilities, offices, baggage claim and other space as designated by the Director of Port Control of the City, at 75% of the premium rate.

(c) The total estimated Airport Revenue from all sources in the Terminal Building, all Concourses, and the Parking and Roadways Cost Centers for the succeeding Additional Term, excluding rentals paid by the Scheduled Airlines and excluding net revenues from any duty free retail operations, as contained in the Annual Reports, shall be multiplied by the percentage determined by dividing the number of the Airline's enplaning passengers at the Airport by the total number of enplaning passengers of all Scheduled Airlines at the Airport for the most recent twelve-month period for which such figures are available as to all Scheduled Airlines. The product of that multiplication for each Scheduled Airline shall be referred to as that Scheduled Airline's Terminal and Co ncourse Revenue Factor. Each Scheduled Airline shall receive a credit against its rental payments for the Terminal Building, Concourses and any Airline Constructed Space equal to its Terminal and Concourse Revenue Factor. For purposes of this Section, each Scheduled Airline shall include the enplaning passengers of its operations attributable to its Affiliates in the aggregate number of its enplaning passengers at the Airport.

(d) Any Airport Revenues associated with any duty free retail operations located within the Terminal Complex, less the operating and maintenance expenses and capital costs associated with those operations, shall be allocated to the Scheduled Airlines based on each Scheduled Airline's share of international enplaned passengers for the most recent twelve-month period for which such data is available. Each Scheduled Airline shall receive a credit against its rental payments for the Terminal Building, Concourses and any Airline Constructed Space equal to it share of those net revenues from duty free retail operations. In the event that no Scheduled Airline offers international air transportation services at the Airport but other Air Carriers do offer international air transportation services at the Airport, and the activities of those Air Carriers generate net duty free revenues, those duty free net revenues will be considered Airport Revenues for purposes of Section 8.05 of the Agreement.

8.05 Adjustment of Landing Fees

The Landing Fee shall be adjusted annually for each Additional Term in the following manner:

(a) The Landing Fee for each Additional Term shall be computed in accordance with the following equation:

$$\text{Landing Fee} = \frac{E - (R + S - D)}{W}$$

The symbols in the foregoing equation shall have the following meanings:

E - The estimated Airport System Expenses as hereinafter defined and as set forth in the Annual Reports for such Additional Term.

R - The estimated Airport Revenues for such Additional Term as set forth in the Annual Reports, including Rentals from Scheduled Airlines for the Additional Term but excluding all Landing Fees estimated to be paid by Scheduled Airlines in such Additional Term and excluding any net revenues derived from any duty free retail operations in the Terminal

Complex that are allocable to the Scheduled Airlines. For this purpose, Airport Revenues shall include any Other Available Funds, as defined in the Indenture, including without limitation, any funds transferred from the Airport Development Fund to the Coverage Account of the Revenue Fund, and determined in the Annual Reports for such Additional Term to be made available for the payment of Revenue Bonds, any Passenger Facility Charges determined in the Annual Reports for the Addition al Term to be available for the payment of Revenue Bonds and any funds made available as capitalized interest for such Term.

S - The amount, if any, by which Airport Revenues for the then current Term are estimated to exceed Airport System Expenses for such Term.

D - The amount, if any, by which Airport System Expenses for the then current Term, are estimated to exceed Airport Revenues for such Term.

W - The composite Maximum Landing Weight, as determined by City, of all estimated Revenue Aircraft Arrivals of Scheduled Airlines in such Additional Term.

(b) For the purpose of the foregoing computation, the term "Airport System Expense" shall mean the total of the following:

(i) All costs and expenses incurred by City for operation, maintenance, repair, administration and improvements of the Airport System, including all costs incurred by City pursuant to the Agreement, as set forth in the Annual Reports, but excluding, except as otherwise provided herein:

(a) any charges for depreciation or obsolescence or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature,

(b) all charges for payment of Revenue Bonds, any Subordinated Indebtedness, any General Obligation Debt, any Credit Support Instrument and any Hedge Agreement,

(c) capital improvements to the Airport System, for the succeeding Additional Term scheduled pursuant to Section 8.03(a)(4),

(d) losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Airport System, or

(e) all maintenance, operating and administrative expenses of the Airport System attributable to the operation of Burke Lakefront Airport, together with all debt service attributable to General Obligation Bonds issued by City in connection with improvements at Burke Lakefront Airport (collectively, the "Burke Costs").

(ii) An amount equal to the greater of:

(a) An amount equal to 116% of the amount to be accrued in such Additional Term to provide for the payment of principal and interest on all outstanding Revenue Bonds and General Obligation Debt; or

(b) An amount equal to 125% of the amount to be accrued in such Additional Term to provide for the payment of principal and interest on outstanding Revenue Bonds.

(iii) Amounts payable in the succeeding Additional Term with respect to any outstanding Subordinated Indebtedness, any General Obligation Debt, any Credit Support Instrument and any Hedge Agreement.

(iv) Such amount for capital improvements to the Airport System scheduled pursuant to Section 8.03(a)(4) for the succeeding Additional Term and included as provided in Section 8.07.

(v) Such amounts as may be required to fund or replenish Special Funds.

(vi) All of the Burke Costs, but solely to the extent that the projected deficit of Airport Revenues attributable to Burke Lakefront Airport over the Burke Costs for such succeeding Additional Term (the "Burke Deficit") does not exceed the Burke Deficit as reflected in the audited financial statements for the Airport System for the twelve-month period ended December 31, 2005, as adjusted as follows:

The Burke Deficit for the period from January 1, 2005 through December 31, 2005	X	The CPI in effect for the most recent month prior to the date of issuance of the Annual Reports for such Additional Term divided by the CPI in effect for the same month of 2005.

(vii) In the event City and a Majority In Interest agree that operation of Burke Lakefront Airport as an airport should cease, such amount as will satisfy all obligations arising from such cessation including amounts for the repayment of all sums required to be repaid to federal or state agencies, all liabilities incurred in connection with terminated lease obligations and all other sums arising out of or related to such cessation of operation.

<u>8.06</u> <u>Operating and Maintenance Expense Incentive Program</u>

The parties agree that for forecasting purposes only, the City will assume that the Airport System Expenses contained in the Annual Report for an Additional Term will increase over the actual Airport System Expenses for the current Term directly proportional to the increase in the Consumer Price Index for All Urban Consumers, All Items (1982-1984=100), U.S. City Average, as published by the United States Department of Labor, Bureau of Labor Statistics, for the immediately preceding twelve month period for which such data is available over the twelve month period prior to that, adjusted for the percentage change in the total enplaned passengers at the Airport for the immediately preceding twelve month period for which such data is available over the total annual enplaned passengers at the Airport during the twelve month period prior to that. The forecasted Airport System

Expenses (referred to in this Section 8.06 as the "Targeted Expenses") for each Additional Term shall be calculated in the following manner:

$$\text{Targeted Expenses for Additional Term} = \text{Actual Airport System Expenses for Current Term} \times \frac{\text{CPI Index (last 12 months)}}{\text{CPI Index (12 months prior to last 12 months)}} \times \frac{\text{Total Enplaned Passengers at the Airport (last 12 months)}}{\text{Total Enplaned Passengers at the Airport (12 months prior to last 12 months)}}$$

The City agrees to manage Airport System Expenses so that, to the extent reasonably practicable, actual Airport System Expenses may be less than the Targeted Expenses in each Additional Term, as calculated above. As an additional incentive to manage Airport System Expenses, in any Additional Term that the City is able to manage Airport System Expenses such that the actual Airport System Expenses in that Additional Term are less than the Targeted Expenses for that Additional Term, the City will be entitled to an additional deposit to the Airport Account of the Airport Development Fund in the succeeding Additional Term. The City's actual Airport System Expenses shall be determined at the end of the City's Fiscal Year, as a part of the annual reconciliation process.

If actual Airport System Expenses are determined to be less than the Targeted Expenses established in the Annual Report, then the amount of additional moneys to be deposited in the Airport Account of the Airport Development Fund in the succeeding Additional Term shall be calculated in the following manner:

a. If actual Airport System Expenses in an Additional Term are less than three percent (3%) below the Targeted Expenses for that Additional Term, then there shall be no additional deposit made to the Airport Account of the Airport Development Fund in the succeeding Additional Term.

b. If actual Airport System Expenses in an Additional Term are three percent (3%) or greater, but less than five percent (5%) below the Targeted Expenses for that Additional Term, then the additional deposit made to the Airport Account of the Airport Development Fund in the succeeding Additional Term shall be increased by an amount equal to fifteen percent (15%) of the difference between the Targeted Expenses and the actual Airport System Expenses for that Term.

c. If actual Airport System Expenses in an Additional Term are five percent (5%) or greater, but less than ten percent (10%) below the Targeted Expenses for that Additional Term, then the additional deposit made to the Airport Account of the Airport Development Fund in the succeeding Additional Term shall be increased by an amount equal to twenty percent (20%) of the difference between the Targeted Expenses and the actual Airport System Additional Expenses for that Term.

d. If actual Airport System Expenses in an Additional Term are at least ten percent (10%) below the Targeted Expenses for that Additional Term, then the additional deposit made to the Airport Account of the Airport Development Fund in the succeeding Additional Term shall be increased by an amount equal to twenty-five percent (25%) of the difference between the Targeted Expenses and the actual Airport System Expenses for that Term.

8.09 Alternative Funding

The City may issue Additional Revenue Bonds and incur Subordinated Indebtedness to fund any of the capital improvements that have not been disapproved by vote of a Majority In Interest given as provided in Section 8.07. The City may issue Additional Revenue Bonds and incur Subordinated Indebtedness to refund outstanding Revenue Bonds or Subordinated Indebtedness. However, any such refunding transaction that does not generate net debt service savings on an average annual basis and an aggregate basis shall be submitted to the Scheduled Airlines for review and may be undertaken by the City only if the refunding transaction has not been disapproved by vote of a Majority In Interest given as provided in Section 8.07. The City may also enter into Hedge Agreements and obtain Credit Support Instruments that are not considered to be obligations in respect of principal or interest on Revenue Bonds or Subordinated Indebtedness, subject t o review of such arrangements by the Scheduled Airlines and provided that such arrangements have not been disapproved by vote of a Majority In Interest given as provided in Section 8.07. The debt service, debt service reserve and other payment requirements of any such Additional Revenue Bonds, Subordinated Indebtedness, Credit Support Instruments and Hedge Agreements shall be considered in any subsequent adjustment of Rentals or Landing Fees hereunder.

ARTICLE IX - REVENUE BOND FUNDS

Sections 9.02, 9.04 and 9.06 are amended and restated as follows:

9.02 Special Funds

The Indenture creates and establishes the following separate trust funds, in addition to the Airport Revenue Fund, held by the Trustee:

Airport Revenue Bond Service Fund, to be held by the Trustee;

Airport Revenue Bond Service Reserve Fund, to be held by the Trustee;

Airport Operating and Maintenance Fund, to be held by City;

Airport Subordinated Debt Service Fund, to be held by City;

Airport General Obligation Debt Service Fund, to be held by City;

Airport Renewal and Replacement Fund, to be held by City;

Airport Improvement Fund, to be held by City

Airport Surplus Fund, to be held by City; and

Airport Development Fund, and the Airport Account and the Airline Account therein, each to be held by City.

All of the Special Funds and the moneys and investments therein are pledged by the Indenture to the purposes, and to be maintained and applied, solely and exclusively in the manner provided in this Agreement and in the Indenture.

9.04 Payment to Bond Service Fund; Application Thereof. (a) First, to the Bond Service Fund, (i) to the Interest Account, the amount that, if deposited in approximately equal monthly installments, would be sufficient, taking into account other moneys on deposit in the Interest Account available therefor, to pay interest due on the Revenue Bonds on the next ensuing interest payment date; (ii) to the Principal Account, the amount that, if deposited in approximately equal monthly installments, would be sufficient, taking into account other moneys on deposit in the Principal Account available therefor, to pay the principal of the Revenue Bonds payable on the next ensuing principal payment date, whether by mandatory sinking fund redemption or due at stated maturity; provided such monthly payments need not begin sooner than the twelfth month prior to the date principal is payable; and (iii) to the Redemption Account, t he amount needed, together with other moneys in that Account available therefor, to pay the redemption price payable on the redemption date of any Revenue Bonds called for redemption prior to maturity; and (iv) in addition to the requirements of the foregoing subparagraphs (i), (ii) and (iii) any amount as may be necessary, after complying with those requirements, to make up any previous deficiency in the Bond Service Fund.

(b) In the event the City enters into a Hedge Agreement with respect to any series of Revenue Bonds, there shall be deposited in the Interest Account of the Bond Service Fund by the Trustee on the first day of each month from moneys deposited in the Revenue Fund, the net amount owed to the Hedge Counterparty in the next succeeding 30 days by the City in respect of periodic, interest-equivalent payments under the Hedge Agreement, net of amounts then on deposit in the Interest Account for the purpose, or amounts to be netted against the payment obligations of the City. In the event that payments are made under the Hedge Agreement on a basis less frequently than monthly, the deposit to the Interest Account of the Bond Service Fund on the first day of each month shall be such equal monthly amount as shall result in a balance in the Interest Account, on or before the date payment is due to the Hedge Counterparty, of an amount not less than the net amount owed to the Hedge Counterparty on th e next payment date. There shall be deposited in the Interest Account of the Bond Service Fund, as and when received, amounts from the Hedge Counterparty paid to the City in respect of periodic, interest-equivalent amounts owed under the Hedge Agreement.

(c) All income and earnings on the investment and reinvestment of the moneys in the Bond Service Fund shall be retained by the Trustee and maintained as a part of the Bond Service Fund.

(d) The Bond Service Fund is pledged to, and shall be used and applied as provided in Article V of the Indenture solely and exclusively for, the payment of Bond service charges on Revenue Bonds and amounts owed under Hedge Agreements in respect of periodic interest equivalent payments (but not any amounts owed in respect of early termination of any Hedge Agreement), as they are due and payable, including, in the case of Bond service charges, upon stated maturity of Revenue Bonds or upon their optional or mandatory redemption. Pending that application, moneys in the Bond Service Fund shall be subject to a lien and pledge in favor of the holders of the Revenue Bonds and, to the extent of periodic, interest equivalent amounts owed under Hedge Agreements, in favor of the counterparties under those Hedge Agreements.

9.06 Payment to Operating and Maintenance Fund; Application Thereof

(a) Third, commencing on the date provided in the Indenture, to City, for deposit to the credit of the Operating and Maintenance Fund, the balance remaining in the Revenue Fund. From the moneys in the Operating and Maintenance Fund City shall first pay all maintenance and operating expenses of the Airport System as provided in the Annual Reports; provided, however, that nothing contained herein shall be deemed to prohibit City of its own volition from paying such expenses, or any portion thereof, from other funds of City lawfully available for the purpose. After retaining such amount as found by City on the basis of past and prospective operations of the Airport System, to be necessary to provide an adequate working capital reserve not to exceed an amount estimated to be needed to meet one quarter of the gross cost contained in the Annual Budget for the next twelve month period together with such amounts as may be established by City to fund any of the capital improvements included in its applicable Annual Reports, the City shall transfer and deposit the remaining moneys in the Operating and Maintenance Fund as follows:

(b) Payment to Subordinated Debt Service Fund; Application Thereof. If and so long as any Subordinated Indebtedness is outstanding, to the Subordinated Debt Service Fund: (i) the equal monthly sum necessary (after allowing for any moneys then on hand in the Subordinated Debt Service Fund), to provide for the payment of interest due and payable on the next ensuing interest payment date on the then outstanding Subordinated Indebtedness; (ii) the equal monthly sum necessary (after allowing for any moneys then on hand in the Subordinated Debt Service Fund) to provide for the payment of the principal required to be paid on the next ensuing principal payment date on all the then outstanding Subordinated Indebtedness; provided such monthly payments need not begin sooner than the twelfth month prior to the date principal is payable; (iii) the amount needed, together with other moneys on deposit in the Subordinated Debt Service Fund availabl e therefor, to pay the redemption price payable on the redemption date of any Subordinated Indebtedness called for redemption prior to maturity; (iv) the amount needed, together with other moneys on deposit in the Subordinated Debt Service Fund available therefor, to cause any reserve account to be equal to the required reserve, and (v) the amount, if any, required to restore any deficiency in the Subordinated Debt Service Fund for any amounts transferred therefrom to the Bond Service Fund as described below.

In the event the City enters into a Hedge Agreement with respect to any Subordinated Indebtedness, there shall be deposited in the Subordinated Debt Service Fund on the first day of each month, the net amount owed to the Hedge Counterparty in the next succeeding 30 days by the City in respect of periodic, interest-equivalent payments under the Hedge Agreement, net of amounts then on deposit in that Fund for the purpose, or amounts to be netted against the payment obligations of the City. In the event that payments are made under the Hedge Agreement on a basis less frequently than monthly, the deposit to the Subordinated Debt Service Fund on the first day of each month shall be such equal monthly amount as shall result in a balance in the Fund, on or before the date payment is due to the Hedge

Counterparty, of an amount not less than the net amount owed to the Hedge Counterparty on the next payment date. There shall be deposited in the Subordinated Debt Service Fund, as and when received, amounts from the Hedge Counterparty paid to the City in respect of periodic, interest-equivalent amounts owed under the Hedge Agreement.

In the event Subordinated Indebtedness is secured by a reserve account of the Subordinated Debt Service Fund, there shall be deposited in that reserve account, after making all of the deposits described above, such amount that, if deposited in approximately equal monthly installments, would be sufficient, taking into account other moneys in the reserve account, to satisfy the reserve requirement for the Subordinated Indebtedness.

If on the fifth day preceding any interest or principal payment date the Bond Service Fund is insufficient to meet the respective Bond service charges to be paid therefrom on such date, the Trustee shall request the City to transfer from the Subordinated Debt Service Fund to the Trustee for deposit in the Bond Service Fund the amount sufficient to make up any such deficiency, and the City shall, unless the City provides moneys for such transfer from some other lawful source, immediately transfer from the Subordinated Debt Service Fund to the Trustee for deposit in the Bond Service Fund, the amount sufficient to make up such deficiency in the Bond Service Fund (or the entire balance of the Subordinated Debt Service Fund if less than sufficient) subject, however, to such deficiency having been first made up by application of moneys in the General Obligation Debt Service Fund, Renewal and Replacement Fund, Improvement Fund, Surplus Fund or Airport Development Fund as hereinafter provided. In addition, if at any time there is a deficiency in the Bond Service Reserve Fund, the Trustee shall request the City to transfer moneys from the Subordinated Debt Service Fund to the Bond Service Reserve Fund and the City shall, provided no deficiency exists in the Bond Service Fund and unless the City provides moneys for such transfer from some other lawful source, immediately transfer from the Subordinated Debt Service Fund, but only after using any moneys then in the General Obligation Debt Service Fund, the Renewal and Replacement Fund, the Improvement Fund, the Surplus Fund or the Airport Development Fund as provided below, to the Trustee for deposit in the Bond Service Reserve Fund an amount sufficient to make up such deficiency (or the entire balance in the Subordinated Debt Service Fund if less than sufficient).

Subject to the provisions of the preceding paragraph, City shall transfer the moneys deposited to the credit of the Subordinated Debt Service Fund to the appropriate paying agents to pay interest and principal as the same become due and payable on any Subordinated Indebtedness then outstanding, and, until such Subordinated Indebtedness is paid in full, or other provision made for its payment, City covenants and agrees to promptly make such payments so that all such moneys deposited to the credit of the Subordinated Debt Service Fund as aforesaid will be applied to pay the principal and interest on its Subordinated Indebtedness.

Subject to the provisions of the foregoing paragraphs as to transfers, all income and earnings on the investment and reinvestment of the moneys in the Subordinated Debt Service Fund shall be retained by City and maintained as a part of that Fund.

Upon the discharge of all Subordinated Indebtedness, any moneys remaining in the Subordinated Debt Service Fund shall be transferred to the Trustee for deposit in the Revenue Fund.

(c) <u>Payment to General Obligation Debt Service Fund; Application Thereof</u>. If and so long as General Obligation Debt is outstanding, to the General Obligation Debt Service Fund: (i) the equal monthly sum necessary (after allowing for any moneys then on hand in the General Obligation Debt Service Fund), to provide for the payment of interest due and payable on the next ensuing interest payment date on the then outstanding General Obligation Debt; (ii) the equal monthly sum necessary (after allowing for any moneys then on hand in the General Obligation Debt Service Fund) to provide for the payment of the principal required to be paid on the next ensuing principal payment date on all the then outstanding General Obligation Debt; provided that such monthly payments need not begin sooner than the twelfth month prior to the date principal is payable; (iii) the amount needed, together with other moneys on deposit in the General Obligation D ebt Service Fund available therefore, to pay the redemption price payable on any General Obligation Debt on the redemption date of any General Obligation Debt called for redemption prior to maturity; and (iv) the amount, if any, required to restore any deficiency in the General Obligation Debt Service Fund for any amounts transferred therefrom to the Bond Service Fund, the Bond Service Reserve Fund or the Subordinated Debt Service Fund. No monthly payments need to be made with respect to the principal of any general obligation notes to the extent that the principal of those general obligation notes will be paid by the City at the maturity thereof from the proceeds of renewal general obligation notes, general obligation bonds, Revenue Bonds or from any other lawful source other than moneys in the General Obligation Debt Service Fund.

If on the fifth day preceding any interest or principal payment date the Bond Service Fund is insufficient to meet the respective Bond service charges to be paid therefrom on such date, the Trustee shall request City that moneys be transferred from the General Obligation Debt Service Fund to the Bond Service Fund and City shall, unless City provides moneys for such transfer from some other lawful source, immediately transfer from the General Obligation Debt Service Fund to the Trustee for deposit in the Bond Service Fund, the amounts sufficient to make up such deficiency in the Bond Service Fund (or the entire balance of the General Obligation Debt Service Fund if less than sufficient) subject, however, to such deficiency having been first made up by application of moneys in the Renewal and Replacement Fund, Improvement Fund, Surplus Fund or Airport Development Fund as hereinafter provided. In addition, if at any time there is a deficiency in the Bond Service Reserve Fund, the Trustee sha ll request the City to transfer moneys from the General Obligation Debt Service Fund to the Bond Service Reserve Fund and the Issuer shall, provided no deficiency exists in the Bond Service Fund and unless the City provides moneys for such transfer from some other lawful source, immediately transfer from the General Obligation Debt Service Fund, but only after using any moneys then in the Renewal and Replacement Fund, the Improvement Fund, the Surplus Fund or the Airport Development Fund as provided below, to the Trustee for deposit in the Bond Service Reserve Fund an amount sufficient to make up such deficiency (or the entire balance of the General Obligation Debt Service Fund if less than sufficient).

Subject to the provisions of the preceding paragraph, City shall transfer the moneys deposited to the credit of the General Obligation Debt Service Fund to the appropriate paying agents to pay interest and principal as the same become due and payable on any General Obligation Debt then outstanding, and, until such General Obligation Debt is paid in full, or other provision made for its payment, City covenants and agrees to promptly make such payments so that all such moneys deposited to the credit of the General Obligation Debt Service Fund as aforesaid will be applied to pay the principal and interest on its General Obligation Debt.

Subject to the provisions of the foregoing paragraphs as to transfers, all income and earnings on the investment and reinvestment of the moneys in the General Obligation Debt Service Fund shall be retained by City and maintained as a part of said Fund.

Upon the retirement of all General Obligation Debt, any moneys remaining in the General Obligation Debt Service Fund shall be transferred to the Trustee for deposit in the Revenue Fund.

(d) Payment to Renewal and Replacement Fund; Application Thereof. To the Renewal and Replacement Fund, the equal monthly sum necessary (after allowing for any moneys then on hand in the Renewal and Replacement Fund) to restore in the next succeeding twelve months to the Renewal and Replacement Fund any amounts previously transferred from the Renewal and Replacement Fund, as hereinafter provided, until the amount therein is equal to the Renewal and Replacement Fund Payment.

If on the seventh day preceding any interest or principal payment date the Bond Service Fund is insufficient to meet the then respective Bond service charges to be paid therefrom on such date, the Trustee shall request City that moneys be transferred from the Renewal and Replacement Fund to the Bond Service Fund and City shall, prior to using any moneys then in the Bond Service Reserve Fund or the Subordinated Debt Service Fund or the General Obligation Debt Service Fund, but after using any money then in the Improvement Fund, Surplus Fund or Airport Development Fund, as hereinafter provided, unless City provides moneys for such transfer from other lawful sources, immediately transfer from the Renewal and Replacement Fund to the Trustee for deposit in the Bond Service Fund the amount sufficient to make up such deficiency in the Bond Service Fund (or the entire balance of the Renewal and Replacement Fund if less than sufficient). In addition, if at any time there is a deficiency in the Bond Service Reserve Fund, the Trustee shall request City that moneys be transferred from the Renewal and Replacement Fund to the Bond Service Reserve Fund and City shall, provided no deficiency exists in the Bond Service Fund and unless City provides moneys for such transfer from some other lawful source, immediately transfer from the Renewal and Replacement Fund, but only after using any money then in the Improvement Fund, Surplus Fund or Airport Development Fund, as hereinafter provided, to the Trustee for deposit in the Bond Service Reserve Fund amounts sufficient to make up such deficiency (or the entire balance in the Renewal and Replacement Fund if less than sufficient).

Subject to the foregoing, provided all payments have been made to the Bond Service Fund and Bond Service Reserve Fund, and there is no deficiency in either of those Special Funds, and so long as there is no default under the terms of the Bond proceedings and the Indenture and a deficiency exists in the Subordinated Debt Service Fund, City shall transfer moneys first from the Renewal and Replacement Fund to the Subordinated Debt Service Fund to the Trustee for deposit in the Subordinated Debt Service Fund an amount sufficient to make up any deficiency in the Subordinated Debt Service Fund (or the entire balance in the General Obligation Debt Service Fund and the Renewal and Replacement Fund if less than sufficient).

Subject to the foregoing, provided all payments have been made to the Bond Service Fund, the Bond Service Reserve Fund and the Subordinated Debt Service Fund, and there is no deficiency in any of those Special Funds, and so long as there is no default under the terms of the Bond proceedings and the Indenture and a deficiency exists in the General Obligation Debt Service Fund, City shall transfer moneys from the Renewal and Replacement Fund to the General Obligation Debt Service Fund and City shall transfer from the Renewal and Replacement Fund to the Trustee for deposit in the General Obligation Debt Service Fund an amount sufficient to make up any deficiency in the General Obligation Debt Service Fund (or the entire balance in the Renewal and Replacement Fund if less than sufficient).

All income and earnings on the investment and reinvestment of the Renewal and Replacement Fund shall be retained in and maintained as part of the Renewal and Replacement Fund until such time as the amount therein equals the Renewal and Replacement Fund Payment and if after attaining such amount the Renewal and Replacement Fund is diminished all such excess income and earnings shall be similarly applied, as earned; provided, however, that if such amount is maintained all such income and earnings shall be transferred, in equal amount to the Improvement Fund and Surplus Fund until the amount in each such Fund equals Three Hundred Fifty Thousand Dollars ($350,000), and if after attaining such amounts either Fund is diminished all such excess income and earnings shall be similarly applied, as earned; provided, however, that if such amounts are maintained all such excess income and earnings shall be transferred in equal amounts to the Airport Account and the Airline Accoun t of the Airport Development Fund.

Subject to the provisions of this Section, moneys in the Renewal and Replacement Fund may be applied by City in its sole discretion for payment of costs of rebuilding, reconstructing, repairing, altering, replacing and renewing the Airport System. The City will consult with the Scheduled Airlines prior to making an expenditure from the Renewal and Replacement Fund (other than expenditures for nonrecurring emergencies or safety-related repairs or replacements) that will reduce the balance in the Renewal and Replacement Fund to a level that will require a material increase in the landing fee to generate Airport Revenue sufficient to restore the balance in the Renewal and Replacement Fund to the Renewal and Replacement Fund Payment.

(e) Payments to Improvement Fund and Surplus Fund; Applications Thereof. To the Improvement Fund and the Surplus Fund (i) prior to January 1, 2007, on a monthly basis**,** the balance remaining in the Operating and Maintenance Fund after making the deposits provided in (b), (c) and (d) above, in equal amounts, and (ii) thereafter, the equal monthly sum necessary (after allowing for any moneys then on hand in those Funds) to restore in the next succeeding twelve months any amounts previously transferred from the Improvement Fund and/or Surplus Fund, until the amount on deposit in each Fund is at least Three Hundred Fifty Thousand Dollars ($350,000).

If on the ninth day preceding any interest or principal payment date, the Bond Service Fund is insufficient to meet the then respective Bond service charges to be paid therefrom on such date, the Trustee shall request City to transfer moneys in equal amounts from the Improvement Fund and the Surplus Fund to the Bond Service Fund and City shall, prior to the application of moneys in the Bond Service Reserve Fund, the Subordinated Debt Service Fund, the General Obligation Debt Service Fund or the Renewal and Replacement Fund as herein provided, and unless City provides moneys for such transfer from other lawful sources, immediately transfer from the Improvement Fund and the Surplus Fund to the Trustee for deposit in the Bond Service Fund the amount or amounts sufficient to make up such deficiency in the Bond Service Fund (or the entire balance in both the Improvement Fund and the Surplus Fund if less than sufficient). If at any time th ere is a deficiency in the Bond Service Reserve Fund, and no deficiency exists in the Bond Service Fund, the Trustee shall request City to transfer moneys in equal amounts from the Improvement Fund and the Surplus Fund to the Bond Service Reserve Fund and City shall, unless City provides moneys for such transfer from some other lawful source, immediately transfer from the Improvement Fund and the Surplus Fund to the Bond Service Reserve Fund amounts sufficient to make up such deficiency (or the entire balance in both the Improvement Fund and the Surplus Fund if less than sufficient).

Subject to the foregoing, on or before December 31, 2006: (i) all moneys on deposit in the Improvement Fund in excess of Three Hundred Fifty-Thousand Dollars ($350,000) shall be transferred to the Airline Account of the Airport Development Fund, (ii) from the moneys then on deposit in the Surplus Fund there shall be transferred to the Coverage Account of the Revenue Fund the amount of Two Million Three Hundred and Forty Thousand Dollars ($2,340,000), and (iii) the balance of the moneys in the Surplus Fund in excess of Three Hundred Fifty Thousand Dollars ($350,000) shall be transferred to the Airport Account of the Airport Development Fund.

Subject to the foregoing, provided all payments have been made to the Bond Service Fund and Bond Service Reserve Fund, and there is no deficiency in either of those Special Funds, and a deficiency exists in the Subordinated Debt Service Fund, City shall transfer moneys in equal amounts from the Improvement Fund and Surplus Fund to the Subordinated Debt Service Fund in an amount sufficient to make up any deficiency which may then exist in the Subordinated Debt Service Fund (or the entire balance in each Fund if less than sufficient).

Subject to the foregoing, provided all payments have been made to the Bond Service Fund the Bond Service Reserve Fund and the Subordinated Debt Service Fund, and there is no deficiency in any of those Special Funds, and a deficiency exists in the General Obligation Debt Service Fund, City shall transfer moneys in equal amounts from the Improvement Fund and Surplus Fund to the General Obligation Debt Service Fund in sum sufficient to make up any deficiency which may then exist in the General Obligation Debt Service Fund (or the entire balance in each Fund if less than sufficient).

Subject to the provisions of the foregoing paragraphs as to transfers, and subject to the procedures of Section 8.07 of the Agreement, moneys remaining in the Improvement Fund on such ninth day preceding any interest or payment date may be applied to any proper Airport System purpose.

Subject to the provisions of the foregoing paragraphs as to transfers, moneys remaining in the Surplus Fund on such ninth day preceding any interest or principal payment date may be used by City in its sole discretion for any proper Airport System purpose.

Subject to the foregoing provisions as to transfers, all income and earnings on the investment and reinvestment of moneys in the Improvement Fund and the Surplus Fund shall be retained by City and maintained as a part of those Funds.

(f) Payments to Airport Development Fund. On and after January 1, 2007, after making the deposits provided in (b), (c), (d) and (e) above, annually the amount of $4,250,000 shall be deposited in the Airport Account of the Airport Development Fund and annually the amount of $4,250,000 shall be deposited in the Airline Account of the Airport Development Fund, in equal monthly installments.

Money in the Airport Development Fund may be used for any Airport System purpose. Money in the Airport Account will be used at the discretion of the City. Money in the Airline Account will be used at the discretion of a Majority In Interest of the Scheduled Airlines. However, no prior consent shall be required for transfer of money in either Account of the Airport Development Fund to another Special Fund, as set forth in Article IX of the Agreement.

Subject to the foregoing, the Scheduled Airlines and the City may agree, in connection with the preparation of the Annual Reports for any Additional Term, that amounts on deposit in the Airline Account and/or the Airport Account of the Airport Development Fund shall be made available as Other Available Funds in the calculation of the landing fee for that Additional Term to aid in the reduction of airport rates and charges. Amounts to be made available as Other Available Funds shall be transferred to the Coverage Account of the Revenue Fund established in the Indenture. In the event that the amount in the Coverage Account of the Revenue Fund exceeds twenty-five percent (25%) of the maximum annual debt service on all outstanding Revenue Bonds occurring in any subsequent Fiscal Year, the amount in excess of that twenty-five per cent (25%) shall be transferred to the Airport Development Fund, unless th e City and the Scheduled Airlines otherwise agree in connection with the preparation of the Annual Reports. Any moneys to be so transferred from the Coverage Account of the Revenue Fund to the Airport Development Fund shall be transferred to the Airport Account and the Airline Account in amounts proportionate to any transfers made to the Coverage Account from the Surplus Fund, Improvement Fund and the Accounts of the Airport Development Fund.

The annual deposits to the Airport Account and the Airline Account shall be adjusted beginning January 1, 2008 through such date as the annual deposits to each Sub-fund first equal or exceed Five Million Dollars ($5,000,000), based on the change in the Consumer Price Index for All Urban Consumers, All Items (1982-1984=100), U.S. City Average, as published by the United States Department of Labor, Bureau of Labor Statistics, for the immediately preceding twelve months for which such data is available over the twelve month period prior to that, adjusted for the percentage change in the total enplaned passengers at the Airport for the immediately preceding twelve months for which such data is available over the total annual enplaned passengers at the Airport during the twelve month period prior to that; provided that the yearly required deposits for any Additional Term shall not be reduced below the prior year's deposits.

Annual Deposit for Additional Term[1] = Prior Year Deposit

1Annual Deposit for Additional Term shall not be less than the amount of the prior year's deposit.

After such time as the annual deposits in each Account first equal or exceed Five Million Dollars ($5,000,000), the annual deposits to the Airport Account and the Airline Account shall be increased (or decreased) as provided below, but based on the change in the Consumer Price Index for All Urban Consumers, All Items (1982-1984=100), U.S. City Average, as published by the United States Department of Labor, Bureau of Labor Statistics, for the immediately preceding twelve months for which such data is available over the twelve month period prior to that, adjusted for the percentage change in the total annual enplaned passengers at the Airport in the last twelve months that such data is available over the total annual enplaned passengers at the Airport for the immediately preceding twelve months for which such data is available over the total annual enplaned passengers at the Airport during the twelve month period prior to that; provided that the yearly required deposits for such Additional Term shall not be reduced below Five Million Dollars ($5,000,000).

Annually in connection with the year-end settlement performed under Section 8.10(c), a determination shall be made of any additional deposits required to be made to the Airport Account of the Airport Development Fund as provided in this paragraph, based upon the growth of non-airline revenues (excluding any future duty-free concession revenues) realized from the following Cost Centers: Terminal Building, all Concourses, Airline Constructed Space and Parking and Roadways. Beginning January 1, 2006, for each year during which the finally determined non-airline revenue (as defined above) per enplaned passenger, exclusive of international passengers, exceeds the finally determined nonairline revenue per enplaned passenger during 2005, exclusive of international passengers, by ten percent (10%) (with such aggregate amount being adjusted annually beginning in 2006 based on changes in CPI as set forth above (and with such adjusted level being herein referred to as the "tr igger amount")), then fifty percent (50%) of all non-airline revenues per enplaned passenger, exclusive of international passengers, in excess of the trigger amount, shall be deposited annually into the Airport Account of the Airport Development Fund. The City agrees that it will use commercially reasonable efforts to maximize non-airline revenue during 2005.

If on the tenth day preceding any interest or principal payment date, the Bond Service Fund is insufficient to meet the then respective Bond service charges to be paid therefrom on such date, the Trustee shall transfer moneys in equal amounts from the Airport Account and the Airline Account of the Airport Development Fund to the Bond Service Fund, prior to the application of moneys in the Bond Service Reserve Fund, the Subordinated Debt Service Fund, the General Obligation Debt Service Fund, the Renewal and Replacement Fund, the Improvement Fund or the Surplus Fund, as herein provided, and unless City provides moneys for such transfer from other lawful sources, the amount sufficient to make up such deficiency in the Bond Service Fund (or the entire balance in both Accounts of the Airport Development Fund if less than sufficient); provided further, that if at any time there is a deficiency in the Bond Service Reserve Fund, and no deficiency exists in the Bond Service Fund, the Trustee shall transfer moneys in equal amounts from those Accounts of the Airport Development Fund to the Bond Service Reserve Fund in amounts sufficient to make up such deficiency (or the entire balance in both those Accounts of the Airport Development Fund if less than sufficient).

Subject to the foregoing, provided all payments have been made to the Bond Service Fund and Bond Service Reserve Fund, and there is no deficiency in either of those Special Funds, and a deficiency exists in the Subordinated Debt Service Fund, the Trustee shall transfer moneys in equal amounts from the Airport Account and the Airline Account of the Airport Development Fund to the Subordinated Debt Service Fund in an amount sufficient to make up any deficiency which may then exist in the Subordinated Debt Service Fund (or the entire balance in each Account of the Airport Development Fund if less than sufficient).

Subject to the foregoing, provided all payments have been made to the Bond Service Fund, the Bond Service Reserve Fund and the Subordinated Debt Service Fund, and there is no deficiency in any of those Special Funds, and a deficiency exists in the General Obligation Debt Service Fund, the Trustee shall transfer moneys in equal amounts from the Airport Account and Airline Account of the Airport Development Fund to the General Obligation Debt Service Fund in sum sufficient to make up any deficiency which may then exist in the General Obligation Debt Service Fund (or the entire balance in each Account of the Airport Development Fund if less than sufficient).

Subject to the foregoing provisions as to transfers, all income and earnings on the investment and reinvestment of moneys in the respective Accounts of the Airport Development Fund shall be maintained as part of those Accounts.

ARTICLE X - RULES AND REGULATIONS; COMPLIANCE WITH LAWS

Section 10.02 is amended and restated as follows:

10.02 Compliance with Laws

In connection with its operations at the Airport System, Airline:

(a) Shall comply with and conform to all present and future laws and ordinances of City, federal, state and other government bodies of competent jurisdiction and the rules and regulations promulgated thereunder, including but not limited to all Environmental Laws, applicable to or affecting, directly or indirectly, the Airline, the Leased Premises, or Airline's operations and activities under this Agreement.

(b) Shall, at its expense, make all non-structural improvements, repairs, and alterations to the Leased Premises and its equipment and personal property required to comply with or conform to any of such laws, ordinances, rules and regulations referred to in subsection (a) above, to which this Agreement is expressly subject.

(c) Shall at all times during the term of this Agreement subscribe to and comply with the Workers' Compensation Laws of the State of Ohio and pay such premiums, if any, as may be required thereunder and save City harmless from any and all liability arising from or under said act. Airline shall also furnish, upon commencing operations under this Agreement and at such other times as may be requested, a copy of the official certificate or receipt showing the payments hereinbefore referred to or a copy of an official certificate from the State of Ohio evidencing permission for Airline to self-insure Workers' Compensation liability.

(d) Shall be and remain an independent contractor with respect to all installations, construction and services performed hereunder and agrees to and does hereby accept full and exclusive liability for the payment of any and all contributions or taxes for social security, unemployment insurance, or old age retirement benefits, pensions, or annuities now or hereafter imposed under any state or federal law which are measured by the wages, salaries, or other remuneration paid to persons employed by Airline on work performed under the terms of this Agreement and further agrees to obey all rules and regulations which are now or hereafter may be issued or promulgated under said respective laws by any duly authorized state or federal officials; and Airline shall indemnify and save harmless City from any such contributions or taxes or liability therefor.

ARTICLE XIII - INDEMNIFICATION - LIABILITY INSURANCE

Sections 13.01 and 13.02 are amended and restated as follows:

13.01 Indemnification

Subject to the provisions for waiver of subrogation set forth in Article XIV of this Agreement, City, its officers, agents and employees, shall not be liable to Airline, or to any other parties claiming under Airline, for claims or liabilities arising out of any injury (including death) to any persons, or for loss of or damage to any property, regardless of how such injury or damage may be caused or sustained, as a result of any condition (including existing or future defects) or act or omission whatsoever in, on or about the Airport System, except to the extent that such claim or liability shall arise from an act or omission that is the result of the sole negligence, intentional wrongdoing or willful misconduct of City, its officers, agents and employees. In addition, subject to the provisions for waiver of subrogation set forth in Article XIV below, City, its off icers, agents and employees, shall not be liable to Airline or to any other parties claiming under Airline for claims or liability arising out of injury (including death) to persons or loss of or damage to property caused or sustained as a result of any fault, negligence, act or omission, intentional wrongdoing or willful misconduct of Airline, or any of its officers, employees, agents, or contractors. Airline shall defend, indemnify and save harmless City, its officers, agents and employees with respect to and shall assume the defense of any and all claims, liabilities, obligations, damages, penalties, costs, charges and expenses, including reasonable attorneys' fees which may be imposed upon or incurred by City, its officers, agents and employees by reason of any such fault, negligence, act or omission, intentional wrongdoing or willful misconduct. The City shall provide Airline with prompt notice of any claim subject to the Airline's duties of defense and indemnification and such support and cooperation in connection therewith as Airline may reasonably require. The insurance provided in Section 13.02 hereof shall not be construed to limit Airline's indemnity obligations hereunder.

13.02 Liability Insurance

Airline, at its sole cost and expense, for the mutual benefit of Airline and City, shall purchase and maintain, from an insurance company reasonably acceptable to City, public and aviation liability insurance on an occurrence basis with retention or "self-insured" amounts reasonably acceptable to the City for claims resulting from acts or omissions occurring during the term of the Agreement for bodily injury (including death), personal injury for discrimination, violation of rights and false arrest/detention and damage to property occurring in, on or about the Airport System or in connection with operations of Airline (including claims arising during the period of construction of Airline's improvements to the Leased Premises) in an amount of at least $10,000,000 combined single limit (or equivalent split limits). Any aggregate limits to such coverage shall apply exclusively to the Agreement. City shall be named as an additional insured with respect to Airline's public and aviation liability insurance for Airline's operation, maintenance and use of the Airport System, subject to the limitations set forth in Section 13.01. Airline shall provide City with a certificate of insurance, which indicates that the insurance company will provide City with at least fifteen days' advance notice of cancellation or material restriction or change in coverage thereof. In addition to the foregoing specified minimum limits of liability, Airline shall purchase and maintain additional limits of liability insurance in such amounts as are considered customary in connection with the operation of the business of Airline but in no event less than $65,000,000 single limit (or equivalent split limit). Each policy of insurance whether or not specifically referred to herein shall not, as a condition of coverage, prohibit any insured from waiving his right of recovery aga inst any party. The failure of City, at any time, to enforce the provisions of this Section 13.02 concerning insurance coverage shall not constitute a waiver of those provisions nor in any respect reduce the obligation of Airline to defend, indemnify and hold the City, its officers, agents and employees harmless with respect to any injury or damage covered by this Article XIII. Airline annually shall provide to the Director of Port Control and the Director of Law of the City a certificate or certificates of insurance evidencing that Airline has obtained and is maintaining the insurance required hereunder. Upon request by either the Director of Port Control or the Director of Law, Airline shall make available to the City all insurance policies of Airline under which the City is a named insured for the City's review. If, upon such review, the Director of Law observes that coverage, limits or carrier are unusual and non-customary in such types of policies, the Director of Law shall have the right to call a meeting between the City and the Airline to discuss Airline's insurance policies. It is understood that the Airline maintains a fleet policy. Accordingly, changes in insurance coverage may not be possible. However, Airline will endeavor to comply with any reasonable requests made by the Director of Law with respect to its insurance arrangements. At least fifteen days prior to the expiration or termination of any policy provided hereunder, Airline shall deliver to the Director of Port Control and the Director of Law certificates evidencing the renewal or replacement of such policies.

City, for the mutual benefit of the City and Airline, shall purchase and maintain public and aviation liability insurance for claims or liabilities for any bodily injury (including death) to any persons or loss of or damage to any property occurring in, on or about the Airport System during the term of the Agreement in an amount agreed upon from time to time by both City and Airline which shall not be less than $75,000,000. The Airline shall be named as an additional insured with respect to the City's operation, maintenance and use of the Airport System, but only to the extent of the City's sole negligence.

ARTICLE XIV - WAIVER OF SUBROGATION - PROPERTY INSURANCE is amended and restated as follows:

Airline and City, each for its own account, agree to purchase property insurance, subject to such deductibles as are reasonable, at replacement cost on buildings, contents, equipment (mobile and fixed) and improvements and betterments owned or for which each may be responsible (it being agreed that City shall be responsible for buildings in which the Leased Premises form a part and for which the City is the owner, excluding any Airline-owned leasehold improvements, fixtures, equipment and other personal property), to cover damage caused by fire and perils normally covered by extended coverage insurance and, at the option of either party, and such other perils as are customarily included in the term "all risk", available in Cleveland, Ohio. Each insurance policy, whether or not specifically referred to herein, shall not, as a condition of coverage, prohibit any insured from waiving his right of recovery against any party for loss or damage to the insured property. Subject to the foregoing , City and Airline each hereby waive all claims and right of recovery against the other for damage to the insured property to the extent that recovery is obtained or could be obtained from the insurance company. Extent of recovery shall include that amount actually paid by an insurance company less any deductibles applicable to any such policy.

ARTICLE XVI - ASSIGNMENT AND SUBLETTING

Section 16.01 is amended and restated as follows:

16.01 Assignment

Airline covenants that it will not assign, transfer, convey, sublet, sell, mortgage, pledge or encumber the Agreement, the Leased Premises or in any part thereof, or any rights of Airline hereunder or allow the use of the Leased Premises hereunder by any other person or entity, except as otherwise provided in the Agreement, without in each instance having first obtained written approval from the Board of Control of City; provided, however, that without such consent Airline may assign its rights under the Agreement to any corporation with which Airline may merge or consolidate or which may succeed to all or substantially all of the business of Airline. Consent by the Board of Control to any type of transfer described in this paragraph or elsewhere in the Agreement shall not in any way be construed to relieve Airline from obtaining further authorization from the Board of Control for any subsequent transfer of any nature whatsoever. No twithstanding the foregoing, Airline may transfer or sublet any part of the Leased Premises to an Affiliate, or allow the use of the Leased Premises by an Affiliate, as provided in Section 2.06 and without the prior written approval of the Board of Control of the City.

If Airline assigns the Agreement without consent, as provided for above, then the provisions of Section 15.04, Agreement Security, shall apply to the airline being assigned the Agreement, regardless of the time that the airline being assigned the Agreement has served the Airport.

ARTICLE XVII - TERMINATION OF LEASE IN ENTIRETY

Section 17.03 is created as follows:

17.03 Renegotiation of the Lease

In the event that, based on data collected by the Airport from the Scheduled Airlines, the connecting passengers as a percent of total passengers at the Airport falls below fifteen percent (15%) for any consecutive three-month period during the term of the Agreement, the City and Airline may begin discussions to renegotiate the terms of the Agreement. If such discussions are begun, and mutually agreeable terms cannot be reached within one calendar year, then the Agreement shall terminate.

ARTICLE XIX - HOLDING OVER

Article XIX is amended and restated as follows:

Prior to the expiration of the term of the Agreement, the City may agree, in its sole discretion, to permit Airline to continue a tenancy at the Airport on a month to month basis. The City or Airline may terminate that month to month tenancy upon thirty days' prior written notice to the other respective party. During any month to month tenancy, Airline shall pay to City the same rates of rental and landing fees as were in effect at the expiration of the term of the Agreement, as subsequently adjusted as provided in the Agreement, unless a different rental and landing fees shall be agreed upon. Airline shall be bound by the provisions of the Agreement during any month to month tenancy.

ARTICLE XX - MISCELLANEOUS PROVISIONS

Sections 20.13, 20.14, 20.22 and 20.25 are amended and restated as follows:

20.13 Non-Exclusivity

Nothing herein contained shall be deemed to grant to Airline any exclusive right or privilege within the meaning of Section 30 of the Federal Aviation Act for the conduct of any activity on the Airport.

20.14 Approvals

Whenever the approval of the City is required under the Agreement, that approval shall be given in the discretion of the Director of Port Control. Whenever the approval of Airline or City is required under the Agreement, no such approval shall be unreasonably requested, withheld or delayed. All approvals shall be in writing.

20.22 Public Contract

This Agreement is a " contract" and Airline is a "contractor" within the meaning of Chapter 187 of the Codified Ordinances of the City of Cleveland, 1976.

20.25 Continuation of Warranties

The City will take all steps reasonably necessary to enforce full and faithful performance of all warranties, express or implied, by contractors, materialmen and suppliers given to City in connection with capital improvements to the Airport.

Except as set forth herein the terms of the Original Agreement shall remain in full force and effect.

(Balance of page intentionally left blank.)

(Signature page follows.)

IN WITNESS WHEREOF, this First Amendment has been signed by authorized representatives of the City and Airline on the dates indicated below and in the acknowledgements but effective as of the date first above written.

THE CITY OF CLEVELAND

December 23, 2005 By: /s/ John C. Mok

John C. Mok

Director of Port Control

CONTINENTAL AIRLINES, INC.

December 22, 2005 By: /s/ Holden Shannon

Name: Holden Shannon

Title: SVP Global Real Estate

The within instrument is approved as to legal form

and correctness this 23rd day of December, 2005.

Teresa M. Beasley

Director of Law

By:/s/ Jack M. Arnold
Jack M. Arnold

Assistant Director of Law

STATE OF OHIO)

) ss.

COUNTY OF CUYAHAGOA)

ON THIS 23rd day of December, 2005, before me personally appeared John C. Mok, to me known to be the Director of Port Control of the City of Cleveland, who signed Amendment No. 1 to Agreement and Lease and who acknowledged that signing to be his free and voluntary act, and who on oath stated that he is duly authorized by Ordinance of the Council of the City of Cleveland to sign that instrument.

WITNESS my hand and official seal hereto the day and year first above written.

/s/ Louis H. Rice

Notary Public

My Commission expires: ________

Louis H. Rice, Attorney

NOTARY PUBLIC STATE OF OHIO

My Commission has no expiration date

Section 147.03 R.O.

STATE OF Texas)

) ss.

COUNTY OF Harris)

ON THIS 22nd day of December, 2005, before me personally appeared Holden Shannon, to me known to be Senior Vice President of Global Real Estate of Continental Airlines, Inc. who signed Amendment No. 1 to Agreement and Lease and who acknowledged that signing to be his free and voluntary act, and who on oath stated that he is duly authorized by the Board of Directors of that airline to sign that instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

/s/ Dashawanda D. Mitchell

Notary Public

My Commission expires: 04-04-2006

EMPLOYMENT AGREEMENT

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

W I T N E S S E T H:

WHEREAS, Company and Executive are parties to that certain Employment Agreement dated September 17, 2003, as amended by letter agreement dated March 12, 2004 (the "Existing Agreement"); and

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

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

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

ARTICLE 1: EMPLOYMENT AND DUTIES

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

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

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

ARTICLE 2: TERM AND TERMINATION OF EMPLOYMENT

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

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

(i) upon Executive's death;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 3: COMPENSATION AND BENEFITS

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

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

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

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

3.5 **Supplemental Executive Retirement Plan.**

(i) Base Benefit. Company agrees to pay Executive the deferred compensation benefits set forth in this paragraph 3.5 as a supplemental retirement plan (the "Plan"). The base retirement benefit under the Plan (the "Base Benefit") shall be in the form of an annual straight life annuity in an amount equal to the product of (a) 2.5% times (b) the number of Executive's credited years of service (as defined below) under the Plan (but not in excess of 26 years) times (c) the Executive's final average compensation (as defined below). For purposes hereof, Executive's credited years of service under the Plan shall be equal to the sum of (1) the number of Executive's years of benefit service with Company, calculated as set forth in the Continental Retirement Plan (the "CARP") beginning at January 1, 2004 ("Actual Years of Service"), (2) an additional year of service for each one year of service credited to Executive pursuant to clause (1) of this sentence for the period beginning on Janu ary 1, 2004 and ending on December 31, 2006, and (3) if the Termination Payment becomes payable to Executive under this Agreement or if Executive's employment is terminated for a reason encompassed by paragraphs 2.2(i) or 2.2(ii), an additional three years of service. For purposes hereof, Executive's final average compensation shall be equal to the greater of (A) $450,000 or (B) the average of the five highest annual cash compensation amounts paid to Executive by Company during the consecutive ten calendar years immediately preceding Executive's termination of employment at retirement or otherwise. For purposes hereof, cash compensation shall include base salary plus cash bonuses (including any amounts deferred (other than Stay Bonus amounts described below) pursuant to any deferred compensation plan of Company), but shall exclude (i) any cash bonus paid on or prior to March 31, 1995, (ii) any Stay Bonus paid to Executive pursuant to that certain Stay Bonus Agreement between Company and Executive dated as of April 14, 1998, (iii) any Termination Payment paid to Executive under this Agreement, (iv) any payments received by Executive under Company's Officer Retention and Incentive Award Program, (v) any proceeds to Executive from any awards under any option, stock incentive or similar plan of Company (including RSUs awarded under Company's Long Term Incentive and RSU Program), and (vi) any cash bonus paid under a long term incentive plan or program adopted by Company. Executive shall be vested immediately with respect to benefits due under the Plan.

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 4: EFFECT OF TERMINATION ON COMPENSATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) "Severance Period" shall mean:

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 5: MISCELLANEOUS

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

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

If to Company to: Continental Airlines, Inc.

1600 Smith, Dept. HQSEO

Houston, Texas 77002

Attention: General Counsel

If to Executive to: Mark Moran

19 Chancery Place

The Woodlands, Texas 77381

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTINENTAL AIRLINES, INC.

By: /s/ Michael Campbell

Name: Michael Campbell

Title: SVP

"EXECUTIVE"

/s/ Mark Moran

Mark Moran

APPROVED:

/s/ Charles A. Yamarone

Charles A. Yamarone

Chair, Human Resources Committee

Exhibit A

Form of Release Agreement

(to be executed by Company and Executive)

In consideration of the benefits provided by Company to Executive, Executive hereby releases Continental Airlines, Inc. ("Continental") and each of its subsidiaries and affiliates and their respective stockholders, officers, directors, employees, representatives, agents and attorneys (collectively, "Releasees") from any and all claims or liabilities, known or unknown, of any kind, including, without limitation, any and all claims and liabilities relating to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, or relating to the cessation of such employment or under the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 1981, the Texas Commission on Human Rights

Act, and any other statutory, tort, contract or common law cause of action, other than claims or liabilities arising from a breach by Continental of (i) that certain Employment Agreement dated as of August 12, 2004 between Continental and Executive (the "Employment Agreement"), (ii) its obligations under the Continental Retirement Plan ("CARP"), under Executive's outstanding grants of stock options or restricted stock, under awards under the Continental Airlines, Inc. Annual Executive Bonus Program (the "Annual Bonus Program"), the Retention Program, the NLTIP/RSU Program, or under any other compensation plan or program of Continental (such capitalized but undefined terms having the meanings attributed to them in the Employment Agreement), or (iii) its obligations under existing agreements governing Executive's flight benefits relating to other airlines. Continental hereby releases Executive from any and all claims or liabilities, known or unknown, of any kind in any way relating to or pertaining to Executive's employment by, or services rendered to or for, Continental or any of its subsidiaries or affiliates, other than fraud or intentional malfeasance harmful to Continental or any Releasee or claims arising from a breach by Executive of the Employment Agreement or of Executive's obligations under the CARP, under Executive's outstanding grants of stock options or restricted stock, under awards under the Retention Program, the Annual Executive Bonus Program or the NLTIP/RSU Program, under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines. These releases are to be broadly construed in favor of the released persons. These releases do not apply to any rights or claims that may arise after the date of execution of this [Release Agreement] by Executive and Continental. Both parties agree that this [Release Agreement] is not and shall not be construed as an admission of any wrongdoing or liability on the part of either party. Notwithstanding the foregoing, the obligations created by the Employment Agreement, the CARP and Executive's outstanding option grants, grant s of restricted stock and awards under the Retention Program, the Annual Executive Bonus Program and the NLTIP/RSU Program, or under any other compensation plan or program of Continental, or under existing agreements governing Executive's flight benefits relating to other airlines, are not released.

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

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

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

COMPENSATION REDUCTION AGREEMENT

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

W I T N E S S E T H:

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

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

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

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

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

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

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

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

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

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

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

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

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

[Signatures begin on next page.]

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

"COMPANY"

CONTINENTAL AIRLINES, INC

By: /s/ Michael H. Campbell

Name: Michael H. Campbell

Title: Senior Vice President -

Human Resources and

Labor Relations

"EXECUTIVE"

/s/ Mark J. Moran

MARK J. MORAN

EXHIBIT A

TO

COMPENSATION REDUCTION AGREEMENT

Stock Options

Date of Grant of Option	Nonvested Options as of February 28, 2005	Nonvested Options to be Surrendered and Forfeited as of February 28, 2005
6/28/2002	6,250	1,250
9/17/2003	5,625	1,125
-	-	-

Restricted Stock Awards

Date of Grant of Award	Nonvested Shares as of February 28, 2005	Nonvested Shares to be Surrendered and Forfeited as of February 28, 2005
4/9/2002	1,750	350
-	-	-
-	-	-

RSUs

Performance Period Relating to the Award	Total Number of RSUs subject to Award (all Nonvested)	RSUs to be Surrendered and Forfeited as of February 28, 2005
April 1, 2004 to	30,000	6,000

June 30, 2005		
April 1, 2004 to March 31, 2006	30,000	6,000
April 1, 2004 to December 31, 2007	40,000	8,000

PARs

Date of Grant of Award	Investment to which Award Relates	Nonvested PARs as of February 28, 2005	Nonvested PARs to be Surrendered and Forfeited as of February 28, 2005
11/1/2001	LastMinuteTravel.com, Inc.	586	117
2/24/2003	Patheo, Inc.	1,094	219
11/13/2003	Hotwire, Inc.	$5,132.45	$1,026.49
11/15/2004	Orbitz, Inc.	$17,160.53	$3,432.11

AMENDMENT TO COMPENSATION REDUCTION AGREEMENT

This Amendment to Compensation Reduction Agreement (this "Amendment") is entered into as of February 15, 2005, by and between Continental Airlines, Inc., a Delaware corporation ("Company"), and **Mark J. Moran** ("Executive").

W I T N E S S E T H:

WHEREAS, as part of Company's continuing efforts to reduce its costs of operation, Executive previously agreed to voluntarily reduce Executive's compensation pursuant to that certain Compensation Reduction Agreement dated December 22, 2004 (the "Compensation Reduction Agreement"); and

WHEREAS, in a further effort to enhance the financial health of Company and to preserve employment opportunities for all employees of the Company and to avoid even the appearance that the $500 million in pay and benefit reductions Company is seeking would fund any payout in 2005 under the RSU provisions of the Company's Long Term Incentive and RSU Program, as amended (the "LTIP/RSU Program"), Executive desires to surrender and forfeit additional RSUs;

NOW, THEREFORE, in consideration of the premises set forth above, the mutual agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Executive hereby agree to amend the Compensation Reduction Agreement as set forth below. All capitalized terms used herein without definition shall have the definitions assigned to such terms in the LTIP/RSU Program.

1. **REDUCTION IN OUTSTANDING AWARDS.** Notwithstanding Section 2 of the Compensation Reduction Agreement, Executive hereby agrees to surrender and forfeit all RSUs subject to the RSU Award for the Performance Period of April 1, 2004 to June 30, 2005 in lieu of the RSU surrender set forth in Section 2 of the Compensation Reduction Agreement.

2. **ACKNOWLEDGEMENT BY EXECUTIVE.** Executive understands and agrees that by executing this Amendment, Executive will be surrendering and forfeiting more RSUs than previously agreed pursuant to the Compensation Reduction Agreement.

3. EFFECT OF AMENDMENT. Except as provided in any signed written agreement contemporaneously or hereafter executed by Company and Executive, this Amendment constitutes the entire agreement of the parties with regard to the subject matter hereof and the terms of this Amendment shall govern the surrender of RSUs by Executive. This Amendment may not be modified or amended except pursuant to a written agreement signed by Company and Executive.

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

"COMPANY"

CONTINENTAL AIRLINES, INC

By: /s/ Michael P. Bonds

Name: Michael P. Bonds

Title: Vice President -

Human Resources

"EXECUTIVE"

/s/ Mark J. Moran

MARK J. MORAN

EXHIBIT 10.15

CONTINENTAL AIRLINES, INC.

ANNUAL EXECUTIVE BONUS PROGRAM

(as amended and restated through February 22, 2006)

1. **Purpose.** This Continental Airlines, Inc. Annual Executive Bonus Program (the "Program") has been adopted by the Human Resources Committee of the Board of Directors of Continental Airlines, Inc., a Delaware corporation (the "Company"), to implement in part the Performance Award provisions of the Continental Airlines, Inc. Incentive Plan 2000 (as amended from time to time, the "Incentive Plan 2000") adopted by the Board of Directors and the stockholders of the Company, and is intended to provide a method for attracting, motivating, and retaining key officers of the Company and its subsidiaries and to compensate such officers based on performance measures based upon EBITDAR of the Company and its consolidated subsidiaries as described herein. The Program and participation hereunder shall be subject to the terms of the Incentive Plan 2000, including the limitations on the maximum value of awards contained therein.

2. **Participants**. Each of the Chief Executive Officer, the President, each Executive Vice President and each Senior Vice President of the Company shall automatically participate in the Program with respect to each fiscal year, and, with respect to a particular fiscal year, such other officers of the Company or its subsidiaries shall participate in the Program as may be recommended to the Human Resources Committee of the Board of Directors of the Company (the "Committee") by the Chief Executive Officer of the Company and designated by the Committee to be a participant in the Program with respect to such fiscal year. Each of the foregoing persons is referred to herein as a "Participant", and the right to participate in the Program for a fiscal year or portion thereof constitutes a Performance Award (as such term is defined in the Incentive Plan 2000) under the Incentive Plan 2000. The Chief Executive Officer shall have the power to terminate any Participant's participation in the P rogram upon written notice to such Participant of such termination, subject to ratification of such action by the Committee.

3. **Definitions.** Where the following words and phrases are used in this Program, they shall have the respective meanings set forth below, unless the context clearly indicates to the contrary:

a. "Base Invested Capital" with respect to a fiscal year means the sum of (x) and (y), where (x) is the simple four-fiscal quarter average of the total amount of property and equipment set forth on the regularly prepared and publicly available consolidated balance sheet of the Company prepared in accordance with GAAP as of the end of the respective fiscal quarter (or with respect to the fourth quarter, the year-end), less accumulated depreciation and amortization thereon and less purchase deposits for flight equipment so set forth, and where (y) is 7.5 times the total amount of aircraft rentals set forth on the regularly prepared and publicly available consolidated statement of operations of the Company prepared in accordance with GAAP with respect to the fiscal year then ended; provided, however, that with respect to fiscal year 2004 only, clause (x) of the definition of Base Invested Capital shall be calculated with respect to the three-fiscal quarter average beginning with the second f iscal quarter (i.e., determined by averaging the data as of June 30, September 30 and December 31, 2004 only) and the resulting average shall be multiplied by 0.75, and clause (y) of the definition of Base Invested Capital shall be calculated with respect to the three-fiscal quarter period ending December 31, 2004.

b. "Base Salary" with respect to a fiscal year means the Participant's base annual salary with respect to such fiscal year payable by the Company or a consolidated subsidiary, as in effect on the last day of such fiscal year (or as in effect on such other date as may be specified in this Program).

c. "Basis Point" means one one-hundredth of a percent (0.01%).

d. "Cash Hurdle" means, with respect to a fiscal year, that the Company's cash flow over such fiscal year is such that the Company's cash, cash equivalents and short term investments (excluding restricted cash, cash equivalents and short term investments) at the end of such fiscal year, as reflected on the regularly prepared and publicly available consolidated balance sheet of the Company prepared in accordance with GAAP, is equal to or greater than the dollar amount specified by the Committee as the Cash Hurdle with respect to such fiscal year as provided in Section 5 hereof; provided, however, that with respect to fiscal year 2004 only, such cash flow shall be measured with respect to the period commencing on April 1, 2004 and ending on December 31, 2004 (which period shall be considered a "fiscal year" for purposes of this Program).

e. "EBITDAR" with respect to a fiscal year means the aggregate earnings of the Company and its consolidated subsidiaries during such fiscal year, determined prior to the charges, costs, and expenses associated with interest, income taxes, depreciation, amortization, and aircraft rent; provided, however, that with respect to fiscal year 2004 only, EBITDAR shall be measured with respect to the period commencing on April 1, 2004 and ending on December 31, 2004. EBITDAR shall be determined based on the regularly prepared and publicly available statements of operations of the Company prepared in accordance with GAAP (and if necessary to determine certain items, based on Form 41 data filed by the Company with the Department of Transportation); provided, however, that EBITDAR shall be adjusted to exclude (i) non-operating income or expense, (ii) write-offs of assets (including aircraft and associated parts), (iii) one-time gains or losses from the disposal of assets, and (iv) any other item of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, in each case under clauses (i), (ii), (iii) and (iv) as determined by the Committee in accordance with GAAP.

f. "Entry ROBIC Margin" with respect to a fiscal year means that percentage established by the Committee as the Entry ROBIC Margin with respect to such fiscal year as determined pursuant to Section 5 hereof.

g. "Financial Performance Hurdle" means, with respect to a fiscal year, that the Company's net income for such year, as set forth on its regularly prepared and publicly available consolidated statement of operations prepared in accordance with GAAP, is equal to or greater than the dollar amount specified by the Committee as the Financial Performance Hurdle with respect to such fiscal year as provided in Section 5 hereof; provided, however, that, at the time the Committee specifies the performance goals with respect to such fiscal year as provided in Section 5 hereof, the Committee may, in its discretion, specify that the Company's net income shall be adjusted for purposes of determining the Financial Performance Hurdle for such fiscal year by excluding or including items specified by the Committee (such as, for example, by excluding write-offs of assets or one-time gains or losses from the disposal of assets), in each case as determined by the Committee in accordance with GAAP)."

h. "GAAP" means United States generally accepted accounting principles, consistently applied.

i. "ROBIC Margin Bonus" with respect to a Participant for a fiscal year shall be equal to the dollar amount calculated by multiplying such Participant's Base Salary with respect to such fiscal year by: (1) 0(zero)%, if the ROBIC Margin with respect to such fiscal year is less than the Entry ROBIC Margin with respect to such fiscal year, or (2) 50% if the ROBIC Margin with respect to such fiscal year is at least equal to the Entry ROBIC Margin with respect to such fiscal year, and (if the ROBIC Margin with respect to such fiscal year exceeds the Entry ROBIC Margin with respect to such fiscal year) an additional Target Incentive Percentage for each Basis Point that the ROBIC Margin with respect to such fiscal year exceeds the Entry ROBIC Margin with respect to such fiscal year, up to and including the Target ROBIC Margin with respect to such fiscal year, and (if the ROBIC Margin with respect to such fiscal year exceeds the Target ROBIC Margin with respect to such fiscal year) an additional Stretch Incentive Percentage for each Basis Point that the ROBIC Margin with respect to such fiscal year exceeds the Target ROBIC Margin with respect to such fiscal year, up to and including the Stretch ROBIC Margin with respect to such fiscal year.

j. "ROBIC Margin" with respect to a fiscal year means EBITDAR with respect to such fiscal year divided by the Base Invested Capital with respect to such fiscal year, expressed as a percentage.

k. "Stretch Incentive Percentage" with respect to a fiscal year means that percentage established by the Committee as the Stretch Incentive Percentage with respect to such fiscal year as determined pursuant to Section 5 hereof.

l. "Stretch ROBIC Margin" with respect to a fiscal year means that percentage established by the Committee as the Stretch ROBIC Margin with respect to such fiscal year as determined pursuant to Section 5 hereof.

m. "Target Incentive Percentage" with respect to a fiscal year means that percentage established by the Committee as the Target Incentive Percentage with respect to such fiscal year as determined pursuant to Section 5 hereof.

n. "Target ROBIC Margin" with respect to a fiscal year means that percentage established by the Committee as the Target ROBIC Margin with respect to such fiscal year as determined pursuant to Section 5 hereof.

4. **Annual Bonuses**. Each Participant in the Program who has remained continuously employed by the Company or a subsidiary during the entire fiscal year with respect to which the Annual Bonus (as defined below) is to be paid, shall receive, as soon as reasonably practicable after the certification by the Committee described in Section 5 below with respect to such fiscal year, a cash bonus (an "Annual Bonus"), if any, equal to the ROBIC Margin Bonus for such Participant with respect to such fiscal year; provided that (i) the Cash Hurdle for such fiscal year has been achieved (and if such Cash Hurdle has not been achieved, then no Annual Bonus shall be payable with respect to such fiscal year) and (ii) the Financial Performance Hurdle, if any, applicable to such ROBIC Margin Bonus for such fiscal year has been achieved (and if such Financial Performance Hurdle, if any, applicable to such ROBIC Margin Bonus has not been achieved, then no Annual Bonus shall be payable with respect to such fiscal year). For fiscal years beginning on or after January 1, 2005, if a person becomes a Participant after the first day of a fiscal year (and, with respect to fiscal year 2004, if a person becomes a Participant after the first day that the initial persons first become Participants in the Program), then (i) such Participant's Annual Bonus with respect to such fiscal year shall be pro-rated based on a fraction, the numerator of which is the number of days during the period beginning on the date of such Participant's commencement of participation in the Program for such fiscal year and ending on the last day of such fiscal year, and the denominator of which is 365, and (ii) the continuous employment requirement set forth in the first sentence of this Section 4 for the fiscal year in which such Participant begins participation in the Program shall apply only to that portion of such fiscal year beginning on the date of such Participant's commencement of participation (rather than the entire fiscal year) .

5. **Administration**. The Program will be administered by the Committee, which at all times will consist of not less than two persons, each of whom is an "outside director" within the meaning of section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The action of a majority of the members of the Committee will be the act of the Committee. The Committee shall, promptly upon adoption of the Program in the case of the period from April 1, 2004 to December 31, 2004, and within 90 days after the beginning of the fiscal year in the case of each fiscal year of the Company beginning on or after January 1, 2005, establish in writing the Entry ROBIC Margin, the Target ROBIC Margin, the Stretch ROBIC Margin, the Target Incentive Percentage, the Stretch Incentive Percentage and the Cash Hurdle for such fiscal year for purposes of this Program. In addition, the Committee shall, within 90 days after the beginning of each fiscal year of the Company beginning on or after January 1, 2006, establish in writing the Financial Performance Hurdle applicable to any ROBIC Margin Bonus for such fiscal year for purposes of this Program; provided, however, that the Committee may, in its sole discretion, determine within 90 days after the beginning of any such fiscal year that there shall be no Financial Performance Hurdle for such fiscal year.

The interpretation and construction by the Committee of any provision of the Program, and any determination or action by the Committee pursuant to any provision hereof, will be final and conclusive for all purposes, and each Participant's participation in the Program is expressly subject to the foregoing. No member of the Committee shall be liable for any action or determination taken or made in good faith or upon reliance in good faith on the records of the Company or information presented to the Committee by the Company's officers, employees, or other persons (including the Company's outside auditors) as to matters such member reasonably believes are within such other person's professional or expert competence. If a Participant disagrees with any decision, determination, or action made or taken by the Committee, then the dispute will be limited to whether the Committee has satisfied its duty to make such decision or determination or take such action in good faith.

As soon as is reasonably practical after the end of each fiscal year (or with respect to 2004 only, the period commencing April 1, 2004 and ending December 31, 2004) during which the Program is effective, the Committee shall certify in writing, prior to the payment of any Annual Bonus with respect to such fiscal year (or with respect to 2004 only, such period), whether the performance goals set forth herein have been met and whether any other material terms relating to the payment of such Annual Bonuses have been satisfied, to the extent required by section 162(m) of the Code. For purposes of the preceding sentence, approved minutes of the Committee meeting in which the certification is made shall be treated as a written certification.

6. **Payments upon a Change in Control**. If a Change in Control occurs (as such term is defined in the Incentive Plan 2000, as in effect on February 22, 2006, taking into account amendments made on such date) and thereafter (or in connection therewith or in contemplation

thereof) during the year in which such Change in Control occurs (a "Change Year"), a Participant suffers a Qualifying Event (as herein defined), then such Participant shall, upon the occurrence of the Qualifying Event, receive an amount in cash from the Company equal to the maximum Annual Bonus payable to such Participant with respect to such Change Year (calculated as if the Stretch ROBIC Margin, the Cash Hurdle and the Financial Performance Hurdle, if any, had been achieved, irrespective of actual results, and based on such Participant's Base Salary as in effect on the first day of such Change Year, or if higher, as in effect immediately prior to the occurrence of the Change in Control) and such Participant shal l not be entitled to any additional Annual Bonus with respect to such Change Year.

As used herein, the term "Qualifying Event" with respect to a Participant means (i) the termination of such Participant's participation in the Program or a reduction in such Participant's Base Salary, (ii) the assignment to such Participant by the Board of Directors or the Committee or other officers or representatives of the Company of duties materially inconsistent with the duties associated with his position as such duties are constituted as of the first day of the Change Year, (iii) a material diminution in the nature or scope of such Participant's authority, responsibilities, or title from those applicable to him as of the first day of the Change Year, (iv) the occurrence of material acts or conduct on the part of the Company or its officers or representatives which prevent such Participant from performing his duties and responsibilities as they existed on the first day of the Change Year, (v) the Company requiring such Participant to be permanently based anywhere outside a major urba n center in the state (or, if applicable, foreign country, U.S. territory or other applicable sovereign entity) in which he was based as of the first day of the Change Year, or (vi) the taking of any action by the Company that would materially adversely affect the corporate amenities enjoyed by such Participant on the first day of the Change Year, except in each case if such Participant's employment with the Company and its subsidiaries is terminated (a) upon such Participant's death, (b) upon disability entitling him or her to benefits under the Company's group long-term disability plan, (c) for cause, which for purposes hereof shall mean (1) in the case of a Participant with an employment agreement with the Company or a subsidiary, the involuntary termination by the Company (or, if applicable, a subsidiary) of such Participant's employment under circumstances that do not require the Company (or such subsidiary) to pay to such Participant a "Termination Payment" or "Monthly Severance Amount", as such terms are defined in such Participant's employment agreement, and (2) in the case of a Participant who does not have an employment agreement with the Company or a subsidiary, the involuntary termination by the Company (or, if applicable, a subsidiary) of such Participant's employment based upon a determination by the Committee or an authorized officer of the Company (or such subsidiary) that such Participant has engaged in gross negligence or willful misconduct in the performance of, or such Participant has abused alcohol or drugs rendering him or her unable to perform, the material duties and services required of him or her in his or her employment, or (d) upon the voluntary resignation from employment of such Participant (other than in connection with circumstances which would permit such Participant to receive severance benefits pursuant to any contract of employment between such Participant and the Company or any of its subsidiaries).

7. **Amendments, Termination and Other Matters.** Subject to the other provisions of this Section 7, this Program may be amended from time to time or terminated by the Committee; *provided* that this Program may not be amended or terminated in a manner that would impair the rights of any Participant with respect to any outstanding Performance Award with respect to a fiscal year that has ended prior to such amendment or termination without the consent of such Participant, and may not be amended or terminated in contemplation of or in connection with a Change in Control, nor may any Participant's participation herein be terminated in contemplation of or in connection with a Change in Control, unless adequate and effective provision for the making of all payments otherwise payable pursuant to Section 6 of this Program (as in effect on the date of adoption of this Program) with respect to such Change in Control shall be made in connection with any such amendment or termination.

Participation in the Program by a Participant shall terminate upon such Participant's termination of employment with the Company and its subsidiaries or as otherwise set forth herein, and no Participant shall have any right to continue to participate in the Program or have any vested right to any bonus or other payment hereunder (except as aforesaid in connection with a Change in Control and except with respect to fiscal years which have already ended prior to such amendment or termination or prior to such Participant's termination of employment with the Company and its subsidiaries).

Participation in the Program shall not confer any right of future employment. The Program is not intended to create a pension or welfare benefit plan and is intended to be exempt from application of the Employee Retirement Income Security Act of 1974, as amended. The Program is unfunded and shall not create, or be construed to create, a trust or separate fund or funds, and each Participant shall be entitled only to look to the Company for any benefit hereunder, and shall have no greater right than an unsecured creditor of the Company.

No liability whatsoever shall attach to or be incurred by any past, present or future stockholders, officers or directors, as such, of the Company or any of its subsidiaries, under or by reason of this Program or the administration thereof, and each Participant, in consideration of receiving benefits and participating hereunder, expressly waives and releases any and all claims relating to any such liability.

No bonus or Performance Award or other right, title, interest, or benefit hereunder shall ever be assignable or transferable, or liable for, or charged with any of the torts or obligations of a Participant or any person claiming under a Participant, or be subject to seizure by any creditor of a Participant or any person claiming under a Participant. No Participant or any person claiming under a Participant shall have the power to anticipate or dispose of any bonus, Performance Award or other right, title, interest, or benefit hereunder in any manner until the same shall have actually been distributed free and clear of the terms of the Program. Payments with respect to bonuses hereunder shall be payable only to the Participant (or in the event of the death of a Participant, any payment due under the Program to such Participant shall be made to his or her estate). Notwithstanding the preceding provisions of this paragraph, the Committee shall comply with the terms of any qualified domestic relations order (as defined in the Incentive Plan 2000) providing for the transfer or assignment of all or any portion of a Participant's interest under the Program. The provisions of this Program shall be binding on all successors and assigns of a Participant, including without limitation the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

This Program shall be construed in accordance with the laws of the State of Texas.

8. **Tax Withholding**. The Company shall have the right to withhold from any payment hereunder all applicable federal, state, local and other taxes as required by law.

9. **Forfeiture of Annual Bonus in Certain Circumstances**. (a) If the Committee determines that (i) a Participant has engaged in Misconduct (as defined below) and (ii) such Misconduct results, directly or indirectly, in any error in financial information used in the determination of the Annual Bonus paid to such Participant with respect to any fiscal year of the Company and (iii) the effect of such error is to increase the amount of such Annual Bonus, then such Participant shall be obligated to reimburse the Company for the full amount of such Annual Bonus, and not the excess over the Annual Bonus that would have been paid as an Annual Bonus in the absence of Misconduct. Reimbursement may be required pursuant to this Section 9 (upon a determination by the Committee) even if the error in the financial

information constitutes an error only in the timing of recognition of an item or income or expense. The amount to be reimbursed shall not be reduced by any income or other taxes required to be paid by such Participant in connection with the receipt of such Annual Bonus.

(b) For purposes of this Section 9, the term "Misconduct" shall mean an intentional violation of the Company's Principles of Conduct as in effect from time to time; provided, however, that in no event shall any Participant be deemed to have engaged in Misconduct as a result of his or her failure to adequately supervise or review the work product of any subordinate employee, unless such Participant willfully failed to appropriately supervise or review such work product in bad faith.

(c) In making any determination under this Section 9, the Committee shall not be bound by any position in regard to the Participant's Misconduct or the determination of the Annual Bonus taken by the Company or any director, employee or representative of the Company or any of the foregoing in any other proceeding or inquiry in respect of such Annual Bonus or such financial information. Notwithstanding anything in this Section 9 to the contrary, in no event shall any determination by the Committee of Misconduct occur after the occurrence of a Change in Control (as such term is defined for purposes of Section 6 hereof).

(d) Any determination by the Committee that an Executive has engaged in Misconduct affecting any Annual Bonus shall be made not later than four years after the end of the fiscal year to which such Annual Bonus relates. Such determination shall be communicated within thirty days following such determination by notice (i) in writing delivered to the Participant in person or (ii) by e-mail to the most recent e-mail address in the Company's files for such Participant and by regular mail to the most recent address in the Company's file for the Participant. The Executive shall have thirty dates following the date of such notice to reimburse the Company the entire amount of such Annual Bonus. To the extent that a Participant fails to pay any amount described in any such notice within the period provided by this paragraph 9(d), the Company shall have the right to offset and withhold from any payment required to be paid by the Company to such Participant the unpaid amount (or any portion thereo f).

(e) Any dispute or controversy relating to this Section 9 shall be resolved by arbitration in Houston, Texas, before a single arbitrator, under the rules of the American Arbitration Association and shall be enforceable by any court having jurisdiction in the matter. In any such arbitration, the prevailing party shall be awarded its reasonable costs, including reasonable attorney's fees. Any award in any such arbitration to the Company of amounts required to be reimbursed by a Participant shall include interest from the date of the notice described in paragraph 9(d) hereof through the date of payment at a rate equal to the greater of (i) the short-term, medium-term or long-term (depending on the period from the date of default through the date of payment) "applicable federal rate" (within the meaning of Section 1274(d) of the Internal Revenue Code of 1986), for the month preceding the month in which such award is made, compounded annually and (ii) the rate under applicable law as determi ned in such arbitration.

(f) The provisions of this Section 9 shall be in addition to, and not in lieu of, any rights of the Company and obligations of any Executive under law, contract or otherwise with respect the matters addressed herein.

10. **Effective Date**. This Program shall be effective as of the date of its adoption by the Committee, and shall be applicable to the period beginning April 1, 2004 to December 31, 2004 and the Company's fiscal years thereafter.

****

IN WITNESS WHEREOF, the undersigned officer of the Company acting pursuant to authority granted to him by the Committee has executed this instrument as of the 22nd day of February, 2006, effective as stated above.

CONTINENTAL AIRLINES, INC.

By: /s/ Jeffery A. Smisek___________

Jeffery A. Smisek

President

AWARD NOTICE

to [Name]

Pursuant to the Continental Airlines, Inc.

Annual Executive Bonus Program

Fiscal Year [20XX]

This document constitutes your formal notice of an Award under the Continental Airlines, Inc. Annual Executive Bonus Program (as amended from time to time, the "Executive Bonus Program") adopted under the Continental Airlines, Inc. Incentive Plan 2000 (as amended from time to time, the "Incentive Plan 2000"). This notice evidences your right to participate in the Executive Bonus Program with respect to the period commencing on January 1, 20[XX], and ending on December 31, 20[XX] (the "Fiscal Year"), subject to the terms of the Executive Bonus Program and the Incentive Plan 2000.

The Human Resources Committee of the Board of Directors of the Company (the "Committee") has established certain performance goals for purposes of the Executive Bonus Program. The performance goals with respect to the Fiscal Year relate to (i) the ROBIC Margin achieved by the Company, (ii) the Company's achievement of the Cash Hurdle and (iii) the Company's achievement of the Financial Performance Hurdle. ROBIC Margin (which is more specifically defined in the Executive Bonus Program) generally means the EBITDAR achieved by the Company during the Fiscal Year divided by the Base Invested Capital with respect to the Fiscal Year, expressed as a percentage. The Cash Hurdle is achieved if the Company's cash flow over the Fiscal Year is such that the Company's total unrestricted cash, cash equivalents and short-term investments as of the last day of the Fiscal Year is equal to or greater than a target amount specified by the Committee. The Financial Performance Hurdle is achieved if the Comp any's net income for the Fiscal Year is equal to or greater than the amount specified by the Committee.

The Committee has established the following performance goals for the Fiscal Year: (1) Entry ROBIC Margin of [X]%; (2) Target ROBIC Margin of [X]%; (3) Stretch ROBIC Margin of [X]%; (4) Cash Hurdle of [$X]; and (5) Financial Performance Hurdle requiring the Company to report [X] for the Fiscal Year.

Each Participant in the Executive Bonus Program who remains continuously employed throughout the entire Fiscal Year will receive a cash bonus (the "ROBIC Margin Bonus") if (i) the Company's ROBIC Margin for the Fiscal Year is at least equal to the Entry ROBIC Margin for such period, (ii) the Cash Hurdle for the Fiscal Year is achieved and (iii) the Financial Performance Hurdle for the Fiscal Year is achieved.

If these performance goals are achieved, then a Participant's ROBIC Margin Bonus for the Fiscal Year will be equal to the Participant's base annual salary in effect on the last day of the Fiscal Year multiplied by a percentage equal to 50% plus (1) an additional [X]% for each Basis Point that the ROBIC Margin exceeds the Entry ROBIC Margin, up to and including the Target ROBIC Margin, and (2) if the ROBIC Margin for the Fiscal Year exceeds the Target ROBIC Margin for such period, an additional [X]% for each Basis Point that the ROBIC Margin exceeds the Target ROBIC Margin, up to and including the Stretch ROBIC Margin.

A participant's ROBIC Margin Bonus may be prorated as provided in the Program under certain circumstances.

Prior to any payment under the Executive Bonus Program, the Committee must (with limited exceptions) certify in writing that the performance goals have been met.

Capitalized terms used in this notice are defined in the Executive Bonus Program, and your participation is subject to the terms of the Executive Bonus Program and the Incentive Plan 2000. The Executive Bonus Program and the Incentive Plan 2000 are hereby incorporated into this notice by reference.

If you have any questions, or wish to obtain a copy of the Executive Bonus Program or the Incentive Plan 2000, please contact [XX].

CONTINENTAL AIRLINES, INC.

By: ______________________________

[Authorized Officer]

AWARD NOTICE

to [Name]

Pursuant to the Continental Airlines, Inc.

Long Term Incentive and RSU Program

NLTIP Award

Performance Period [XX]

This document constitutes your formal Award Notice with respect to an NLTIP Award as a Participant under the Continental Airlines, Inc. Long Term Incentive and RSU Program (as amended from time to time, the "Program") adopted under the Continental Airlines, Inc. Incentive Plan 2000 (as amended from time to time, the "Incentive Plan 2000"). This Award Notice evidences your receipt of an NLTIP Award under the Program with respect to the NLTIP Performance Period commencing on [XX] (the "Performance Period").

The Human Resources Committee of the Board of Directors of the Company (the "Committee") has established certain performance goals for purposes of NLTIP Awards under the Program. The performance goals with respect to the Performance Period relate to (1) the EBITDAR Margin achieved by the Company as compared to the average of the EBITDAR Margin achieved by the companies in the Industry Group (currently Alaska Air Group, Inc., AMR Corporation, Delta Air Lines, Inc., Northwest Airlines Corporation, Southwest Airlines Co., UAL Corporation and US Airways Group, Inc.) (such average is referred to as the "Entry EBITDAR Margin") and (2) the Company's achievement of the Cash Hurdle. EBITDAR Margin (which is more specifically defined in the Program) generally means the cumulative EBITDAR achieved for the Performance Period by the Company (or a company in the Industry Group, as the case may be) divided by the Company's (or such other company's) cumulative revenues over the Performance Period. The Cash Hurdle is achieved if the Company's cash flow over the Performance Period is such that the Company's total unrestricted cash, cash equivalents and short-term investments at the end of the Performance Period is equal to or greater than a target amount set by the Committee.

The Committee has established the following performance goals for the Performance Period: (1) Target EBITDAR Margin equal to [XX]; (2) Stretch EBITDAR Margin equal to [XX]; and (3) a Cash Hurdle of $[XX].

The potential Payout Percentage applicable to your NLTIP Award for the Performance Period will vary depending on the EBITDAR Margin achieved by the Company as compared to the Entry EBITDAR Margin for the Performance Period and your position in the Company on the last day of the Performance Period. Based on your position and pay at January 1, [20XX], your potential Payout Percentage is equal to [XX]% plus (1) if the Company's EBITDAR Margin with respect to the Performance Period exceeds the Entry EBITDAR Margin with respect to such period, an additional percentage equal to (x) [XX] divided by (y) [XX], for each Basis Point that the Company's EBITDAR Margin with respect to the Performance Period exceeds the Entry EBITDAR Margin with respect to such period, up to and including the Target EBITDAR Margin with respect to the Performance Period, and (2) if the Company's EBITDAR Margin with respect to the Performance Period exceeds the Target EBITDAR Margin with respect to such period, an additio nal percentage equal to (x) [XX] divided by (y) [XX], for each Basis Point that the Company's EBITDAR Margin with respect to the Performance Period exceeds the Target EBITDAR Margin with respect to such period, up to and including the Stretch EBITDAR Margin with respect to the Performance Period.

If the Cash Hurdle is achieved and the Company's EBITDAR Margin is at least equal to the Entry EBITDAR Margin for the Performance Period, the Payment Amount with respect to this NLTIP Award will be your Payout Percentage times your Base Amount (base annual salary plus a deemed bonus) in effect as of the earlier of the last day of the Performance Period, the date of your death, Disability or Retirement, or the day immediately preceding the date upon which you suffer a Qualifying Event in connection with, after, or in contemplation of a Change in Control. Receipt of a Payment Amount is also conditioned on your continuous employment with the Company or its subsidiaries until the last day of the Performance Period (with limited exceptions for certain terminations of employment, such as death, Disability, and Retirement). A Payment Amount may be pro-rated as provided in the Program (for example, if you become a participant in the Program after January 1, 20XX, or if your employment terminates under certain circumstances prior to the last day of the Performance Period).

Prior to any payment under the Program, the Committee must (with limited exceptions) certify in writing that the performance goals have been met.

Capitalized terms used in this Award Notice are defined in the Program, and your participation is subject to the terms of the Program and the Incentive Plan 2000. The Program and the Incentive Plan 2000 are hereby incorporated into this Award Notice by reference.

If you have any questions, or wish to obtain a copy of the Program or the Incentive Plan 2000, please contact [XX].

CONTINENTAL AIRLINES, INC.

By:___________________________

[Authorized Officer]

EXHIBIT 10.27(b)

Supplemental Agreement No. 2

to

Purchase Agreement No. 2484

between

The Boeing Company

and

Continental Airlines, Inc.

Relating to Boeing Model 787-8 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of January 20, 2006, by and between THE BOEING COMPANY (Boeing) and Continental Airlines, Inc. (Customer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 2484 dated December 29, 2004 (the Purchase Agreement), as amended and supplemented, relating to Boeing Model 787-8 aircraft (the Aircraft);

WHEREAS, Customer has selected the General Electric GEnx engine type for the Aircraft;

WHEREAS, Aircraft Description and Selections document has been updated to revision F, and;

WHEREAS, Boeing and Customer have mutually agreed to other terms and conditions modifications of the Purchase Agreement.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Purchase 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. 2.

1.2 Remove and replace, in its entirety, the "Articles", with the Articles text attached hereto, to reflect the deletion of text related to engines made by this Supplemental Agreement No. 2.

1.3 Remove and replace, in its entirety, Table 1 (pages 1 and 2) entitled "Purchase Agreement 2484 Aircraft Deliveries, Descriptions, Price and Advance Payments", with revised Table 1 (page 1), attached hereto, to reflect the Customer's selection of the General Electric GEnx engine type for the Aircraft. The engine pricing in Table 1 is based on the GEnx-64B model, and such engine price is subject to change if a difference GEnx model is configured for the Aircraft.

1.4 Remove and replace, in its entirety, Supplemental Exhibit EE1 entitled "Engine Escalation and Engine Warranty", with revised Supplemental Exhibit EE1, attached hereto, to reflect the Customer's selection of the General Electric GEnx engine type for the Aircraft.

2. Letter Agreements:

2.1 Remove and replace, in its entirety, Letter Agreement 6-1162-MSA-547, "Option Aircraft", with the revised Letter Agreement 6-1162-MSA-547R1.

2.2 Remove and replace, in its entirety, Letter Agreement 6-1162-MSA-551, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, with the revised Letter Agreement 6-1162-MSA-551R1.

2.3 Remove and replace, in its entirety, Letter Agreement 6-1162-MSA-552R1, "Special Matters", with the revised Letter Agreement 6-1162-MSA-552R2 attached hereto.

2.4 Remove and replace, in its entirety, Letter Agreement 6-1162-MSA-554, **[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]**, with the revised Letter Agreement 6-1162-MSA-554R1.

2.5 Remove in its entirety, Letter Agreement 6-1162-MSA-609, "Alternate Engine Selection". Customer has selected the General Electric GEnx engine type for the Aircraft. Accordingly, the original intent of the Alternate Engine Selection is obsolete, no actions remain to be taken under this Letter Agreement, which is hereby deleted from the Purchase Agreement.

The Agreement will be deemed to be supplemented to the extent herein provided as of the date hereof and as so supplemented will continue in full force and effect.

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

THE BOEING COMPANY Continental Airlines, Inc.

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

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

Finance & Treasurer

PURCHASE AGREEMENT NUMBER 2484

between

THE BOEING COMPANY

and

ContinenTal airlines, inc.

Relating to Boeing Model 787 Aircraft

TABLE OF CONTENTS

TABLE OF CONTENTS

-

-

-

TABLE OF CONTENTS

-

-

TABLE OF CONTENTS

-

Purchase Agreement No. 2484

between

The Boeing Company

and

Continental Airlines, Inc.

This Purchase Agreement No. 2484 dated as of December 29, 2004 between The Boeing Company (Boeing) and Continental Airlines, Inc. (Customer) relating to the purchase and sale of Model 787 aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, (Purchase Agreement) incorporates and amends the terms and conditions of the Aircraft General Terms Agreement dated as of October 10, 1997 between the parties, identified as AGTA-CAL (AGTA).

Article 1. Quantity, Model, Description and Inspection.

The aircraft to be delivered to Customer will be designated as Model 787-8 aircraft (the Aircraft). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A in the quantities listed in Table 1 to this Purchase Agreement. Twelve (12) months prior to delivery of Customer's first Aircraft, Boeing will provide Customer a Boeing document defining a customer inspection process

appropriate to the 787 manufacturing process (787 Inspection Process) which will apply in lieu of inspection processes traditionally applicable to other models of aircraft and will supersede the provisions of Article 5.2 of the AGTA.

Article 2. Delivery Schedule.

The Aircraft will be delivered to Customer in accordance with the scheduled months of delivery of the Aircraft listed in the attached Table 1. Exhibit B describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

Article 3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 in subject to escalation dollars.

3.2 Advance Payment Base Prices. The Advance Payment Base Prices listed in Table 1 were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery.

Article 4. Payment.

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

4.2 The standard advance payment schedule for the Model 787 Aircraft requires Customer to make certain advance payments, expressed as a percentage of the Advance Payment Base Price of each Aircraft beginning with a payment of [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]%, less the Deposit, on the date of signing of the Purchase Agreement for the Aircraft. Additional advance payments for each Aircraft are due as specified in and on the first business day of the months listed in the attached Table 1.

4.3 For any Aircraft whose scheduled month of delivery is less than 24 months from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in paragraph 4.2 above.

4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery. The Aircraft Price for each Aircraft will be re-calculated at the time that Aircraft is delivered using the then available escalation factors for the month when that Aircraft is delivered to calculate the Escalation Adjustment as defined in Supplemental Exhibit AE1.

Article 5. Additional Terms.

5.1 Excusable Delay. Article 7.1 of the basic articles of the AGTA in so far as it applies to the Aircraft only is revised to read as follows:

7.1 General. Boeing will not be liable for any delay in the scheduled delivery month of an aircraft or other performance under a purchase agreement caused by (i) acts of God; (ii) war or armed hostilities; (iii) government acts or priorities; (iv) fires, floods, or earthquakes; (v) strikes or labor troubles causing cessation, slowdown, or interruption of work; (vi) inability, after commercial reasonable effort, to procure materials, systems, accessories, equipment or parts; (vii) inability, after due and timely diligence, to obtain type certification; or (viii) any other cause to the extent such cause is beyond Boeing's control and not occasioned by Boeing's fault or negligence. A delay resulting from any such cause is defined as an Excusable Delay.

5.2 Aircraft Information Table. Table 1 consolidates information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification for the Aircraft, (iii) month and year of scheduled deliveries of the Aircraft, (iv) Aircraft Basic Price, (v) escalation factors applicable to the Aircraft and (vi) Advance Payment Base Prices and advance payments applicable to the Aircraft and their schedules.

5.3 Escalation Adjustment/Airframe and Optional Features. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula for the Aircraft.

5.4 Buyer Furnished Equipment Variables. Supplemental Exhibit BFE1 contains vendor selection dates and other variables applicable to the Aircraft.

5.5 Customer Support Variables. Information, training, services and other things furnished by Boeing in support of introduction of the Aircraft into Customer's fleet are described in Supplemental Exhibit CS1. Supplemental Exhibit CS1 supersedes in its entirety Exhibit B to the AGTA with respect to the Aircraft but not with respect to any other aircraft.

5.6 Engine Escalation Variables. Supplemental Exhibit EE1 contains the applicable engine escalation formula, the engine warranty and the engine patent indemnity for the Aircraft.

5.7 Service Life Policy Component Variables. Supplemental Exhibit SLP1 lists the airframe and landing gear components covered by the Service Life Policy for the Aircraft (Covered Components).

5.8 Public Announcement. Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval of Boeing's press release by Customer's public relations department or other authorized representative.

1. Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 12 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only in writing signed by authorized representatives of the parties.

DATED AS OF December 29, 2004

CONTINENTAL airlines, inc.	THE BOEING COMPANY
By: /s/ Gerald Laderman	
Its: Senior Vice President-Finance & Treasurer	By: /s/ Michael S. Anderson
	ITS: Attorney-In-Fact

Table 1

Purchase Agreement 2484

Aircraft Delivery, Description, Price and Advance Payments

(787-8/ [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] / 2004 $s / [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT])

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

ENGINE ESCALATION AND

ENGINE WARRANTY

between

THE BOEING COMPANY

and

CONTINENTAL airlines, inc.

Supplemental Exhibit EE1 to Purchase Agreement Number 2484

1. ENGINE ESCALATION.

The Aircraft Basic Price of each Aircraft set forth in Table 1 of the Purchase Agreement includes an aggregate price for General Electric Aircraft GEnx series engines and all accessories, equipment and parts provided by the engine manufacturer (Engines). The adjustment in Engine Price applicable to each Aircraft (Engine 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 = **Engine Price Adjustment.**

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

x (ECI

ECI_b) where ECI_b is the base year index (as set forth in Table 1 of this Purchase Agreement)

M = [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] x [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]) where CPI_b is the base year index(as set forth in Table 1 of this Purchase Agreement)

P = Engine Price per Aircraft (as set forth in Table 1 of this Purchase Agreement).

ECI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] 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 only released on a quarterly basis, the value released for the month of March will be used for the months of January and February; the value for June used for April and May; the value for September used for July and August; and the value for December used for October and November.

[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] of the preceding year will be utilized in determining the value of ECI and [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

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 Engine 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 Engine 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 Engine Price 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 Used if Bureau of Labor Statistics are [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 Engine 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 Engine 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 Engine 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 [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Engine Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Engine 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 Engine 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.

3. Engine Warranty

Boeing has obtained from General Electric Company (GE) the right to extend to Customer the provisions of GE's warranty as set forth below (herein referred to as the "Warranty"); subject, however, to Customer's acceptance of the conditions set forth herein. Accordingly, Boeing hereby extends to Customer and Customer hereby accepts the provisions of GE's Warranty as hereinafter set forth, and such Warranty shall apply to all GEnx type engines (including all Modules and Parts thereof), as such terms are defined in the Warranty (GEnx type Engines) installed in the Aircraft at the time of delivery or purchased from Boeing by Customer for support of the Aircraft except that, if Customer and GE have executed, or hereinafter execute, a general terms agreement (Engine GTA), then the terms of the Engine GTA shall be substituted for and supersede the provisions of the Warranty and the Warranty shall be of no force or effect and neither Boeing nor GE shall have any obligation arising therefrom. In consideration for Boeing's extension of the GE Warranty to Customer, Customer hereby releases and discharges Boeing from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of such GEnx type Engines and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities.

The Warranty is contained in the Warranty and Product Support Plan set forth in Exhibit C to the applicable purchase contract between GE and Boeing. Copies of the Warranty and Product Support Plan shall be provided to Customer by Boeing upon request.

January 20, 2006

6-1162-MSA-547R1

Continental Airlines, Inc.

1600 Smith Street

Houston, TX 77002

Subject: Option Aircraft

Reference: Purchase Agreement 2484 (the Purchase Agreement) between The Boeing Company (Boeing) and Continental Airlines, Inc. (Customer) relating to Model 787-8 aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-MSA-547 dated June 30, 2005. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing agrees to manufacture and sell to Customer up to [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] additional Model 787-8 aircraft as Option Aircraft. 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, and subject to the items in section 1.2 below.

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

(i) Changes applicable to the basic Model 787 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the definitive agreement to purchase the Option Aircraft;

(ii) Changes required to obtain required regulatory certificates; and

(iii) Changes mutually agreed upon.

2. Price

2.1 The pricing elements of the Option Aircraft are listed in the Attachment.

2.2 Price Adjustments.

2.2.1 Optional Features. The Optional Features Prices selected for the Option Aircraft will be adjusted to Boeing's current prices as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. The Airframe Price and the Optional Features Prices 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, and will be adjusted to Boeing's then-current escalation provisions as of the date of execution of the definitive agreement for the Option Aircraft.

The engine manufacturer's current escalation provisions, listed in Exhibit Supplement EE1 to the Purchase Agreement, have been estimated to the months of scheduled delivery using commercial forecasts to calculate the Advance Payment Base Price listed in the Attachment to this Letter Agreement. The engine escalation provisions will be revised if they are changed by the engine manufacturer prior to the signing of a definitive agreement for the Option Aircraft.

2.2.3 Base Price Adjustments. The Airframe Price and the Engine 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 and the engine manufacturer's then current prices as of the date of execution of the definitive agreement for the Option Aircraft.

3. Payment.

3.1 Customer will pay a deposit to Boeing in the amount shown in the Attachment for each Option Aircraft (Option Deposit), on the date of this Letter Agreement. If Customer exercises an option, the Option Deposit will be credited against the first advance payment due. If Customer does not exercise an option, Boeing will retain the Option Deposit for that Option Aircraft.

3.2 If Customer exercises its option to acquire an Option Aircraft, advance payments in the amounts and at the times listed in the Attachment will be payable for that Option Aircraft. The remainder of the Aircraft Price for that Option Aircraft will be paid at the time of delivery.

4. Option Exercise.

Customer may exercise an option to acquire an Option Aircraft by giving written notice to Boeing on or before the date [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] months prior to the first business day of the applicable delivery month listed in the Attachment (Option Exercise Date).

5. Contract Terms.

Boeing and Customer 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 the Purchase Agreement, and other terms and conditions as may be agreed upon to add the Option Aircraft to the Purchase Agreement as an Aircraft. If the parties have not entered into a definitive 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]

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 20, 2006

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its Senior Vice President - Finance & Treasurer

Attachment

Attachment to

Option Aircraft Letter Agreement 6-1162-MSA-547R1

Option Aircraft Delivery, Description, Price and Advance Payments

(787-8 / [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] / 2004 $s / [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT])

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

January 20, 2006

6-1162-MSA-551R1

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

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

Reference: Purchase Agreement No. 2484 (the Purchase Agreement)

between The Boeing Company (Boeing) and Continental

Airlines, Inc. (Customer) relating to Model 787-8 aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-MSA-551 dated June 30, 2005. All terms used and not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

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

Boeing and Customer understand that certain information contained in this Letter Agreement, including any attachments hereto, is considered by both parties to be confidential. Boeing and Customer agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 20, 2006

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its Senior Vice President - Finance & Treasurer

Attachment to Letter Agreement

No. 6-1162-MSA-551R1

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

Page 1

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

January 20, 2006

6-1162-MSA-554R1

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

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

Reference: Purchase Agreement No. 2484 (the Purchase Agreement)

between The Boeing Company (Boeing) and Continental

Airlines, Inc. (Customer) relating to Model 787-8 aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-MSA-554 dated June 30, 2005. All terms used and not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

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

2. Confidential Treatment.

Boeing and Customer understand that certain information contained in this Letter Agreement, including any attachments hereto, is considered by both parties to be confidential. Boeing and Customer agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 20, 2006

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its Senior Vice President - Finance & Treasurer

Attachment

Attachment A to

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

January 20, 2006

6-1162-MSA-552R2

Continental Airlines, Inc.

1600 Smith Street

Houston, Texas 77002

Subject: Special Matters

Reference: Purchase Agreement No. 2484 (the Purchase Agreement)

between The Boeing Company (Boeing) and Continental

Airlines, Inc. (Customer) relating to Model 787-8 aircraft (the Aircraft)

Ladies and Gentlemen:

This Letter Agreement amends and supplements the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-MSA-552R1 dated June 30, 2005. All terms used and not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

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

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

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

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

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

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

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

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

8. Aircraft Invoices.

Upon Customer request, at the time of Aircraft delivery Boeing agrees to provide a separate invoice addressed to the owner/trustee of such Aircraft specifying the dollar amount to be received at the time of delivery. [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

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

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

11. Confidential Treatment.

Boeing and Customer understand that certain information contained in this Letter Agreement, including any attachments hereto, is considered by both parties to be confidential. Boeing and Customer agree that each party will treat this Letter Agreement and the information contained herein as confidential and will not, without the other party's prior written consent, disclose this Letter Agreement or any information contained herein to any other person or entity except as may be required by applicable law or governmental regulations.

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 20, 2006

CONTINENTAL AIRLINES, INC.

By /s/ Gerald Laderman

Its Senior Vice President - Finance & Treasurer

Exhibit 10.33(ag)

AMENDMENT No. 33 TO PURCHASE AGREEMENT No. GPJ-003/96

This Amendment No. 33 ("Amendment 33") dated as of December 1, 2005 is between EMBRAER - Empresa Brasileira de Aeronautica S.A. ("EMBRAER") and ExpressJet Airlines, Inc., formerly known as New ExpressJet Airlines, Inc. (as assignee from ExpressJet Airlines, Inc. formerly known as Continental Express, Inc.) ("BUYER"), scollectively hereinafter referred to as the "PARTIES", and relates to Purchase Agreement No. GPJ-003/96, as amended from time to time together with its Attachments (collectively referred to as the "Base Agreement") and Letter Agreements GPJ-004/96 dated August 5, 1996 and PCJ-004A/96 dated August 31, 1996 between EMBRAER and BUYER as amended from time to time (together with the Base Agreement, collectively referred to herein as the "Purchase Agreement" or the "Agreement") for the purchase of up to two hundred and forty five (245) new EMB-145 aircraft (the "AIRCRAFT").

All terms defined in the Purchase Agreement shall have the same meaning when used herein, and in case of any conflict between this Amendment 33 and the Purchase Agreement, this Amendment shall control.

WHEREAS, BUYER and EMBRAER wish to amend the Purchase Agreement to include changes in the configuration of the AIRCRAFT, all as more fully set forth below;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are acknowledged by the PARTIES, EMBRAER and BUYER hereby agree to amend the Purchase Agreement as follows:

1. **Thermal / Acoustic Insulation Material**

   Each EMB 145 XR AIRCRAFT from XR091 and all subsequent EMB 145 XR AIRCRAFT shall have the new thermal acoustic insulation material installed in the aircraft fuselage. Such new material shall meet the FAA Operational Requirements 14CFR Parts 91.613 (b) (2), 121.312 (e)(2), 125.113 (c)(2),135.170 (c)(2), and flame propagation requirements of FAR Sec. 25.856 (a) of this chapter which are required for aircraft manufactured after September 2005 (it does not cover FAR 25.856 (b) that concerns flame penetration, which will be required for aircraft manufactured after September 2007). [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] The AIRCRAFT BASIC PRICE shall be increased by [CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] for XR091 and all subsequent EMB 145 XR AIRCRAFT.

2. **AIRCRAFT BASIC PRICE**

   As a result of the change in the AIRCRAFT configuration and in the AIRCRAFT BASIC PRICE specified in this Amendment 33, the AIRCRAFT BASIC PRICE will be:

AIRCRAFT	BASIC PRICE ([CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] US Dollars)
EMB 145 XR091 and on	[CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

All other terms and conditions of the Purchase Agreement, which are not specifically amended by this Amendment 33, shall remain in full force and effect without any change.

IN WITNESS WHEREOF, EMBRAER and BUYER, by their duly authorized officers, have entered into and executed this Amendment No. 33 to the Purchase Agreement to be effective as of the date first written above.

EMBRAER - Empresa Brasileira EXPRESSJET AIRLINES, INC.

de Aeronáutica S.A.

By :/s/ Antonio Luiz Pizarro Manso By :/s/ Frederick S. Cromer

Name : Antonio Luiz Pizarro Manso Name : Frederick S. Cromer

Title : Executive Vice-President Title : Vice President and

Corporate & CFO Chief Financial Officer

ExpressJet Airlines, Inc.

By :/s/ Jose Luis D. Molina

Name : Jose Luis D. Molina

Title : Director of Contracts Airline Market

Date: December 22, 2005 Date: 12/22/05

Place: Sao Jose dos Campos, SP Place: Houston, TX USA

Witness: /s/ Erika Lulai Natali Witness: /s/ Kristy A. Nicholas

Name: ERIKA LULAI NATALI Name: Kristy A. Nicholas

EXHIBIT 21.1

SUBSIDIARIES OF CONTINENTAL AIRLINES

As of February 28, 2006

Name of Subsidiary		Jurisdiction of Incorporation or Organization
-	-	
Air Micronesia, Inc.	-	Delaware
Calair Capital Corporation	-	Delaware
Calair L.L.C.	-	Delaware
CALFINCO Inc.	-	Delaware
Caljet LLC	-	Delaware
Century Casualty Company	-	Vermont
Continental Airlines Purchasing Holdings LLC	-	Delaware
Continental Airlines Purchasing Services LLC	-	Delaware
Continental Micronesia, Inc.	-	Delaware
Presidents Club of Guam, Inc.	-	Delaware
Rubicon Indemnity, Ltd.	-	Bermuda
-	-	-

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Continental Airlines, Inc. and each related Prospectus of our reports dated February 22, 2006, with respect to the consolidated financial statements and schedule of Continental Airlines, Inc., Continental Airlines, Inc. management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of Continental Airlines, Inc., and our report dated February 24, 2006, with respect to the consolidated financial statements of ExpressJet Holdings, Inc., included or incorporated by reference in the Annual Report (Form 10-K) of Continental Airlines, Inc. for the year ended December 31, 2005.

Form Description

S-8 1997 Stock Incentive Plan (No. 333-23165)

S-8 1998 Stock Incentive Plan (No. 333-57297)

S-8 2000 Incentive Plan (No. 333-39762)

S-8 2004 Employee Stock Purchase Plan (No. 333-113444)

S-8 Supplemental Saving Plan for Management Pilots (No. 333-50938)

S-3 Registration Statement relating to Warrants, Class A Common Stock and Class B Common Stock and sales by certain Selling Security holders and the related Prospectus (No. 333-09739)

S-3 Registration Statement relating to $250,000,000 of the Company's Pass Through Certificates and the related Prospectus (No. 333-31285)

S-3 Registration Statement relating to $1,800,000,000 of the Company's Pass Through Certificates and the related Prospectus (No. 333-67886)

S-3 Registration Statement relating to $500,000,000 of the Company's Debt Securities (Debt Shelf) and the related Prospectus (No. 333-79827)

S-3 Registration Statement relating to $500,000,000 of the Company's Debt Securities, Class B Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Depositary Shares, Warrants, Junior Subordinated Trust Debentures and Guarantee of Trust Preferred Securities and Trust Preferred Securities of Continental Airlines Finance Trust III (Universal Shelf) and the related Prospectus (No. 333-71906)

S-3 Registration Statement relating to $250,000,000 of Term Income Deferrable Equity Securities (TIDES) of Continental Airlines Finance Trust II, and Convertible Junior Subordinated Debentures, a Preferred Securities Guarantee of the TIDES and Class B Common Stock of the Company (No. 333-55144)

S-3 Registration Statement relating to $175,000,000 of the Company's 5% Convertible Notes due 2023 (No. 333-108576)

S-8 2005 Broad Based Employee Stock Option Plan and 2005 Pilot Supplemental

Option Plan (No. 333-126891)

S-3 Registration Statement relating to $1 billion of the Company's Debt Securities,

Class B Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Depositary Shares, Warrants, Subscription Rights and Pass Through Certificates, and the related Prospectus (No. 333-128289)

/s/ Ernst & Young, LLP

Houston, Texas
February 24, 2006

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Continental Airlines, Inc. and each related Prospectus of our report dated August 30, 2005, except for the effects of the reorganization discussed in Note 5 to the consolidated financial statements, as to which the date is November 25, 2005, with respect to the consolidated financial statements of Copa Holdings, S. A., incorporated by reference in the Annual Report (Form 10-K) of Continental Airlines, Inc. for the year ended December 31, 2005.

Form Description

S-8 1997 Stock Incentive Plan (No.333-23165)

S-8 1998 Stock Incentive Plan (No.333-57297)

S-8 2000 Incentive Plan (No.333-39762)

S-8 2004 Employee Stock Purchase Plan (No.333-113444)

S-8 Supplemental Saving Plan for Management Pilots (No.333-50938)

S-3 Registration Statement relating to Warrants, Class A Common Stock and Class B Common Stock and sales by certain Selling Security holders and the related Prospectus (No.333-09739)

S-3 Registration Statement relating to $250,000,000 of the Company's Pass Through Certificates and the related Prospectus (No.333-31285)

S-3 Registration Statement relating to $1,800,000,000 of the Company's Pass Through Certificates and the related Prospectus (No.333-67886)

S-3 Registration Statement relating to $500,000,000 of the Company's Debt Securities (Debt Shelf) and the related Prospectus (No.333-79827)

S-3 Registration Statement relating to $500,000,000 of the Company's Debt Securities, Class B Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Depositary Shares, Warrants, Junior Subordinated Trust Debentures and Guarantee of Trust Preferred Securities and Trust Preferred Securities of Continental Airlines Finance Trust III (Universal Shelf) and the related Prospectus (No.333-71906)

S-3 Registration Statement relating to $250,000,000 of Term Income Deferrable Equity Securities (TIDES) of Continental Airlines Finance Trust II, and Convertible Junior Subordinated Debentures, a Preferred Securities Guarantee of the TIDES and Class B Common Stock of the Company (No.333-55144)

S-3 Registration Statement relating to $175,000,000 of the Company's 5% Convertible Notes due 2023 (No.333-108576)

S-8 2005 Broad Based Employee Stock Option Plan and 2005 Pilot Supplemental Option Plan (No.333-126891)

S-3 Registration Statement relating to $1 billion of the Company's Debt Securities, Class B Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Depositary Shares, Warrants, Subscription Rights and Pass Through Certificates, and the related Prospectus (No.333-128289)

/s/ Ernst & Young

Panama City, Panama
February 24, 2006

Exhibit 24.1

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Thomas J. Barrack, Jr.

(Signature)

Printed Name: Thomas J. Barrack, Jr.

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Kirbyjon H. Caldwell

(Signature)

Printed Name: Kirbyjon H. Caldwell

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Lawrence W. Kellner

(Signature)

Printed Name: Lawrence W. Kellner

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Douglas K. McCorkindale

(Signature)

Printed Name: Douglas K. McCorkindale

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Henry L. Meyer III

(Signature)

Printed Name: Henry L. Meyer III

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Oscar Munoz

(Signature)

Printed Name: Oscar Munoz

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ George G.C. Parker

(Signature)

Printed Name: George G.C. Parker

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Jeffery A. Smisek

(Signature)

Printed Name: Jeffery A. Smisek

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Karen Hastie Williams

(Signature)

Printed Name: Karen Hastie Williams

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Ronald B. Woodard

(Signature)

Printed Name: Ronald B. Woodard

Dated and effective as of February 22, 2006

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director and/or officer of Continental Airlines, Inc. (the "Company"), does hereby constitute and appoint Jennifer L. Vogel, Lori A. Gobillot and Gerald W. Clanton, or any of them, as the undersigned's true and lawful attorneys in fact and agents to execute in the name, place and stead of the undersigned the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (and any amendments thereto), to be filed by the Company under the Securities Exchange Act of 1934, as amended, as fully and effectively in all respects as the undersigned could do if personally present.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney on and as of the date set forth below.

/s/ Charles A. Yamarone

(Signature)

Printed Name: Charles A. Yamarone

Dated and effective as of February 22, 2006

EXHBIT 31.1

CERTIFICATION

I, Lawrence W. Kellner, certify that:

1. I have reviewed this annual report on Form 10-K of Continental Airlines, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2006

/s/ Lawrence W. Kellner

Lawrence W. Kellner

Chairman of the Board and

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Jeffrey J. Misner, certify that:

1. I have reviewed this annual report on Form 10-K of Continental Airlines, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. **Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;**

b. **Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;**

c. **Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and**

d. **Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and**

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. **All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and**

b. **Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.**

Date: February 28, 2006

/s/ Jeffrey J. Misner

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer

EXHIBIT 32

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

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

The Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: February 28, 2006

/s/ Lawrence W. Kellner

Lawrence W. Kellner

Chairman of the Board and

Chief Executive Officer

/s/ Jeffrey J, Misner

Jeffrey J. Misner

Executive Vice President and

Chief Financial Officer

EXHIBIT 99.1

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND SHAREHOLDERS

COPA HOLDINGS, S.A.

We have audited the accompanying consolidated balance sheets of Copa Holdings, S.A. and its subsidiaries ("the Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentatio n. We believe that our audits provide a reasonable basis for our opinion.

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

/s/ Ernst & Young

Panama City, Republic of Panama

August 30, 2005, except for the effects of the

reorganization discussed in Note 5, as to

which the date is November 25, 2005

COPA HOLDINGS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of December 31, 2004	As of December 31, 2003
	(in US$ thousands, except share and per share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 95,718	$ 57,598
Restricted cash and cash equivalents	3,948	4,530
Short-term investments	15,225	3,834
Total cash, cash equivalents and short-term investments	114,891	65,962
Accounts receivable, net of allowance for doubtful accounts of $2,622 and $3,046 as of December 31, 2004 and 2003, respectively	27,706	31,019
Expendable parts and supplies, net of allowance for obsolescence of $1,739 and $1,733 as of December 31, 2004 and 2003, respectively	2,333	1,838
Prepaid expenses	8,403	6,061
Other current assets	2,702	3,173
Total Current Assets	156,035	108,053
Property and Equipment:		
Owned property and equipment:		
Flight equipment	593,825	491,276
Other	27,233	25,777
	621,058	517,053
Less: Accumulated depreciation	(87,037)	(82,434)
	534,021	434,619

Purchase deposits for flight equipment	7,190	45,869
Total Property and Equipment	541,211	480,488
Other Assets:		
Net pension asset	1,153	828
Other assets,	3,651	2,546
Total Other Assets	4,804	3,374
Total Assets	$ 702,050	$ 591,915
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 30,573	$ 59,654
Accounts payable	25,335	25,310
Accounts payable to related parties	3,733	2,644
Air traffic liability	53,423	47,223
Taxes and interest payable	16,269	10,283
Accrued expenses payable	12,848	7,116
Other current liabilities	830	4,503
Total Current Liabilities	143,011	156,733
Non-Current Liabilities:		
Long-term debt	380,827	311,991
Post employment benefits liability	1,158	1,098
Other long-term liabilities	1,310	4,402
Deferred tax liabilities	1,589	2,108
Total Non-Current Liabilities	384,884	319,599
Total Liabilities	527,895	476,332
Shareholders' Equity:		
Common stock-80,000,000 shares authorized		
Class A-29,028,125 shares issued and outstanding	19,813	19,813
Class B-13,784,375 shares issued and outstanding	9,410	9,410
Retained earnings	144,932	86,360
Total Shareholders' Equity	174,155	115,583
Total Liabilities and Shareholders' Equity	$ 702,050	$ 591,915

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

COPA HOLDINGS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2004	**2003**	**2002**
		(in US$ thousands, except per share data)	
Operating Revenue:			
Passenger revenue	$ 364,611	$ 311,683	$ 269,629
Cargo, mail and other	35,226	30,106	31,008
	399,837	341,789	300,637
Operating Expenses:			
Aircraft fuel	62,549	48,512	40,024
Salaries and benefits	51,701	45,254	39,264
Passenger servicing	39,222	36,879	33,892
Commissions	29,073	27,681	28,720
Reservations and sales	22,118	18,011	16,707
Maintenance, materials and repairs	19,742	20,354	20,733
Depreciation	19,279	14,040	13,377
Flight operations	17,904	15,976	14,567
Aircraft rentals	14,445	16,686	21,182
Landing fees and other rentals	12,155	10,551	8,495
Other	29,306	25,977	19,166
Fleet impairment charges	-	3,572	13,669
	317,494	283,493	269,796
Operating Income	82,343	58,296	30,841
Non-operating Income (Expense):			
Interest expense	(16,488)	(11,613)	(7,629)
Interest capitalized	963	2,009	1,114
Interest income	1,423	887	831
Other, net	6,063	2,554	(1,490)
	(8,039)	(6,163)	(7,174)
Income before Income Taxes	74,304	52,133	23,667
Provision for Income Taxes	5,732	3,644	2,999
Net Income	$ 68,572	$ 48,489	$ 20,668
Earnings per share:			
Basic and diluted	$ 1.60	$ 1.13	$ 0.48
Shares used for computation	42,812,500	42,812,500	42,812,500

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

COPA HOLDINGS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock (Non-Par Value)		Issued Capital			
					Retained	
	Class A	Class B	Class A	Class B	Earnings	Total
			(in US$ thousands)			
At December 31, 2001	29,028,125	13,784,375	$ 19,813	$ 9,410	$ 17,203	$ 46,426
Net Income	-	-	-	-	20,668	20,668
At December 31, 2002	29,028,125	13,784,375	19,813	9,410	37,871	67,094
Net Income	-	-	-	-	48,489	48,489
At December 31, 2003	29,028,125	13,784,375	19,813	9,410	86,360	115,583
Dividends Declared	-	-	-	-	(10,000)	(10,000)
Net Income	-	-	-	-	68,572	68,572
At December 31, 2004	29,028,125	13,784,375	$ 19,813	$ 9,410	$ 144,932	$ 174,155

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

COPA HOLDINGS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
		(in US$ thousands)	
Cash flows from operating activities			
Net income	$ 68,572	$ 48,489	$ 20,668
Adjustments for:			
Deferred income taxes	(519)	447	368
Depreciation	19,279	14,040	13,377
(Gain)/ loss on sale of property and equipment	(1,125)	-	500
Fleet impairment charge	-	3,572	13,669
Provision for doubtful accounts	1,026	2,154	1,928
Provision for obsolescence of expendable parts and supplies	6	938	141
Derivative instruments mark to market	945	(207)	(3,051)
Changes in:			
Restricted cash	582	82	(4,612)
Accounts receivable	2,287	(9,167)	4,271
Other current assets	(3,317)	(2,130)	2,897
Other assets	(1,430)	(402)	392
Accounts payable	25	295	2,849
Accounts payable to related parties	1,089	1,063	(3,855)
Air traffic liability	6,200	8,809	(4,789)
Other liabilities	5,013	5,578	6,178
Net cash provided by operating activities	98,633	73,561	50,931
Cash flows from investing activities			
Short-term investments	(11,391)	19	(351)
Advance payments on aircraft purchase contracts	(16,314)	(41,232)	(72,263)
Acquisition of property and equipment	(65,764)	(112,181)	(75,957)
Disposal of property and equipment, net	3,201	1,510	2,980
Net cash flows used in investing activities	(90,268)	(151,884)	(145,591)
Cash flows from financing activities			
Proceeds from loans and borrowings	101,198	140,732	112,898
Payments on loans and borrowings	(32,125)	(21,969)	(55,280)
Issuance of bonds	6,357	21,736	42,782
Redemption of bonds	(35,675)	(35,201)	-
Dividends declared and paid	(10,000)	-	-
Net cash flows provided by financing activities	29,755	105,298	100,400
Net increase in cash and cash equivalents	38,120	26,975	5,740
Cash and cash equivalents at January 1st	57,598	30,623	24,883
Cash and cash equivalents at December 31	$ 95,718	$ 57,598	$ 30,623
Supplemental disclosure of cash flow information			

Interest paid	$ 16,021	$ 10,449	$ 6,839
Income taxes paid	4,286	2,400	1,310

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

COPA HOLDINGS, S.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

Corporate Information

Copa Holdings, S. A. ("the Company") is a Panamanian entity incorporated in 1998 and its capital shares are 51% and 49% owned by Corporación de Inversiones Aéreas, S. A. ("CIASA") and Continental Airlines, Inc. ("Continental"), respectively. The Company owns 99.8% of the shares of Compañía Panameña de Aviación, S. A. ("Copa"), and 100% of the shares of Oval Financial Leasing, Ltd. ("OVAL"), and OPAC, S. A. ("OPAC"). Copa is incorporated according to the laws of the Republic of Panama and provides international air transportation for passengers, cargo and mail to countries in North, Central and South America and the Caribbean. OVAL was incorporated on November 15, 1994, according to the laws of the British Virgin Islands, and controls the special-purpose vehicles that have a beneficial interest in 17 aircraft with a carrying value of $492.4 million, all of which are leased to Copa. The aircraft are pledged as collateral for the ob ligations of the special-purpose vehicles, which are all consolidated by the Company for financial reporting purposes; however, the creditors of the special-purpose vehicles have no recourse to the general credit of the Company or Copa. OPAC is incorporated according to the laws of the Republic of Panama, and owns the corporate headquarters located in Panama City, which is leased to Copa.

The Company is a leading Latin American provider of international airline passenger and cargo service. Operating from its Panama City hub in the Republic of Panama, the Company currently offers approximately 80 daily scheduled flights among 30 destinations in 20 countries in North, Central and South America and the Caribbean, as of December 31, 2004. Additionally, the Company provides passengers with access to flights to more than 120 other international destinations through codeshare agreements with Continental and other airlines. The Company has a broad commercial alliance with Continental which includes joint marketing, code-sharing arrangements, participation in Continental's OnePass frequent flier loyalty program and access to Continental's VIP lounge program, President's Club, along with other benefits such as improved purchasing power in negotiations with service providers, aircraft vendors and insurers. As of December 31, 2004, the Company operated a fleet of 22 aircraft; two Boeing 737-200 aircraft, and 20 modern Boeing 737-Next Generation aircraft.

The airline industry is by nature cyclical and seasonal, and the Company's operating results may vary from quarter to quarter. The Company tends to experience the highest levels of traffic and revenue in July and August, with a smaller peak in traffic in December and January. In general, demand for air travel is higher in the third and fourth quarters, particularly in international markets, because of the increase in vacation travel during these periods relative to the remainder of the year. The Company generally experiences its lowest levels of passenger traffic in April and May. Given its high proportion of fixed costs, seasonality can affect the Company's profitability from quarter to quarter. Demand for air travel is also affected by factors such as economic conditions, war or the threat of war, fare levels and weather conditions.

A substantial portion of the Company's assets are located in the Republic of Panama, a significant proportion of the Company's customers are Panamanian, and substantially all of the Company's flights operate through its hub at Tocumen International Airport in Panama City. As a result, the Company depends on economic and political conditions prevailing from time to time in Panama.

As used in these Notes to Consolidated Financial Statements, the terms "the Company", "we", "us", "our" and similar terms refer to Copa Holdings, S.A. and, unless the context indicates otherwise, its consolidated subsidiaries.

1. Summary of Significant Accounting Policies

Basis of Presentation

All financial information contained is presented in U.S. Dollars unless otherwise stated and prepared in accordance with U.S. generally accepted accounting principles.

Principles of Consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company. All intercompany accounts, transactions and profits arising from consolidated entities have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks, short-term time deposits, asset-backed commercial paper and securities, and U.S. agency securities with original maturities of three months or less. Restricted cash is primarily collateral for government letters of credit.

Short-Term Investments

The Company invests in short-term time deposits, asset-backed commercial paper and securities, and U.S. government agency securities with original maturities of more than three months. These investments are classified as short-term investments in the accompanying consolidated balance sheet. Short-term investments are stated at their amortized cost, and are classified as held-to-maturity securities.

Expendable Parts and Supplies

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

Property and Equipment

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

	Years
Building	40
Jet aircraft.	25 to 30
Jet engines	10 to 30
Ground property and equipment	10
Furniture, fixture, equipment and others	5 to 10
Software rights and licenses	3 to 8
Aircraft rotables	7 to 30
Leasehold improvements	Lesser of remaining lease term or useful life

Measurement of Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations, consisting principally of property and equipment, when events or changes in circumstances indicate, in management's judgment, that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Cash flow estimates are based on historical results adjusted to reflect the Company's best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value if lower than carrying value. Estimates of fair value represent the Company's best estimate based on industry trends and reference to market rates and transactions and are subject to change.

Revenue Recognition

Passenger Revenue

Passenger revenue is recognized when transportation is provided rather than when a ticket is sold. The amount of passenger ticket sales not yet recognized as revenue is reflected as "Air traffic liability" in the Consolidated Balance Sheet. Tickets whose fares have expired and/or are one year old are recognized as passenger revenue. A significant portion of the Company's ticket sales are processed through major credit card companies, resulting in accounts receivable which are generally short-term in duration and typically collected prior to when revenue is recognized. The Company believes that the credit risk associated with these receivables is minimal.

Cargo and Mail Services Revenue

Cargo and mail services revenue are recognized when the Company provides the shipping services and thereby completes the earning process.

Other Revenue

Other revenue is primarily comprised of excess baggage charges, commissions earned on tickets sold for flights on other airlines and charter flights, and is recognized when transportation or service is provided.

Frequent Flyer Program

The Company participates in Continental's "OnePass" frequent flyer program, for which the Company's passengers receive all the benefits and privileges offered by the OnePass program. Continental is responsible for the administration of the OnePass program. Under the terms of the Company's frequent flyer agreement with Continental, OnePass members receive OnePass frequent flyer mileage credits for travel on Copa and the Company pays Continental a per mile rate for each mileage credit granted by Continental, at which point the Company has no further obligation. The amounts due to Continental under this agreement are expensed by the Company as the mileage credits are earned.

Passenger Traffic Commissions

Passenger traffic commissions are recognized as expense when the transportation is provided and the related revenue is recognized. Passenger traffic commissions paid but not yet recognized as expense are included in "Prepaid expenses" in the accompanying Consolidated Balance Sheet.

Foreign Currency Transactions

The Company's functional currency is the U.S. Dollar, the legal tender in Panama. Assets and liabilities in foreign currencies are translated at end-of-period exchange rates, except for non-monetary assets, which are

translated at equivalent U.S. dollar costs at dates of acquisition using historical rates. Operations are translated at average exchange rates in effect during the period. Foreign exchange gains and losses are included as a component of "Other, net" within Non-operating income (expense) in the Consolidated Statement of Income.

In 2004, approximately 80% of the Company's expenses and 50% of the Company's revenues were denominated in U.S. dollars. The remainder of the Company's expenses and revenues were denominated in the currencies of the various countries to which the Company flies, with the largest non-dollar amount denominated in Colombian pesos. The Company currently does not hedge the risk of fluctuation in foreign exchange rates.

Maintenance and Repair Costs

Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expenses as incurred. Engine overhaul costs covered by power-by-the-hour arrangements are paid and expensed as incurred, on the basis of hours flown per the contract.

Employee Profit Sharing

The Company sponsors a profit-sharing program for both management and non-management personnel. For members of management, profit-sharing is based on a combination of the Company's performance as a whole and the achievement of individual goals. Profit-sharing for non-management employees is based solely on the Company's performance. The Company accrues each month for the expected profit-sharing, which is paid annually in February. Amounts accrued for the Company's profit-sharing program as of December 31, 2004 and 2003 were $5.5 million and $4.6 million, respectively.

Advertising Costs

Advertising costs are expensed when incurred. The Company recognized as advertising expense $2.8 million, $3.4 million, and $2.6 million in 2004, 2003 and 2002, respectively.

Income Taxes

Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements.

2. Long-Term Debt

At December 31, long-term debt consisted of the following (in millions):

	2004	2003
Long-term fixed rate debt	$ 318.7	$ 246.9
(Secured fixed rate indebtedness due through 2015. Effective rates from 3.98% to 6.07% at December 31, 2004)		
Long-term variable rate debt	92.7	95.5
(Secured variable rate indebtedness due through 2015. Effective rates from 2.09% to 6.15% at December 31, 2004)		
Private bond issuances	-	29.3
(Unsecured variable rate indebtedness due in 2004)		
Sub-total	411.4	371.7
Less current maturities	30.6	59.7
Long-term debt less current maturities	$ 380.8	$ 312.0

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

Year ending December 31,	
2005	$ 30.6
2006	$ 29.1
2007	$ 29.9
2008	$ 29.8
2009	$ 29.8
Thereafter	$ 262.2

The Company has financed the acquisition of fifteen Boeing 737-Next Generation aircraft and three spare engines through syndicated loans provided by international financial institutions with the support of partial guarantees issued by the Export-Import Bank of the United States, with repayment profiles of 12 years.

The Export-Import Bank generally provides guarantees to companies that purchase goods from U.S. companies, enabling them to obtain financing at substantially lower interest rates relative to those that could be obtained without a guarantee. The Company had $368.1 million and $301.9 million of outstanding indebtedness that is owed to financial institutions under financing arrangements guaranteed by the Export-Import Bank at December 31, 2004 and 2003, respectively.

The Export-Import Bank guarantees support 85% of the net purchase price of the aircraft and are secured with a first priority mortgage on the aircraft in favor of a security trustee on behalf of Export-Import Bank. The documentation for each loan follows standard market forms for this type of financing, including standard events of default. The Company's Export-Import Bank supported financings are amortized on a quarterly basis, are denominated in dollars and originally bear interest at a floating rate linked to LIBOR. The Export-Import Bank guaranteed facilities typically offer an option to fix the applicable interest rate. The Company has exercised this option with respect to $318.7 million as of December 31, 2004 at an average weighted interest rate of 4.47%. The remaining $49.4 million bears interest at an average weighted interest of LIBOR plus 0.06%. At December 31, 2004, the total amount outstanding under our Export-Import Bank supported financings total ed $368.1 million.

The Company effectively extends the maturity of its aircraft financing to 15 years through the use of a "Stretched Overall Amortization and Repayment," or SOAR, structure which provides serial draw-downs calculated to result in a 100% loan accreting to a recourse balloon at the maturity of the Export-Import Bank guaranteed loan. The SOAR portions of the Company's facilities require the Company to maintain certain

financial covenants, including an EBITDAR to fixed charge ratio, a net debt to capitalization ratio and minimum net worth. To comply with the first ratio, the Company's EBITDA plus aircraft rent expense, or EBITDAR, for the prior year must be at least 2.5 times the fixed charge expenses (including interest, commission, fees, discounts and other finance payments) for that year. To comply with the second ratio, the Company's tangible net worth shall be at least five times the long-term obligations. Third, the Company's tangible net worth must be at least $50 million. As of December 31, 2004, the Company complied with all required covenants. The Company also pays a commitment fee on the unutilized portion of the SOAR loans. The Company also typically finances approximately 10% of the purchase price of the Boeing aircraft through commercial loans which totaled $28.3 million as of December 31, 2004. Under the commercial loan agreements for aircraft received in 2002, the Company is required to comply with four specific financial covenants. The first covenant requires EBITDAR for the prior year to be at least 1.9 times the finance charge expenses (including interest, commission, fees, discounts and other finance payments) for the first year of the agreement and 2.0 times the finance charge expenses for the remainder of the agreement. The second covenant limits net borrowings to 92% of the Company's capitalization during the first two years, 90% during the next two years and 85% during the last six years of the agreement. The third covenant requires the Company's tangible net worth to be at least $30 million for the first two years, $70 million for the next three years and $120 million for the last four years of the agreement. The last covenant requires the Company to maintain a minimum of $30 million in available cash (including cash equivalents and committed credit facilities) for the first five years and $50 million for the last five years of the agreement. As of Decem ber 31, 2004, the Company complied with all required covenants.

The Company's Embraer aircraft purchases will not be eligible for Export-Import Bank guaranteed financing. To contribute to the financing for the six Embraer aircraft to be delivered through the end of 2006, the Company has agreed to terms on a senior term loan facility in the amount of approximately $134 million with PK AirFinance US, Inc., an affiliate of General Electric. The loans will have a term of twelve years. The Company also pays commitment fees with respect to the loans.

The Company issued private bonds in 2004, 2003 and 2002 for advanced delivery payments for new aircraft. In order to secure this issuance, the Company granted to the agent (Banco Continental, S. A.), for the benefit of the bondholders, a first priority security interest in its rights, title and interest over the four aircraft purchased in 2003 (two Boeing 737-700 and two Boeing 737-800), and the three aircraft purchased in 2004 (two Boeing 737-700 and one Boeing 737-800). These bonds have matured and none are outstanding at December 31, 2004.

The Company issued additional private bonds in the amount of $10.8 million on January 4, 2005, $2.8 million on May 3, 2005, $2.8 million on June 1, 2005 and $2.8 million in August 1, 2005, also for advanced delivery payments of new aircraft. The Company has granted, for the benefit of the bondholders, a first priority security interest in the rights, title and interest over the two Boeing 737-700 aircraft having delivery months of May and June 2006. Interest on the bonds is paid on March 31, June 30, September 30, and December 31 with the balance of the bonds to be repaid upon delivery of the aircraft for which the advance payments related. Assets, primarily aircraft, subject to agreements securing the Company's indebtedness amounted to $508.4 million, $410.0 million, and $264.0 million as of December 31, 2004, 2003, and 2002, respectively.

3. Leases

The Company leases certain aircraft and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, sales offices, maintenance facilities, training centers and general offices. Most contract leases include renewal options. Non-aircraft related leases, primarily held with local governments, generally have renewable terms of one year. In certain cases, the rental payments during the renewal periods would be greater than the current payments. Because the lease renewals are not

considered to be reasonably assured, as defined in Statement of Financial Accounting Standard ("SFAS") No. 13, *"Accounting for Leases"* , the rental payments that would be due during the renewal periods are not included in the determination of rent expense until the leases are renewed. Leasehold improvements are amortized over the contractually committed lease term, which does not include the renewal periods. The Company's leases do not include residual value guarantees.

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

	Operating Leases	
	Aircraft	Non-Aircraft
Year ending December 31, 2005	$ 13.4	$ 1.3
2006	13.4	1.2
2007	13.4	1.1
2008	13.4	1.1
2009	9.4	1.0
Later years	4.7	0.3
Total minimum lease payments	$ 67.7	$ 6.0

Total rent expense was $20.0 million, $21.6 million and $24.8 million for the years ended December 31, 2004, 2003 and 2002, respectively.

4. Financial Instruments and Risk Management

Fuel Price Risk Management

The Company periodically enters into crude oil call options, jet fuel zero cost collars, and jet fuel swap contracts to provide for short to mid-term hedge protection (generally three to eighteen months) against sudden and significant increases in jet fuel prices, while simultaneously ensuring that the Company is not competitively disadvantaged in the event of a substantial decrease in the price of jet fuel. The Company does not hold or issue derivative financial instruments for trading purposes. The Company's derivatives have historically not qualified as hedges for financial reporting purposes in accordance with SFAS No. 133 *"Accounting for Derivative Instruments and Hedging Activities"*. Accordingly, changes in the fair value of such derivative contracts, which amounted to ($0.9) million, $0.2 million, and $3.1 million in years 2004, 2003, and 2002, respectively, were recorded as a component of "Other, net" within Non-operating income (expens e). The fair value of hedge contracts at December 31 amounted to $0.2 million and $1.1 million in 2004 and 2003, respectively, and was recorded in "Other current assets" in the Consolidated Balance Sheet. The Company's purchases of fuel and oil are made substantially from one supplier.

As of December 31, 2004, the Company held derivative instruments on 5% of its projected 2005 fuel consumption, as compared with derivatives held on 31% of actual fuel consumed in 2004. In April 2005, the Company entered into a derivative instrument to cover an additional 10% of its projected fuel consumption through March 2006.

Debt

The fair value of the Company's debt with a carrying value of $411.4 million and $371.7 million as of December 31, 2004 and 2003, respectively, was approximately $370.6 million and $355.8 million. These estimates were based on the discounted amount of future cash flows using the Company's current incremental rate of borrowing for a similar liability.

Other Financial Instruments

The carrying amounts of cash, cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to their short-term nature.

5. Issued Capital and Corporate Reorganization

On November 23, 2005, the Company's Board of Directors and shareholders approved a reorganization of the Company's capital stock. Following the reorganization, the Company's authorized capital stock consists of 80 million shares of common stock without par value, divided into Class A shares, Class B shares and Class C shares. Immediately following the reorganization, there were 29,028,125 Class A shares outstanding, 13,784,375 Class B shares outstanding, all owned by CIASA (a Panamanian entity), and no Class C shares outstanding. The reorganization did not impact the operations or financial condition of the Company in any respect and, as such, does not result in a new basis of accounting. All share and per share information for all periods presented have been restated to give retroactive effect to the reorganization. Class A and Class B shares have the same economic rights and privileges, including the right to receive dividends, e xcept that the holders of the Class A shares are not entitled to vote at the Company's shareholders' meetings, except in connection with a transformation of the Company into another corporate type; a merger, consolidation or spin-off of the Company; a change of corporate purpose; voluntarily delisting Class A shares from the NYSE; approving the nomination of independent directors nominated by the Company's Board of Director's Nominating and Corporate Governance Committee; and any amendment to the foregoing special voting provisions adversely affecting the rights and privileges of the Class A shares.

The Class A shareholders will acquire full voting rights, entitled to one vote per Class A share on all matters upon which shareholders are entitled to vote, if in the future the Company's Class B shares ever represent fewer than 10% of the total number of shares of the Company's common stock outstanding and the Independent Directors Committee of the Company's Board of Directors (the "Independent Directors Committee") shall have determined that such additional voting rights of Class A shareholders would not cause a triggering event referred to below. In such event, the right of the Class A shareholders to vote on the specific matters described in the preceding paragraph will no longer be applicable. At such time, if any, as the Class A shareholders acquire full voting rights, the Board of Directors shall call an extraordinary shareholders' meeting to be held within 90 days following the date as of which the Class A shares are entitled to vot e on all matters at the Company's shareholders' meetings. At the extraordinary shareholders' meeting, the shareholders shall vote to elect all eleven members of the Board of Directors in a slate recommended by the Nominating and Governance Committee. The terms of office of the directors that were serving prior to the extraordinary shareholders' meeting shall terminate upon the election held at that meeting.

Every holder of Class B shares is entitled to one vote per share on all matters for which shareholders are entitled to vote. Class B shares will be automatically converted into Class A shares upon the registration of transfer of such shares to holders which are not Panamanian.

The Class C shares will have no economic value and will not be transferable, but will possess such voting rights as the Independent Directors Committee shall deem necessary to ensure the effective control of the company by Panamanians. The Class C shares will be redeemable by the Company at such time as the Independent Directors Committee determines that a triggering event, as discussed below, shall no longer be in effect. The Class C shares will not be entitled to any dividends or any other economic rights.

The Panamanian Aviation Act, including the related decrees and regulations, which regulates the aviation industry in the Republic of Panama, requires that "substantial ownership" and "effective control" of Copa remain in the hands of Panamanian nationals. Under certain of the bilateral treaties between Panama and other countries pursuant to which the Company has the right to fly to those other countries and over their territory, the Company must continue to have substantial Panamanian ownership and effective control to

retain these rights. Neither "substantial ownership" nor "effective control" are defined in the Panamanian Aviation Act or in the bilateral treaties, and it is unclear how a Panamanian court or, in the case of the bilateral treaties, foreign regulatory authorities might interpret these requirements. On November 25, 2005, the Executive Branch of the Government of Panama promulgated a decree stating that the "substantial ownership" and "effective control" requirements of the Panamanian Aviation Act are met if a Panamanian citizen or a Panamanian company is the record holder of shares representing 51% or more of the voting power of the Company. Although the decree has the force of law for so long as it remains in effect, it does not supersede the Panamanian Aviation Act, and it can be modified or superseded at any time by a future Executive Branch decree. Additionally, the decree has no binding effect on regulatory authorities of other countries whose bilateral agreements impose Panamanian ownership and control limitations on the Company. In the event that the Class B shareholders represent less than 10% of the total share capital of the Company (excluding newly issued shares sold with the approval of the Independent Directors Committee) and the Independent Directors Committee determines that it is reasonably likely that the Company's legal ability to engage in the aviation business or to exercise its international route rights will be revoked, suspended or materially inhibited in a manner which would materially and adversely affect the Company, in each case as a result of such non-Panamanian ownership (each a triggering event), the Independent Directors Committee may authorize the issuance of additional Class B shares to Panamanians at a price determined by the Independent Directors to reflect the current market value of such shares and/or authorize the issuance to Class B shareholders such number of Class C shares as the Independent Directors Committee, or the Board of Directors if ap plicable, deems necessary and with such other terms and conditions established by the Independent Directors Committee that do not confer economic rights on the Class C shares.

6. Income Taxes

The Company pays taxes in the Republic of Panama and in other countries in which it operates, based on regulations in effect in each respective country. The Company's revenues come principally from foreign operations and according to the Panamanian Fiscal Code these foreign operations are not subject to income tax in Panama.

In the past, the Company's expenses attributable to operations in Panama have consistently exceeded the revenue attributable to operations in Panama. As a result, the Company typically experienced losses for Panamanian income tax purposes and was not subject to any Panamanian income tax obligations through the year ended December 31, 2003. Beginning in 2004, the Company adopted an alternate method of calculating tax in Panama. Under this alternative method, based on Article 121 of the Panamanian Fiscal Code, income for international transportation companies is calculated based on a territoriality method that determines gross revenues earned in Panama by applying the percentage of miles flown within the Panamanian territory against total revenues. Under this method, loss carry forwards cannot be applied to offset tax liability. Dividends from the Company's Panamanian subsidiaries, including Copa Airlines, are separately subject to a ten percent tax if such dividends can b e shown to be derived from income from sources in Panama.

Recently, the Panamanian legislature enacted a new income tax law that provides for an "alternative minimum tax" that equals 1.4% of a company's revenues attributable to operations in Panama. The Company has not yet determined the exact impact of the new law on its tax liability, but the Company estimates that the new law will increase the Company's Panamanian tax liability to approximately $1.3 million in 2005. There is also uncertainty under the new law about how the Company should allocate revenues to operations in Panama. If the Panamanian tax authorities do not concur with the Company's interpretation of the new law or its methods of allocating revenues, the Company may be subject to additional tax liability.

The Company is also subject to local tax regulations in each of the jurisdictions where it operates, the great majority of which are related to the taxation of income. In six of the countries to which the Company flies, the Company does not pay any income taxes because it does not generate income under the laws of those

countries either because they do not have income tax or because of treaties or other arrangements those countries have with Panama. In the remaining countries, the Company pays income tax at a rate ranging from 25% to 35% of income. Different countries calculate income in different ways, but they are typically derived from sales in the applicable country multiplied by the Company's net margin or by a presumed net margin set by the relevant tax legislation. The determination of the Company's taxable income in several countries is based on a combination of revenues sourced to each particular country and the allocation of expenses of the Company's operations to that particular country. The methodology for multinational transportation company sourcing of revenue and expense is not always specifically prescribed in the relevant tax regulations, and therefore is subject to interpretation by both the Company and the respective taxing authorities. Additionally, in some countries, the applicability of certain regu lations governing non-income taxes and the determination of the filing status of the Company are also subject to interpretation. The Company cannot estimate the amount, if any, of the potential tax liabilities that might result if the allocations, interpretations and filing positions used by the Company in its tax returns were challenged by the taxing authorities of one or more countries.

Under a reciprocal exemption confirmed by a bilateral agreement between Panama and the United States the Company is exempt from the U.S. source transportation income tax derived from the international operation of aircraft.

The provision for income taxes recorded in the Income Statement was as follows:

	2004	2003	2002
Panama			
Current	$ 0.7	-	-
Deferred	-	-	-
Foreign			
Current	5.5	3.2	2.6
Deferred	(0.5)	0.4	0.4
Total	$ 5.7	$ 3.6	$ 3.0

The Company paid taxes of $4.3 million, $2.4 million and $1.3 million in years 2004, 2003 and 2002, respectively.

Income tax returns for all companies incorporated in the Republic of Panama are subject to review by tax authorities up to the last three (3) years, including the year ended December 31, 2004 according to current tax regulations. For other countries where the Company operates, it is subject to review by their respective tax authorities for periods ranging from the last two (2) to six (6) years.

Pretax income, based on the Company's internal route profitability measures, related to Panamanian operations was $25.5 million, $23.5 million, and $18.3 million in 2004, 2003, and 2002, respectively, and related to foreign operations was $48.8 million, $28.6 million, and $5.4 million in 2004, 2003, and 2002, respectively.

As previously discussed, through the year ended December 31, 2003, the Company did not incur Panamanian income tax. Under the alternative Panamanian tax method adopted by the Company in 2004, tax in Panama is determined by applying a tax rate to gross revenues rather than the general rule of applying a statutory income tax rate against taxable net income. As a result, the amount of income tax expense incurred in Panama prior to 2004 varies from the Panamanian statutory rate because of the excess of Panamanian source expenses over Panamanian source revenues, and, beginning in 2004, the tax varies from the statutory rate because of the Panamanian gross tax election. Income taxes outside of Panama are generally determined on the basis of net income, but several countries have modified tax regimes and all of the countries have rates

that vary from the Panamanian statutory rate. The reconciliations of income tax computed at the Panamanian statutory tax rate to income tax expense for the years ended December 31 are as follows (in millions):

	Amount			Percentage		
	2004	2003	2002	2004	2003	2002
Provision for income taxes at Panamanian statutory rates	$ 22.3	$ 15.6	$ 7.1	30.0%	30.0%	30.0%
Panamanian gross tax election	(6.9)	-	-	(9.3)%	-	-
Impact of excess of Panamanian source expenses over Panamanian source revenues	- -	(7.0)	(5.5)	- -	(13.5)%	(23.1)%
Difference in Panamanian statutory rates and non-Panamanian statutory rates	(9.7)	(5.0)	1.4	(13.0)%	(9.5)%	5.8%
Provision for income taxes	$ 5.7	$ 3.6	$ 3.0	7.7%	7.0%	12.7%

Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Significant components of the Company's deferred tax liabilities and assets are as follows (in millions):

	2004	2003	2002
Deferred tax liabilities			
Maintenance reserves	$ (1.5)	$ (2.1)	$ (1.7)
Pension obligation	(0.2)	(0.1)	(0.0)
Total deferred tax liabilities	(1.7)	(2.2)	(1.7)
Deferred tax assets			
Post-employment benefit obligation	0.1	0.1	0.1
Net deferred tax assets (liabilities)	$ (1.6)	$ (2.1)	$ (1.6)

7. Employee Benefit Plans

The Company has defined benefit pension and post-employment benefit plans. All of the Company's Panamanian employees are covered by one or more of these plans. The benefits under both plans are based on years of service and an employee's accumulated compensation. Pension obligations are measured as of December 31 of each year.

Pension Plan

Panamanian labor laws require that employers establish a severance fund to pay employees upon cessation of the labor relationship, regardless of the cause. The Company contributes to the fund based on 1.92% of applicable wages paid annually as is required by law.

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

	2004	2003
Accumulated benefit obligation	$ 2.2	$ 1.8
Projected benefit obligation at beginning of year	$ 2.1	$ 1.8
Service cost	0.3	0.2
Interest cost	0.1	0.1
Actuarial losses	0.2	0.1
Benefits paid	(0.2)	(0.1)
Projected benefit obligation at end of year	$ 2.5	$ 2.1

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

	2004	2003
Fair value of plan assets at beginning of year	$ 2.4	$ 2.0
Actual return on plan assets	0.1	0.0
Employer contributions	0.6	0.5
Benefits paid	(0.2)	(0.1)
Fair value of plan assets at end of year	$ 2.9	$ 2.4

Pension cost recognized in the accompanying Consolidated Balance Sheet at December 31 is computed as follows (in millions):

	2004	2003
Funded status of the plan-net overfunded	$ 0.4	$ 0.3
Unrecognized net actuarial loss	0.8	0.5
Net asset recognized	$ 1.2	$ 0.8

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

	2004	2003
Weighted average assumed discount rate	5.75%	6.25%
Weighted average rate of compensation increase	3.50%	4.00%

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

	2004	2003	2002
Service cost	$ 0.3	$ 0.2	$ 0.2
Interest cost	0.1	0.1	0.1
Expected return on plan assets	(0.1)	(0.1)	(0.1)
Net periodic benefit expense	$ 0.3	$ 0.2	$ 0.2

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

	2004	2003	2002
Weighted average assumed discount rate	6.25%	6.75%	7.25%
Expected long-term rate of return on plan assets	4.00%	4.00%	4.00%
Weighted average rate of compensation increase	4.00%	4.50%	5.00%

The Company's discount rate is determined based upon the review of high quality corporate bond rates, the change in these rates during the year, and year-end rate levels.

The Company holds its Seniority Premium funds with Profuturo, a Panamanian pension fund management company backed by various banks and insurance companies. The Seniority Premium is invested in Proahorro, a conservative fund which invests in instruments such as savings accounts (2.10%) and time deposits (97.9%), with return on funds amounting to 4.0% in 2004. The expected return on plan assets is based upon an evaluation of the Company's historical trends and experience taking into account current and expected market conditions.

Estimated future contribution and benefit payments, which reflect expected future service, for the years ended December 31, are as follows (in millions):

Future contribution payments:		
	2005	$ 0.5
Future benefit payments:		
	2005	$ 0.4
	2006	0.4
	2007	0.4
	2008	0.4
	2009	0.4
	Remaining five years	$ 1.8

Post-employment Benefit Plan

The Company sponsors a termination indemnity plan pursuant to Panamanian laws which require that employers establish an indemnity fund to pay employees upon cessation of the labor relationship due to termination. The Company contributes to the fund based on 0.33% of total applicable wages paid annually as is required by law and payments are based on 6.54% of applicable wages earned over the duration of the employment period of the terminated employee. This plan is accounted for as a post-employment benefit plan under SFAS No. 112, *"Employers' Accounting for*

Postemployment Benefits" , whereby post-employment benefit expense is recognized over the employees' approximate service periods. For the years ended December 31, 2004, 2003, and 2002, total expense for the post-employment benefits was $0.4 million, $0.3 million, and $0.3 million, respectively.

8. Fleet Impairment Charges

The events of September 11, 2001 caused a dramatic impact on the airline industry and prompted the Company to review and monitor the carrying values of its Boeing 737-200 aircraft, rotable and expendable parts in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". In the months following September 11, 2001, the Company assessed the carrying values of its Boeing 737-200 fleet and determined that no substantial change had occurred to their valuation and thus no impairment was recorded in fiscal 2001. Subsequent reductions in demand for air travel, resulting in overcapacity in the industry led to the grounding and/or early retirements of older, less efficient aircraft by many airlines. In light

of this trend, the Company re-evaluated the value of its Boeing 737-200 fleet in late 2002 and determined that the expected future cash flows to be derived by the fleet were not sufficient to recover the carrying value of the fleet and therefore an impairment to their value existed. As a result, the Company recorded an impairment charge in fiscal 2002 to write the aircraft down to their estimated fair value. Given the ongoing distress in the industry, the Company continued to monitor the value of Boeing 737-200 aircraft and in late 2003 determined their value had incurred an additional impairment in value resulting in an additional impairment charge in fiscal 2003.

In evaluating whether an impairment existed, the Company estimated the future undiscounted expected cash flows to be derived from the Boeing 737-200 fleet based on historical results adjusted to reflect its best estimate of future market and operating conditions. Estimates of the undiscounted future cash flows were less than the carrying values of the Boeing 737-200 aircraft in both 2003 and 2002. As a result, the net carrying values of impaired aircraft and related items not recoverable were reduced to their respective fair value and impairment charges of $3.6 and $13.7 million were recognized in 2003 and 2002, respectively. Estimates of fair value represent the Company's best estimate based on industry trends and reference to market rates.

In 2004, the Company entered into a sales agreement for its remaining Boeing 737-200 aircraft. Gains on the sale of the aircraft of $1.1 million in each of 2004 and 2005 are included within Non-operating income (expense).

9. Related Party Transactions

The following is a summary of significant related party transactions that occurred during 2004, 2003 and 2002. Except as otherwise discussed, the payments to and from the related parties in the ordinary course of business were based on prevailing market rates.

Continental Airlines . In 1998, Continental acquired a 49% stake in the Company and have since implemented a comprehensive commercial and services alliance with COPA. Key elements of the alliance include: similar brand images, code sharing, co-branding of the OnePass frequent flyer program in Latin America, joint construction and operation of the Panama Presidents Club VIP lounge, joint purchasing, maintenance and engineering support and a number of other marketing, sales and service initiatives.

As a result of these activities, the Company paid Continental $14.1 million, $13.5 million, and $10.9 million in 2004, 2003 and 2002, respectively, and Continental Airlines paid COPA $12.3 million, $14.1 million, and $10.0 million in 2004, 2003 and 2002, respectively. The Company owed Continental $3.3 million and $2.2 million at December 31, 2004 and 2003, respectively. The services provided are considered normal to the daily operations of both airlines.

Banco Continental de Panamá, S.A. ("Banco Continental") . The Company has a strong commercial banking relationship with Banco Continental, which is controlled by the Company's controlling shareholders. The Company obtains financing from Banco Continental under short- to medium-term financing arrangements to fund aircraft pre-payments and for part of the commercial loan tranche of one of the Company's Export-Import bank facilities. The Company also maintains general lines of credit and time deposit accounts with Banco Continental.

Payments to Banco Continental totaled $1.1 million, $0.7 million and $0.1 million in 2004, 2003 and 2002, respectively, and the Company received $1.1 million, $0.5 million, and $0.4 million in 2004, 2003 and 2002, respectively. The debt balance outstanding at December 31 amounted to $15.3 million and $24.1 million in 2004 and 2003, respectively. These amounts are included in "Current maturities of long-term debt" and "Long-term debt" in the Balance Sheet.

ASSA Compañía de Seguros, S.A. ("ASSA") . Panamanian law requires the Company to maintain its insurance policies through a local insurance company. The Company has contracted with ASSA, an insurance

company controlled by the Company's controlling shareholders, to provide substantially all of its insurance. ASSA has, in turn, reinsured almost all of the risks under those policies with insurance companies in North America. The net payment to ASSA, after taking into account the reinsurance of these risks totaled $0.03 million in each of 2004, 2003 and 2002.

Petróleos Delta, S.A. ("Delta Petroleum") . When the Company's supply contract with Texaco for jet fuel expired at the end of June of this year, it entered into a contract with Petróleos Delta, S.A. to supply its jet fuel needs. The price agreed to under this contract is based on the two week average of the U.S. Gulf Coast Waterborne Mean index plus local taxes, certain third-party handling charges and a handling charge to Delta which is expected to aggregate between $2.5 million and $3.0 million per year assuming the Company maintains a rate of fuel consumption comparable to expected volumes for 2005. The contract has a one year term that automatically renews for one year periods unless terminated by one of the parties. While the Company's controlling shareholders do not hold a controlling equity interest in Petróleos Delta, S.A., one of the Company's executive officers, Jorge Garcia, previously served as a Project Director at Pet róleos Delta, S.A. and one of the Company's directors, Alberto Motta, served on its board of directors.

Desarrollo Inmobiliario del Este, S.A. ("Desarrollo Inmobiliario") . The Company will be moving into a recently constructed headquarters building located six miles away from Tocumen International Airport in 2005. The Company has agreed to lease four floors consisting of approximately 104,000 square feet of the building from Desarollo Inmobiliario, an entity controlled by the same group of investors that controls CIASA, under a ten-year lease at a rate of $0.1 million per month.

Galindo, Arias & Lopez . Most of the Company's legal work, including passing on the validity of the shares offered by this prospectus, is carried out by the law firm Galindo, Arias & Lopez. Certain partners of Galindo, Arias & Lopez are indirect shareholders of CIASA and serve on the Company's board of directors.

Other Transactions . The Company purchases most of the alcohol and other beverages served on its aircraft from Motta Internacional, S.A. and Global Brands, S.A., both of which are controlled by the Company's controlling shareholders. The Company does not have any formal contracts for these purchases, but pays wholesale prices based on price lists periodically submitted by those importers. The Company paid $0.4 million, $0.5 million and $0.4 million in 2004, 2003 and 2002, respectively.

The Company's telecommunications services have been provided by Telecarrier, Inc. since February 2003. Some of the controlling shareholders of CIASA have a controlling interest in Telecarrier, Inc. Payments to Telecarrier, Inc. totaled $0.4 million and $0.2 million in 2004 and 2003, respectively.

10. Commitments and Contingencies

Aircraft Commitments

As of December 31, 2004, the Company had firm commitments to purchase two Boeing 737-Next Generation aircraft and ten Embraer 190s, with an aggregate list price of approximately $448 million. The Company also has options to purchase an additional twenty Embraer 190 aircraft. The schedule for delivery of the firm orders is as follows: two in 2005, four each in 2006 and 2007 and two in 2008. Committed expenditures for these aircraft, based on aircraft net price and including estimated amounts for contractual price escalations and pre-delivery deposits, are $87.6 million in 2005, $99.3 million in 2006, $109.3 million in 2007, and $56.7 million in 2008. The Company arranged financing for a significant portion of the commitment relating to such aircraft and will require substantial capital from external sources to meet the Company's remaining financial commitment. The Company expects to meet its pre-delivery deposit requirements for the Boeing 737-Next Gen eration aircraft by paying cash, or by using medium-term borrowing facilities and/or vendor financing for deposits required twenty-four to six months prior to delivery. Pre-delivery deposits for the Embraer 190 aircraft are required eighteen, twelve and six months prior to delivery. The Company expects to fund these deposits with available cash.

In April 2005, the Company entered into agreements which provide for additional firm commitments to purchase five Boeing 737-Next Generation aircraft and two Embraer 190s, with an aggregate list price of approximately $368 million. These agreements also provide the Company with ten purchase rights for Boeing 737-Next Generation aircraft available through 2011 and reduce the options of Embraer 190 aircraft to eighteen. The schedule for delivery of the additional firm orders is as follows: two each in 2006, 2007, and 2008 and one in 2009.

Labor Unions

Approximately 62% of the Company's 2,754 employees are unionized. There are currently five unions covering employees in Panama: the pilots' union (SIPAC); the flight attendants' union (SIPANAB); the mechanics' union (SINTECMAP); the traffic attendants' union (UTRACOPA); and a generalized union, SIELAS, which represents ground personnel, messengers, drivers, counter agents and other non-executive administrative staff. The Company is currently in negotiations for new contracts with SIELAS and will begin negotiations with SINTECMAP and SIPANAB near the end of this 2005.

Lines of Credit for Working Capital and Letters of Credit

The Company maintained available facilities for working capital with several banks with year-end available balances of $9.4 million and $5.5 million in the years ending December 31, 2004 and 2003, respectively. There was no outstanding balance at December 31, 2004 and 2003 for these facilities.

The Company maintained available facilities for letters of credit with several banks with outstanding balances of $10.8 million and $10.7 million in the years ending December 31, 2004 and 2003, respectively. These letters of credit are pledged for aircraft rentals, maintenance and guarantees for airport facilities.

In June 2005, the Company and the International Finance Corporation entered into an agreement for a $15.0 million revolving line of credit available for working capital purposes.

Termination of General Sales Agent

The Company historically outsourced sales functions in some outstations through agreements with general sales agents. Over the past few years, the Company has been discontinuing existing agreements in order to reduce distribution costs and take direct control over these functions. As a result of this process, the Company terminated general sales agent agreements in 2004, 2003 and 2002. In accordance with SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* , the Company recorded, within other operating expenses, provisions amounting to $1.3 million, $1.0 million and $2.0 million in the years ending December 31, 2004, 2003 and 2002, respectively, when the general sales agreements were terminated.

Payments relating to the termination of the general sales agent agreements amounted to $1.3 million, $2.9 million, $0.1 million in 2005, 2004 and 2003, respectively.

The Company has no remaining GSA agreements with significant termination contingencies.

11. Subsequent Events

Purchase of AeroRepública

On April 22, 2005 the Company purchased AeroRepública S.A. ("AeroRepública"), a Colombian airline that operated a fleet of seven leased MD-80s and two owned DC-9s. The Company carried out the acquisition by purchasing or committing to purchase substantially all of the equity ownership interest in AeroRepública from its several former shareholders for an aggregate purchase price of approximately $23.4 million, including acquisition costs. The acquisition of AeroRepública enhances the Company's access

and visibility to Colombia's population of more than 45 million inhabitants. The Company intends to allow AeroRepública's existing management to continue operating the airline as a point-to-point Colombian carrier, while coordinating the flight schedules of Copa and AeroRepública to allow increased convenience and connectivity for passengers. The Company has begun code-sharing between AeroRepública and Copa and, in conjunction with Continental, intends to extend mutually agreed elements of the Copa-Continental relationship to AeroRepública.

Upon acquisition of AeroRepública, the Company arranged a commercial credit facility in the amount of $15.0 million, primarily to refinance existing liabilities and to provide AeroRepública with working capital. This facility was divided in two tranches of $5.0 million and $10.0 million with maturities of three and five years, respectively. This facility is secured by credit card receivables. The facility requires AeroRepública to maintain certain financial covenants such as a financial debt to EBITDAR ratio of less than 4.5.

Dividends

On June 30, 2005, the Company declared and paid cash dividends totaling $10.0 million.

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Exhibit 99.2

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF MANAGEMENT

The Board of Directors and Stockholders of
ExpressJet Holdings, Inc.

Management is responsible for the preparation and fair presentation of the financial statements included in this report. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and reflect management's judgments and estimates concerning effects of events and transactions that are accounted for and disclosed.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a -15(f) and 15d - 15(f) under the Securities Exchange Act of 1934. The internal control over financial reporting of ExpressJet Holdings, Inc. (the "Company") is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;
(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2005 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

/s/JAMES B. REAM
James B. Ream
President and Chief Executive Officer

/s/FREDERICK S. CROMER
Frederick S. Cromer
Vice President and Chief Financial Officer

/s/PHUNG NGO-BURNS
Phung Ngo-Burns
Staff Vice President and Controller

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
ExpressJet Holdings, Inc.

We have audited the accompanying consolidated balance sheets of ExpressJet Holdings, Inc. (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 24, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of
ExpressJet Holdings, Inc.

We have audited management's assessment, included in the accompanying Report of Management, that ExpressJet Holdings, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ExpressJet Holdings, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that ExpressJet Holdings, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, ExpressJet Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ExpressJet Holdings, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of ExpressJet Holdings, Inc. and our report dated February 24, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 24, 2006

EXPRESSJET HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2005	**2004**	**2003**
Operating Revenue	$ 1,562,818	$ 1,507,524	$ 1,311,443
Operating Expenses:			
Wages, salaries and related costs	349,390	319,159	283,290
Aircraft rentals	309,018	281,455	249,094
Aircraft fuel and related taxes	210,412	187,088	153,271
Maintenance, materials and repairs	181,347	154,027	130,079
Ground handling	95,423	105,742	89,566
Other rentals and landing fees	104,043	87,602	95,032
Outside services	28,663	29,299	28,885
Depreciation and amortization	26,992	23,537	20,421
Security fee reimbursement	-	-	(3,034)
Other operating expenses	100,987	114,188	82,862
	1,406,275	1,302,097	1,129,466
Operating Income	156,543	205,427	181,977
Nonoperating Income (Expense):			
Interest expense	(10,745)	(11,841)	(9,962)
Interest income	8,295	3,673	2,118
Capitalized interest	506	581	1,032
Other, net	(365)	164	38
	(2,309)	(7,423)	(6,774)
Income before Income Taxes	154,234	198,004	175,203
Income Tax Expense	56,241	75,233	66,670
Income before Dividends	97,993	122,771	108,533
Dividends on Mandatorily Redeemable Preferred Stock of Subsidiary	-	-	(352)
Net Income	$ 97,993	$ 122,771	$ 108,181
Basic Earnings per Common Share	$ 1.81	$ 2.26	$ 1.80
Diluted Earnings per Common Share	$ 1.65	$ 2.04	$ 1.74
Shares Used in Computing Basic Earnings per Common Share:			
Basic	54,117	54,220	60,026
Diluted	61,722	61,779	63,062

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

EXPRESSJET HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	**December 31,**

	2005	2004
Current Assets:		
Cash and cash equivalents	$ 227,285	$ 190,189
Restricted cash	9,218	6,312
Short-term investments	-	18,650
Accounts receivable, net	3,916	5,360
Amounts due from Continental Airlines, Inc., net	6,534	-
Spare parts and supplies, net	26,555	27,061
Prepayments and other	6,163	6,080
Total Current Assets	279,671	253,652
Property and Equipment:		
Owned property and equipment:		
Flight equipment	207,010	218,916
Other	124,156	116,523
	331,166	335,439
Less: Accumulated depreciation	(92,095)	(78,792)
	239,071	256,647
Capital Leases:	-	
Flight equipment	-	4,258
Other	4,310	4,315
	4,310	8,573
Less: Accumulated amortization	(2,930)	(3,395)
	1,380	5,178
Total Property and Equipment	240,451	261,825
Investments in Other Entities	17,255	-
Reorganization Value in Excess of Amounts Allocable to Identifiable Assets, net	12,789	12,789
Airport Operating Rights, net	3,942	4,192
Note Receivable	-	5,000
Debt Issuance Cost, net	3,696	3,894
Other Assets, net	2,466	1,892
Total Assets	$ 560,270	$ 543,244

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

EXPRESSJET HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2005	2004
Current Liabilities:	-	
Current maturities of long-term debt	$ 865	$ 865
Current maturities of note payable to Continental Airlines, Inc.	17,545	81,415
Current maturities of capital lease obligations	770	843
Accounts payable	956	635
Accrued payroll and related costs	50,157	46,524
Amounts due to Continental Airlines, Inc., net	-	11,239
Deferred income taxes	11,178	13,473
Accrued other liabilities	68,679	51,844
Total Current Liabilities	150,150	206,838
Long-term Debt	14,435	20,299
Note Payable to Continental Airlines, Inc.	-	17,389
4.25% Senior Convertible Notes due 2023	137,200	137,200
Capital Lease Obligations	1,035	1,805
Deferred Income Taxes	37,461	33,148
Other Long-term Liabilities	11,479	12,521
Stockholders' Equity:		
Preferred stock - $.01 par, 10,000,000 shares authorized, no shares and one share issued and outstanding, respectively	-	-
Common stock - $.01 par, 200,000,000 shares authorized, and 54,653,942 and 54,375,345 shares issued, respectively	547	544
Additional paid-in capital	165,074	162,418
Accumulated earnings (deficit)	50,082	(47,900)
Unearned compensation on restricted stock	(1,518)	(996)
Common stock held in treasury, at cost - 594,747 and 1,750 shares, respectively	(5,675)	(22)
Total Stockholders' Equity	208,510	114,044
Total Liabilities and Stockholders' Equity	$ 560,270	$ 543,244

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

EXPRESSJET HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2005	**2004**	**2003**
Cash Flows from Operating Activities:			
Income before dividends	$ 97,993	$ 122,771	$ 108,533
Adjustments to reconcile net income to net cash provided by operating activities			
Deferred income taxes	2,018	14,411	43,344
Depreciation and amortization	26,992	23,537	20,421
Equity loss from investments in other entities	606	-	-
Other, Net	3,240	8,067	12,068
Changes in operating assets and liabilities:			
Increase in restricted cash	(2,906)	(3,112)	(3,200)
(Increase) decrease in account receivable, net	1,732	(1,001)	(2,984)
(Increase) decrease in amounts due Continental Airlines, Inc., net	(16,071)	2,322	23,007
Increase in spare parts and supplies, net	(944)	(4,672)	(4,092)
(Increase) decrease in prepayments and other assets	(696)	6,482	(7,799)
Increase (decrease) in accounts payable	321	(4,044)	(3,475)
Increase (decrease) in other liabilities	18,305	(11,156)	44,886
Net cash provided by operating activities	130,590	153,605	230,709
Cash Flows from Investing Activities:			
Capital expenditures	(21,147)	(37,536)	(49,122)
Purchase of flight equipment from Continental Airlines, Inc.	-	(1,368)	-
Proceeds from the sale of property and equipment to Continental Airlines, Inc.	901	-	1,653
Proceeds from disposition of equipment	1,826	383	131
Sale (purchase) of short-term investments	18,650	(5,000)	(13,650)
Investments in other entities	(20,984)	-	-
Net cash used in investing activities	(20,754)	(43,521)	(60,988)
Cash Flows from Financing Activities:			
Proceeds from debt financing	-	-	17,297
Gross proceeds from issuance of convertible debt	-	-	137,200
Repurchase of common stock	(5,643)	-	(133,770)
Payments on note payable to Continental Airlines, Inc.	(81,259)	(94,368)	(132,340)
Payments on long-term debt and capital lease obligations	(6,708)	(2,611)	(2,442)
Redemption of note related to Series A Preferred Stock	5,000	-	-
Proceeds from issuance of common stock	602	842	(2)
Dividends paid on Series A Preferred Stock	-	-	(352)
Proceeds from sale-leaseback transactions	15,268	-	-
Net cash used in financing activities	(72,740)	(96,137)	(114,409)
Net Increase in Cash and Cash Equivalents	37,096	13,947	55,312
Cash and Cash Equivalents - Beginning of Period	190,189	176,242	120,930
Cash and Cash Equivalents - End of Period	$ 227,285	$ 190,189	$ 176,242
Supplemental Cash Flow Information:			
Interest paid, net of capitalized interest	$ 9,900	$ 11,165	$ 6,509
Income taxes paid, net (including amounts from our tax agreement with Continental Airlines, Inc.)	$ 51,751	$ 65,353	$ 15,170

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

EXPRESSJET HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Preferred Stock		Common Stock		Treasury Stock					
	Share	Amount	Share	Amount	Share	Amount	Additional Paid-in Capital	Unearned Compensation on Restricted Stock	Accumulated Earnings(Deficit)	Total
Balance at December 31, 2002	- $	-	64,000 $	640	- $	- $	159,743 $	- $	(145,081) $	15,302
Common Stock Retirement	-	-	(9,835)	(98)	-	-	98	-	(133,770)	(133,770)
Dividends	-	-	-	-	-	-	-	-	(352)	(352)
Net Income	-	-	-	-	-	-	-	-	108,533	108,533
Balance at December 31, 2003	-	-	54,165	542	0	-	159,841	-	(170,670)	(10,287)
Net Income	-	-	-	-	-	-	-	-	122,771	122,771
Issuance of restricted stock under deferred compensation plans	-	-	137	1	(3)	35	1,730	(1,763)	(1)	2
Cancellation of previously issued equity awards	-	-	-	-	5	(57)	-	57	-	-
Issuance of common stock under employee stock purchase plan	-	-	73	1	-	-	841	-	-	842
Amortization of deferred compensation	-	-	-	-	-	-	-	710	-	710
Deferred compensation income tax effect	-	-	-	-	-	-	6	-	-	6
Balance at December 31, 2004	-	-	54,375	544	2	(22)	162,418	(996)	(47,900)	114,044
Net Income									97,993	97,993
Issuance of restricted stock under deferred compensation plans	-	-	209	2	(8)	99	2,036	(2,126)	(11)	(0)
Cancellation of previously issued equity awards	-	-	-	-	10	(109)	-	36	-	(73)
Issuance of common stock under employee stock purchase plan	-	-	69	1	-	-	601	-	-	602
Amortization of deferred compensation	-	-	-	-	-	-	-	1,568	-	1,568
Deferred compensation income tax effect	-	-	-	-	-	-	19	-	-	19
Stock repurchase	-	-	-	-	591	(5,643)	-	-	-	(5,643)
Balance at December 31, 2005	- $	-	54,654 $	547	595 $	(5,675) $	165,074 $	(1,518) $	50,082 $	208,510

EXPRESSJET HOLDINGS, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ExpressJet Holdings, Inc. ("Holdings") has strategic investments in the air transportation sector. Our principal asset is all of the issued and outstanding shares of stock of XJT Holdings, Inc., the sole owner of the issued and outstanding shares of common stock of ExpressJet Airlines, Inc. ("Airlines"), which operates as Continental Express (together, "ExpressJet," "we," "us" and "our"). Airlines is one of the largest regional airlines in the world, based on available seat miles and number of regional jets, transporting passengers, cargo and mail. We also invest in other entities that permit us to leverage the management experience, efficiencies and economies of scale present in our subsidiaries.

Airlines currently flies exclusively on behalf of Continental pursuant to a capacity purchase agreement, and we receive substantially all of our revenue under that agreement. We provide all of Continental's regional jet service out of New York/Newark, Houston and Cleveland as well as non-hub service. We believe Airlines' operations complement Continental's aircraft. The capacity purchase agreement currently covers all our existing fleet and all of the regional jets subject to our firm aircraft orders. We are economically dependent on Continental for our operations and cash flows. On December 28, 2005, Continental gave us notice of its intent to withdraw 69 aircraft from the capacity purchase agreement beginning December 2006 and ending in June 2007. The capacity purchase agreement permits us up to nine months from the notice date to decide if we want to retain the aircraft. If we choose to retain the aircraft, the capacity purchase agreement contains a provision for the interest rate implicit in calculating the scheduled lease payments we make to Continental to increase by 200 basis points. See detailed discussion of the capacity purchase agreement in "-Note 2."

Note 1 – Summary of Significant Accounting Policies

(a) Principles of Consolidation –

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of Holdings and its subsidiaries. All material intercompany transactions have been eliminated in consolidation.

(b) Use of Estimates –

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

(c) Cash and Cash Equivalents –

Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible into cash and have maturities of three months or less when purchased. Restricted cash is our collateral for estimated future workers' compensation claims.

(d) Short-term Investments –

Short-term investments have maturities of less than one year and are stated at cost, which approximates market value.

(e) Accounts Receivables, net –

Accounts receivable are stated at the historical carrying amount net of write-offs and allowance for uncollectible accounts. Our allowance for uncollectible accounts at the end of 2005 and 2004 was $0.1 million.

(f) Spare Parts and Supplies, net –

Inventories, expendable parts and supplies relating to flight equipment are carried at average acquisition cost and are expensed when used. An allowance for obsolescence is provided over the remaining estimated useful life of the related aircraft, plus allowances for spare parts currently identified as excess to reduce the carrying costs to the lower of amortized cost or net realizable value. These allowances are based on our estimates, which are subject to change. Our allowance for obsolescence at December 31, 2005 and 2004 was $9.1 million and $8.5 million, respectively.

(g) Property and Equipment –

Property and equipment are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Property and equipment acquired under capital leases are recorded at the lower of the present value of the future minimum lease payments or the fair value of the asset at the inception of the lease. The estimated useful lives and residual values for our property and equipment are as follows:

	Estimated Useful Life	Estimated Residual Value
Flight Equipment	5 to 25 years	0% to 15%
Ground property and equipment	2 to 30 years	0%
Capital lease - flight and ground	3 to 8 years	0%

Amortization related to assets under capital leases and operating leasehold improvements is included in our depreciation and amortization expense on the income statement. We amortize assets under capital leases and operating leasehold improvements over the shorter of the asset life or lease term.

In accordance with Statement of Financial Accounting Standards No. 144 – "Accounting for the Impairment or Disposal of Long-Lived Assets," we record impairment losses on long–lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The net carrying value of assets not recoverable is reduced to fair value.

As shown in the following table, our aircraft fleet consisted of 266 regional jets at December 31, 2005. We currently lease or sublease all of our existing regional jet aircraft from Continental. See "-Note 5." Our aircraft purchase orders and options as of December 31, 2005 are also shown below. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Commitments – Purchase Commitments."

Type	Total Leased Aircraft	Firm Orders	Options	Seats in Standard Configuration
ERJ-145XR	96	8	100	50
ERJ-145	140	-	-	50
ERJ-135	30	-	-	37
Total	266	8	100	

Pursuant to our agreement with Embraer, the 100 ERJ-145XR option aircraft can be converted to some other types of aircraft within the ERJ-145 Family at our discretion.

(h) Intangible Assets –

Reorganization Value in Excess of Amounts Allocable to Identifiable Assets represents an amount that arose from Continental's emergence from bankruptcy reorganization in 1993. Effective January 1, 2002, we adopted and began to account for this asset in accordance with Statement of Financial Accounting Standard No. 142–"Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires testing of goodwill and intangible assets with indefinite lives for impairment rather than amortizing them.

We evaluate the carrying value of this asset each reporting period to determine whether events and circumstances continue to support an indefinite useful life. We perform an impairment review on an annual basis, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Our review includes the acquisition, market-multiple and income approaches to valuation. If this review indicates that our Reorganization Value in Excess of Amounts Allocable to Identifiable Assets will not be recoverable, the carrying value is reduced to the fair value. We performed this review during 2005, 2004 and 2003 and determined that we did not have any impairment of our Reorganization Value in Excess of Amounts Allocable to Identifiable Assets. Our annual impairment test is performed as of June 30 of each year.

Due to Continental's announcement on December 28, 2005 that it intended to withdraw 69 aircraft from the capacity purchase agreement beginning in December 2006, we determined a trigger event occurred. In accordance with our policy, we performed an SFAS 142 impairment analysis as soon as reasonably possible after the trigger event, using the latest data available. No impairment was identified.

Airport operating rights, the rights to use certain take-off and landing slots and gates, are amortized on a straight-line basis over the life of the related airport facility lease, which approximates 20 years, with no residual value. Debt issuance cost, capitalized costs related to our senior convertible notes, is amortized on a straight-line basis over 20 years, the term of the notes, and with no residual value.

(i) Investments in Other Entities –

Certain investments in unconsolidated companies that are not variable interest entities are accounted for by the equity method of accounting when we have significant influence over the operation of the companies as prescribed by Accounting Principles Board Opinion No. 18–"The Equity Method of Accounting for Investments in Common Stock" ("APB 18"). The following table describes our current non-controlling interests that are accounted for under the equity method of accounting:

Company	Percentage of Ownership	Carrying Amount of Investment at December 31, 2005 (in millions)[4]
Wing Holdings, LLC[1]	49%	$ 5.8
American Composites, LLC[2]	49%	0.8
JetX Aviation Limited[3]	One share less than 50%	0.6

(1) We purchased our interest in Wing Holdings in June 2005 for $16.0 million in cash. The carrying amount of our investment exceeded the amount of underlying equity of Wing Holdings by approximately $8.5 million at the time of our investment. We evaluated the net book value of Wing Holdings' fixed assets as of June 30, 2005 and identified approximately $1.9 million difference between net book value and fair value. The majority of this difference will be amortized over ten years, the average life of the assets identified. As of December 31, 2005, the balance of the fair value difference, net of amortization, is approximately $1.4 million. The remaining $6.6 million of our difference in the underlying investment is considered goodwill and thus, is not amortized.

(2) In July 2005, we purchased our interest in American Composites and certain land and related improvements from a party related to American Composites for approximately $5.8 million in cash. We recorded $4.9 million of the purchase price as building, land and related improvements and the balance was recorded as our non-controlling investment. No difference between the carrying amount of our investment and the underlying equity of American Composites was identified.

(3) In March 2005, we purchased our investment in JetX Aviation for approximately $0.9 million. The carrying amount of our investment exceeded the amount of underlying equity of JetX Aviation by approximately $0.5 million at the date of the investment. This difference is considered goodwill and thus, is not amortized.

(4) Although no impairment losses on these investments have been recognized, an impairment loss would be recorded whenever a decline in value of an equity investment below its carrying amount was determined to be other than temporary. In judging "other than temporary," we would consider the length of time and extent to which the fair value of the investment has been less than the carrying amount of the equity investment, the near-term and longer-term operating and financial prospects of the equity company and our longer-term intent of retaining the investment in the entity.

(j) Deferred Credits –

Our spare part and flight training credits are primarily derived from our purchase agreement with Embraer. All spare part credits are used to offset the purchase price of initial spare parts provisioning for our newly delivered aircraft. Similarly, the flight training credits are used to pay for the initial simulator rent costs for our pilots. These credits are recorded in long-term liabilities, with an offsetting entry to prepayments and other current assets or current accrued liabilities if we used more credits than the amount we are entitled to at year-end. The deferred credits are amortized as a reduction to our aircraft rent expense over the life of the associated aircraft lease. Amortization totaled $0.9 million for each 2005 and 2004. The prepayments and other current assets or current accrued liabilities are reduced as the credits are used or as the remaining firm order aircraft are delivered.

(k) Operating Revenue –

We recognized our operating revenue under the capacity purchase agreement based on negotiated rates for each scheduled block hour Airlines flies for Continental. The rates were designed to provide Airlines with a target operating margin of 10% before taking into account variations in some costs and expenses that are generally controllable by Airlines. We also record other revenues earned under the capacity purchase agreement, such as percentage of completed flights, certain on-time departures and baggage handling. See "– Note 2" for details of the block hour rates and the performance incentive payments. Our operating revenue is reconciled and settled with Continental on a monthly basis, except for the quarterly reconciliation of Airlines' costs within the margin band as defined in the capacity purchase agreement.

Certain amounts billed by us to Continental under the capacity purchase agreement are subject to our interpretation of the capacity purchase agreement. Beginning in 2005, we were required to negotiate the block hour rates with Continental annually. If the rates were not finalized, we would be required to estimate these rates and record revenue based on such estimates until final rates are agreed to with Continental. In addition, even if Continental concurs with the block hour rates, it may dispute amounts billed and pay less than the amount invoiced if it interprets the capacity purchase agreement differently than we do. The rates we use to calculate our operating revenue are based on our interpretation of the capacity purchase agreement. If our interpretation materially differs from Continental's, our revenue could be materially understated or overstated.

All fully-reconciled costs incurred in connection with the capacity purchase agreement are recorded as expense and revenue on a gross basis except for certain costs such as fuel costs above our fuel and related tax cap and facility rent at Continental's hubs. These costs are absorbed by Continental under the terms of the capacity purchase agreement and as such we are not the primary obligor for these costs and accordingly, these costs are not recorded as either revenue or expense by us.

(l) Wages, Salaries and Related Expenses –

As our collective bargaining agreements become amendable, we accrue for anticipated retroactive pay that we estimate will be due under the new contract.

(m) Maintenance and Repair Costs–

Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expense as incurred, except for those maintenance costs covered by power-by-the-hour agreements, which are expensed based on contractual terms. In 2005 and 2004, power-by-the-hour arrangements represented approximately 70% of our maintenance, materials and repairs costs.

(n) Income Taxes –

Deferred income taxes, which are provided under the liability method, are determined based on differences between the financial reporting and income tax basis of assets and liabilities and are measured using enacted tax rates and laws. A valuation allowance is provided on deferred tax assets if, based on available evidence, it is more likely than not that future tax benefits will not be realized.

(o) Earnings per Share –

We account for earnings per share in accordance with Statement of Financial Accounting Standard No. 128 - "Earnings per Share." Basic earnings per common share ("Basic EPS") excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the periods presented. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the company. The following table sets forth the reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS for the years ended December 31, 2005, 2004, and 2003 (in thousands, except per share amounts):

	Year ended December 31, 2005	2004	2003
Numerator:			
Net income	$ 97,993	$ 122,771	$ 108,181
Income impact of assumed conversion of convertible debt	3,656	3,506	1,409
	$ 101,649	$ 126,277	109,590
Denominator:			
Weighted average common shares outstanding	54,117	54,220	60,026
Effect of stock options	11	9	11
Effect of restricted stock	56	12	-
Assumed conversion of convertible debt	7,538	7,538	3,025
	61,722	61,779	63,062
Basic earnings per share	$ 1.81	$ 2.26	$ 1.80
Diluted earnings per share	$ 1.65	$ 2.04	$ 1.74

We excluded 287,563 and 123,750 shares of restricted stock from the weighted average shares used in computing Basic EPS for the year ended December 31, 2005 and 2004, respectively, as these shares were not vested as of these dates.

We adopted the Emerging Issues Task Force Issue No 04.08 – "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08") on December 15, 2004. As a result, we included the potential common stock equivalents related to our senior convertible notes in our computation of Diluted EPS and restated all prior periods in which the convertible notes were outstanding, as shown in the table above.

The weighted average common shares outstanding for the Diluted EPS calculation also includes the incremental effect of shares that would be issued upon the assumed exercise of stock options and vesting of restricted stock. We excluded the following common stock equivalents from our Diluted EPS calculations, because their inclusion would have been anti-dilutive:

- options to purchase 1.6 million, 1.1 million and 1.0 million shares of our common stock for the years ended December 31, 2005, 2004 and 2003, respectively. These options' exercise prices were greater than the average market price of the common shares for the respective periods; and
- 0.2 million and 0.1 million shares of restricted stock for the year ended December 31, 2005 and 2004.

(p) Stock Plans and Awards –

We have two stock-based compensation plans: the ExpressJet Holdings, Inc. 2002 Stock Incentive Plan (the "Incentive Plan") and the ExpressJet Holdings, Inc. 2003 Employee Stock Purchase Plan (the "ESPP"). We accounted for our stock-based compensation arrangements using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 - "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations through December 31, 2005. In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123 (Revised 2004) - "Share-Based Payments" ("SFAS 123R") which we adopted on January 1, 2006 as our method of accounting for our stock-based compensation. See a detailed description of SFAS 123R and its impact on our financial statement below in "-(s) Recently Issued Accounting Standards"

The Incentive Plan permits us to grant stock options and restricted stock to our outside directors and our employees. Under APB 25, if the exercise price of our stock options equals the fair market value of the underlying stock on the date of grant, no compensation expense is recognized. Since our stock options have all been granted with exercise prices at fair market value, no compensation expense has been recognized under APB 25. We recognize compensation expense related to our restricted stock in accordance with the provisions of APB 25. The total compensation expense to be incurred for each restricted stock grant equals the product of the number of shares issued and the closing price of our common stock on the grant date and is recognized over the vesting period of each grant in accordance with the method specified in FASB Interpretation No. 28-"Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28"). Under APB 25, we do not recognize compensation expense related to the ESPP.

On November 4, 2005, our board of directors approved accelerating the vesting of 669,750 unvested options with exercise prices of greater than $11.00 per share and extended the life of 868,500 options that had a five-year term to seven years. This modification did not impact our results of operations for the year ended December 31, 2005 as these options had no intrinsic value at the modification date. Also, see detailed discussion of this event below in "-Note 11."

The following table illustrates the effect on net income and earnings per share assuming the compensation cost for our stock option, restricted stock and employee stock purchase plans were determined using the fair value method, prorated over the vesting periods in accordance with FIN 28, at the grant dates as required under SFAS 123R for the years ended December 31, 2005, 2004 and 2003:

(in thousands, except for per share data)	2005	2004	2003
Net Income as Reported	$ 97,993	$ 122,771	$ 108,181
Add: Total stock-based compensation expense included in reported net income, net of taxes	973	445	-
Deduct: Total stock based employee compensation expense determined under fair value	(4,635)	(2,555)	(2,496)
Pro forma	$ 94,331	$ 120,661	$ 105,685
Basic Earnings per Share:			

As reported	$	1.81	$	2.26	$	1.80
Pro forma	$	1.74	$	2.23	$	1.76
Diluted Earnings per Share:						
As reported	$	1.65	$	2.04	$	1.74
Pro forma	$	1.59	$	2.01	$	1.70

The increase in stock based employee compensation expense in 2005 was due to accelerating the vesting and modification of the term of options as described above. See "-Note 11" for the assumptions we used to compute the pro forma amounts above. The pro forma effect on earnings per share is not representative of the pro forma effects in future years.

(q) Comprehensive Income –

We do not have any adjustments to net income to arrive at comprehensive income.

(r) Financial Instruments and Risk Management –

Financial Instruments **– Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, our long-term secured debt to EDC, note payable to Continental and 4.25% senior convertible notes due 2023. The carrying amount of cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximate fair value due to the highly liquid nature of these short-term instruments. As of December 31, 2005 and 2004, the fair value of our long-term secured debt to EDC was approximately $15.0 million and $15.8 million, respectively. As of December 31, 2005, the carrying value of the note payable to Continental approximates fair value as we expect to pay off this debt in March 2006. The fair value of our note payable to Continental as of December 31, 2004 was approximately $97.5 million. The fair values of these instruments were estimated based on the discounted future cash flows using our current incremental rate of borrowing for a similar liability or market prices. The fair value of our 4.25% senior convertible notes due 2023 was approximately $112.8 million and $139.1 million based on the quoted market price as of December 31, 2005 and 2004, respectively. As of December 31, 2004, we also had one share of non-voting Series A Preferred Stock, par value $.01 per share outstanding. The carrying value of our Series A Preferred Stock at December 31, 2004 approximated fair value. We redeemed this instrument in April 2005. See "-Note 6" below.**

Credit Risk Due to Certain Concentrations **– We provide Continental substantially all of its regional jet capacity at its hub airports as well as additional non–hub service. We are economically dependent upon Continental as substantially all of our revenue is received from Continental. See Item 1A. "Risk Factors" for detailed discussions. If Continental defaults on the payment obligations it has to us under our capacity purchase or other agreements, then in addition to any other remedies we may have, we can offset the amount of the defaulted payments against the amounts we owe to Continental under the note payable to Continental. In addition, we can reduce any payments we owe to Continental under any agreements in an amount corresponding to its defaulted payments.**

In addition, approximately 70% of our employees were covered by collective bargaining agreements at December 31, 2005. We amended our contracts with our pilots, dispatchers and mechanics in 2004. The new contracts will be amendable in December 2008, July 2009 and August 2009, respectively. Our contract with our flight attendants, which represent approximately 16% of our employees, became amendable in December 2004. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion on the status of our negotiations with the IAM.

(s) Recently Issued Accounting Standards –

In December 2004, the FASB issued SFAS 123R, requiring companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is to be estimated using an option-pricing model. The resulting cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. Under the original SFAS 123, this accounting treatment was optional with pro forma disclosures required.

We adopted SFAS 123R on January 1, 2006, as required by SFAS 123R. It is effective for all awards granted after that date and for the unvested portion of awards granted prior to the adoption date. The expense recognized with respect to unvested awards is based on the grant-date fair value and vesting schedule of those awards used in calculating the pro forma disclosures required under SFAS 123 and presented in "-(p) Stock Plans and Awards." The impact of adopting SFAS 123R on our statement of operations was similar to the pro forma impact of SFAS 123 presented in "-(p) Stock Plans and Awards." The adoption of SFAS 123R did not affect our overall financial position or liquidity.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. We cannot estimate the impact of this change in the future (because they depend on, among other things, when employee exercise stock options). We recognized immaterial excess tax deductions in our operating cash flows in 2005 and 2004 related to the vesting of our restricted stock. No excess tax deductions in our operating cash flows were recognized in 2005, 2004 and 2003 related to our options as no options were exercised in these periods.

(t) Reclassifications –

Certain reclassifications have been made in prior years' financial statements to conform to the current year presentation. Additionally, we classified our auction rate securities as cash equivalents in 2003. In 2004, these securities were reclassified to short-term investments. The 2003 balance sheet and cash flow statement were reclassified to conform to current presentation.

Note 2 – Capacity Purchase Agreement with Continental

General. **We currently derive substantially all of our revenue from our capacity purchase agreement with Continental. Under this agreement, Airlines operates flights on behalf of Continental as Continental Express. Continental controls and is responsible for scheduling, pricing and managing seat inventories and is entitled to all revenue associated with the operation of the aircraft. We also have various other agreements with Continental that govern our relationship.**

Under the capacity purchase agreement, some marketing-related costs normally associated with operating an airline are borne by Continental. These costs include:

- reservations and sales;
- commissions;
- advertising;
- revenue accounting;
- fare and tariff filings; and
- food and beverage service.

On December 28, 2005, Continental gave us notice of its intention to withdraw 69 aircraft from the capacity purchase agreement beginning in December 2006 and ending in June 2007. The capacity purchase agreement gives us up to nine months from the notice date to decide if we want to retain the aircraft. If we choose to retain the aircraft, the capacity purchase agreement contains a provision for the interest rate implicit in calculating the scheduled lease payments we make to Continental to increase by 200 basis points.

Compensation and Operational Responsibilities. **Under the capacity purchase agreement, Airlines is entitled to payment for each block hour that Continental schedules it to fly. Payment is based on a formula designed to provide Airlines with a target operating margin of 10% before taking into account variations in certain costs and expenses that are generally within our control. In accordance with the capacity purchase agreement, the original cost components used in this formula remained in place until December 31, 2004, after which new rates are to be established annually with the same methodology. We have exposure for most labor costs and some maintenance and general administrative expenses, if the actual costs are higher than those reflected in our block hour rates.**

Beginning in the fall of 2004, we negotiate with Continental to adjust the scheduled block hour rates annually as required under the capacity purchase agreement. The agreement calls for rates to be set by November 1 of each year. See detailed discussion of 2006 rate setting below.

2003-2004. **A reconciliation payment was made by Continental to Airlines, or by Airlines to Continental, if the operating margin calculated, as described below (the "prevailing margin") was not between 8.5% and 11.5% in any fiscal quarter. When the prevailing margin exceeded 11.5%, Airlines paid Continental an amount sufficient to reduce the margin to 11.5%. If the prevailing margin was less than 8.5%, Continental would have paid Airlines an amount sufficient to raise the margin to 8.5%; however, from 2003 to 2004, the quarterly prevailing margins were never below 8.5%. Certain items were excluded from the calculation of the prevailing margin, including:**

- actual labor costs that differed from those reflected in Airlines' block hour rates;
- performance incentive payments, including payments from controllable cancellation performance (cancellations other than weather or air traffic control cancellations);
- litigation costs outside the normal course of business; and
- other costs that were not included in Airlines' block hour rates (or covered by any adjustments to them) and were not reasonable and customary in the industry.

If these excluded costs were higher than those anticipated in Airlines' block hour rates, its operating margin could have been lower than 8.5% when taking these costs into account, even after any reconciliation payment was made. Conversely, if these costs were lower than those anticipated in Airlines' block hour rates, its operating margin could have been higher than 11.5% when taking these costs into account, even after any reconciliation payment was made.

During 2004, Airlines' quarterly reconciliation payments to Continental totaled $61.0 million. The table below describes how variations between our actual costs and our estimated costs, as determined in the block hour rates, were treated under the capacity purchase agreement through 2004:

Fully reconciled costs: reconciliation payment, including 10% margin, to the full extent actual costs differed from estimated costs.

- Fuel and into-plane expenses[1]
- Aircraft rent
- Terminal facility rent
- On-time bonuses and 401(k) company match under current plans
- Taxes (other than income taxes)
- Passenger liability insurance
- Hull insurance
- War risk insurance
- Landing fees
- Ground handling services
- Administrative services provided by Continental
- Third-party security and screening expenses
- Substantially all regional jet engine expenses under current long-term third-party contracts
- Depreciation and amortization[2]
- Pilot training volumes
- Glycol, de-icing, snow removal
- International navigational fees
- Pilot soft time[3]

Costs within the margin band: if actual expenses in this category were sufficiently different from estimates used in the block hour rates so that the prevailing margin (calculated to exclude the impact of unreconciled costs, to the extent they differed from Airlines' estimated costs, and other items[4]) was less than 8.5% or greater than 11.5%, then a reconciliation payment was to be made by Continental or Airlines to the other so that this prevailing margin would be 8.5% or 11.5%, as applicable.

- Maintenance, materials and repairs not included above
- Passenger services
- Other rental expenses
- Other operating expenses

Unreconciled costs: no reconciliation payment was made for actual results that differed from estimated costs.

- Wages and salaries
- Benefits not included above
- Corporate headquarter rent costs

(1) Under the fuel purchase agreement with Continental, in 2004 and 2003, fuel and fuel tax expense were reconciled to the lower of the actual costs or the agreed-upon caps of 66.0 cents per gallon and 5.2 cents per gallon, respectively, based on our fuel purchase agreement with Continental. If the fuel agreement with Continental were not in place, Airlines' fuel cost, including related taxes, would have been $1.23 and $0.93 per gallon for the years ending December 31, 2004 and 2003, respectively.
(2) Depreciation was reconciled for assets and capital projects accounted for in the capacity purchase agreement or those approved by Continental outside of the capacity purchase agreement.
(3) Pilot soft time reconciliation ended March 31, 2003.
(4) In addition to the unreconciled costs listed above, the prevailing margins used to calculate Airlines' quarterly reconciliation payments did not take into account any performance incentive payments, including payments from controllable cancellation performance (cancellations other than weather or air traffic control cancellations), litigation costs outside the normal course of business and other costs that were not included in Airlines' block hour rates (or covered by adjustments to them) and were not reasonable or customary in the industry.

In 2004, the fully reconciled costs, costs within the margin band and unreconciled costs under our capacity purchase agreement represented approximately 63.9%, 12.0% and 24.1% of total operating costs, respectively.

In addition, to the extent that our rate of controllable cancellations (such as those due to maintenance or crew shortages) was lower than our historical benchmarks, we were entitled to incentive payments; conversely, we would have had to pay Continental if our controllable cancellations were above historical benchmarks. Because these incentive benchmarks were based on historical five-year rolling averages of monthly controllable cancellations, lower controllable cancellations that resulted in higher incentive payments in the near term reduced our opportunity to earn incentive payments in the future. Also, because we used monthly rolling averages, our opportunity to earn these payments in any particular fiscal quarter was affected by monthly variations in historical controllable cancellation rates. We were also entitled to receive a small per-passenger fee and incentive payments for certain on-time departure and baggage handling performance.

***2005 Rate Negotiation and Amendment*. As part of the 2005 rate negotiation, we agreed to cap Airlines' prevailing margin at 10.0%. Airlines also included previously unreconciled costs within the margin band, although it is not reimbursed if these costs are higher and cause its prevailing margin to fall below the 8.5% margin floor. In addition, Airlines is still entitled to receive incentive payments from Continental if its rate of controllable cancellations is lower than its historical benchmark, but is not required to pay Continental a penalty for controllable cancellations unless the rate rises above 0.5%. Airlines continued to receive a small per-passenger fee and incentive payments for certain on-time departure and baggage handling performance.**

During 2005, Airlines' quarterly reconciliation payments to Continental totaled $23.4 million. The table below describes how variations between Airlines' actual costs and estimated costs, as determined in the block hour rates, have been treated under the capacity purchase agreement since January 1, 2005:

Fully reconciled costs: reconciliation payment, including 10% margin, to the full extent actual costs differ from estimated costs.

- Fuel and into-plane expenses[1]
- Aircraft rent
- Terminal facility rent
- On-time bonuses and 401(k) company match under current plans
- Taxes (other than income taxes)
- Passenger liability insurance
- Hull insurance
- War risk insurance
- Landing fees
- Ground handling services
- Administrative services provided by Continental
- Third-party security and screening expenses
- Substantially all regional jet engine expenses under current long-term third-party contracts
- Depreciation and amortization[2]
- Glycol, de-icing, snow removal
- International navigational fees

Costs within the margin band: if actual expenses in this category are sufficiently different from estimates used in the block hour rates so that the prevailing margin is less than 8.5% or greater than 10.0%, then a reconciliation payment will be made by either Continental or Airlines to the other so that this prevailing margin will be 8.5% or 10.0%, as applicable. If the prevailing margin were less than 8.5% due to the impact of certain costs, as described below, or if the prevailing margin were above 10.0% due to other items[3], no reconciliation payments would be made from either Continental or Airlines.

- Maintenance, materials and repairs not included above
- Passenger services
- Other rental expenses
- Other operating expenses

(1) Under the fuel purchase agreement with Continental, fuel and fuel tax expense are reconciled to the lower of

the actual costs or the agreed-upon caps of 66.0 cents per gallon and 5.2 cents per gallon, respectively, based on Airlines' fuel purchase agreement with Continental. If the fuel purchase agreement with Continental were not in place, the fuel cost, including related taxes, would have been $1.80 per gallon for the year ended December 31, 2005.

(2) Depreciation is reconciled for assets and capital projects accounted for in the capacity purchase agreement or those approved by Continental outside of the capacity purchase agreement.

(3) The prevailing margin used to calculate the reconciliation payment does not take into account performance incentive payments, including payments from controllable cancellation performance, litigation costs above a historical benchmark and other costs that are not included in the block hour rates (or covered by adjustments to them) or are not reasonable and customary in the industry.

In 2005, the fully reconciled costs and costs within the margin band under the capacity purchase agreement represented approximately 64% and 36% of total operating costs, respectively.

Certain costs that were unreconciled under the capacity purchase agreement prior to 2005 now require Airlines to make a reconciliation payment to Continental if the differences cause the prevailing margin to be greater than 10.0%. However, if the differences cause the prevailing margin to be less than 8.5%, they remain unreconciled. These costs are:

- wages and salaries; and
- benefits not included in the table above.

2006 Rate Setting. **Because we have not agreed on the 2006 rates, Continental has agreed to continue paying Airlines at the December 2005 rates until an agreement is reached. Any agreement to revise the current rate structure will be retroactive to January 1, 2006. We cannot currently estimate what our 2006 rates will ultimately be. If we cannot agree on the 2006 rates, the capacity purchase agreement allows either party to submit the matter to arbitration.**

Capacity and Fleet Matters. **Subject to the aircraft withdrawal beginning in December 2006, the capacity purchase agreement currently applies to all of Airlines' 266 aircraft, as well as the aircraft subject to firm orders through December 2006, at which time Continental will withdraw 69 aircraft from the capacity purchase agreement. Under the capacity purchase agreement, Continental is required to purchase or lease from Embraer or its designee all of our current firm order aircraft under the agreement, as well as participate in the financing, and to lease or sublease these aircraft to us.**

The capacity purchase agreement also allows us to be Continental's exclusive regional jet service provider at Newark's Liberty International, Houston's Bush Intercontinental and Cleveland's Hopkins International airports through December 31, 2006. However, Continental has the right to reduce the number of our regional jets covered by the agreement at any time upon 12 months' notice. As noted above, on December 28, 2005, Continental gave us notice of its intention to withdraw 69 aircraft from the capacity purchase agreement beginning in December 2006 and ending in June 2007. Under the terms of the agreement, Continental cannot withdraw additional aircraft from the agreement until December 28, 2009 unless the agreement is terminated. If the agreement were terminated, withdrawal would be limited to 15 aircraft per month. With respect to the 69 aircraft released from the capacity purchase agreement, we have the option to:

- fly the released aircraft for other parties or under our own code, subject to our ability to obtain facilities, such as gates and slots, and subject to our exclusive arrangement with Continental at its hub airports;
- sublease the aircraft to other parties; or
- decline to fly these aircraft and cancel the related subleases with Continental.

If we choose to retain the aircraft released from the capacity purchase agreement, the capacity purchase agreement has a provision for the interest rate implicit in calculating the scheduled lease payments we make to Continental to increase by 200 basis points. See Item 1. "Business–Capacity Purchase and Other Agreements with Continental Airlines – Aircraft Financing. "If we elect not to retain these aircraft, the related leases or subleases between us and Continental will be canceled, and Continental will take possession of the aircraft. In that event, Continental will be responsible for all direct reasonable costs we incur in removing those aircraft from our fleet.

We have options for 100 ERJ-145XR aircraft that may be exercised for other types of aircraft within the ERJ-145 Family. During 2005, Continental declined the right to exercise any of these options. We retain the right to exercise them and fly these aircraft for other airlines or under our own code, subject to some restrictions; however, we will have to finance our acquisition of these aircraft independently.

So long as scheduled flights under the capacity purchase agreement with Continental represent either at least 50% of all our scheduled flights or at least 200 of our aircraft are covered by the capacity purchase agreement, we are required to allocate our crews, maintenance personnel, facilities and other resources on a priority basis to scheduled flights under the capacity purchase agreement above all of our other flights and aircraft.

Term of Agreement**. The capacity purchase agreement is scheduled to expire on December 31, 2010. Continental has the option to extend the term of the agreement with 24 months' notice for up to four additional five-year terms through December 31, 2030.**

Continental may terminate the agreement at any time upon 12 months' notice, or at any time without notice for cause, which is defined as:

- our bankruptcy;
- suspension or revocation of our authority to operate as a scheduled airline;
- cessation of our operations as a scheduled airline, other than as a result of a union-authorized labor strike or any temporary cessation not to exceed 14 days;
- a union-authorized labor strike that continues for 90 days; or
- our intentional or willful material breach that substantially deprives Continental of the benefits of the agreement, which is not cured within 90 days of notice of the breach.

Continental may also terminate the agreement at any time upon our material breach that does not constitute cause and continues for 90 days after we receive notice of the breach. If we materially breach the agreement (including for cause) and, for breaches other than cause, fail to cure the breach within 60 days after we receive notice of the breach, we will have to pay Continental an amount equal to the expected margin contained in the block hour rates for scheduled flights from the 60th day (or immediately, without receipt of any notice, if the breach is for cause) until the breach is cured. In addition, Continental may terminate the agreement immediately without notice or giving us an opportunity to cure if it makes a reasonable and good faith determination, using recognized standards of safety, that there is a material safety concern with our operation of any flight under the capacity purchase agreement.

If Continental materially breaches the agreement and fails to cure the breach within 60 days after we notify it of the breach, we will be entitled to obtain our payments directly from Airline Clearing House, Inc. from the 60th day for the duration of the default. In addition, Continental and we are each entitled to seek damages and equitable remedies in arbitration.

Continental's Outlook. **We are directly affected by Continental's financial and operational stability because we depend on its ability to make payments to us under our capacity purchase and other agreements. Continental has reported significant losses since September 11, 2001, excluding special items. For the years ended December 31, 2005 and 2004, Continental reported net losses of $68 million and $409 million, respectively. Excluding special items, Continental's losses would have been more significant.**

Continental and the union representing its flight attendants recently ratified their labor agreement to allow Continental to meet its $0.5 billion cost-savings goal previously announced; absent additional adverse factors due to external influences, such as additional terrorist attacks or unreasonable increase in fuel prices, we are not aware of any other factors that would lead us to believe that Continental will not be able to maintain adequate liquidity through December 31, 2006, as previously disclosed in its quarterly filings. However, a combination of some or all of several events, most of which are outside of Continental's direct control, may result in its inability to maintain adequate liquidity through December 31, 2006.

As discussed above, Continental has reduced the level of its commitment for our aircraft under the capacity purchase agreement, which could materially reduce our revenue and earnings. Furthermore, Continental leases from third parties a substantial portion of the aircraft and airport facilities that it subleases to us. If Continental declared bankruptcy or otherwise defaulted under these leases, we would have no rights to these aircraft or facilities; our access to our aircraft and airport facilities would depend on negotiations between the lessors and us.

Note 3 – Security Fee

On April 16, 2003, President Bush signed into law the Emergency Wartime Supplemental Appropriation Act 2003 ("Wartime Act"), which was include as part of a larger bill to fund the war in Iraq. Highlights of the Wartime Act affecting us are as follows:

- $2.3 billion for reimbursement of airline security fees that were paid or collected by airlines as of the date of enactment, which means reimbursement for fees paid from February 1, 2002 through April 16, 2003, and from June 1 to September 30, 2003; and
- $100 million was authorized to reimburse carriers for installing fortified flight deck doors.

In May 2003, we received $3.0 million to reimburse security fees under the Wartime Act. However, since the reimbursement represented fully reconciled costs under the capacity purchase agreement, we distributed 100% of the funds received to Continental. For detailed discussion of fully reconciled costs, please see "- Note 2." The net impact of this reimbursement was immaterial to our results of operations. In September 2003, we also received $0.6 million for reimbursement of costs related to installation of the fortified flight deck doors pursuant to the Wartime Act. The amount received was used to reduce the capitalized cost of our property and equipment.

On January 3, 2006, Airlines and 42 other carriers received demand notices from the TSA related to the alleged underreported, uncollected ASIF. Airlines was invoiced by the TSA for an additional $2.1 million for 2005, due on or before February 2, 2006. We recorded this additional liability as of December 31, 2005, of which $0.8 million was recorded as additional security expense pursuant to a previously agreed allocation methodology with Continental. On January 16, 2006, Continental and we jointly submitted a letter to the TSA seeking a joint administrative review of the ASIF assessments and a stay of any related payments. At this time, we cannot predict the outcome of this review.

Note 4 – Details of Certain Accounts

Accrued other liabilities consist of the following (in thousands):

	As of December 31, 2005	2004
Airport services	$ 16,596	$ 11,833
Maintenance, materials and repairs	17,627	13,584
Taxes [(1)]	16,592	13,857
Flight operation related expenses	7,343	6,079
Interest	2,574	2,519
Other	7,947	3,972
	$ 68,679	$ 51,844

(1) Includes income taxes payable as well as other taxes payable.

Other long-term liabilities consist of the following (in thousands):

	As of December 31, 2005	2004
Spare parts credit	$ 4,630	$ 5,345
Flight training credits	6,235	5,996
Other	614	1,180
	$ 11,479	$ 12,521

Note 5 – Leases

We lease or sublease all 266 of our aircraft under operating leases with lease terms ranging from 16 to 16.5 years from Continental. Our sublease agreements with Continental have substantially the same terms as the lease agreements between Continental and the third-party lessors, and expire between 2013 and 2022. Rental payments for each aircraft are fixed upon lease execution with no escalation clauses. We also lease or sublease, under various operating leases, ground equipment and substantially all of our ground facilities, including facilities at public airports from Continental or the municipalities or agencies owning and controlling such airports. Though the duration and terms of these leases vary greatly, we expect, in most cases, leases to be renewed or replaced by new leases as required in the normal course of business. Our leases do not include residual value guarantees.

At December 31, 2005, the scheduled future minimum lease payments under capital leases due to third-party lessors and the scheduled future minimum lease payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows (in millions):

	Capital Leases	Operating Leases: Aircraft	Operating Leases: Non-Aircraft
Year ending December 31,2006	$ 0.9	$ 324.4	$ 14.6
2007	0.8	257.7	13.2
2008	0.2	236.4	12.2
2009	-	236.4	11.6
2010	-	236.4	10.7
Later years	-	1,679.8	65.8
Total minimum lease payments	1.9	$ 2971.3	$ 128.1
Less: amount representing interest	0.1		
Present value of capital leases	1.8		
Less: current maturities of capital leases	0.8		
Long-term capital leases	$ 1.0		

Our total rental expense for all non-aircraft operating leases was approximately $39.3 million, $33.4 million and $51.5 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Total aircraft and non-aircraft rent expense was approximately $348.3 million, $314.8 million and $300.6 million for the years ended December 31, 2005, 2004 and 2003, which included $323.3 million, $292.6 million and $280.7 million of payments under leases with Continental under the capacity purchase agreement. In addition, of the total rental expense, $290.4 million, $262.7 million and $249.4 million are related to subleases with Continental for 2005, 2004 and 2003, respectively. As a result of 2003 amendment to our Master Facility and Ground Handling Agreement with Continental, we no longer pay Continental rent related to our hub stations. See Item 1. "Business – Capacity Purchase and other Agreements with Continental Airlines – Airport Facilities, Slots and Route Authorities" for more detailed description of this amendment.

If we defaulted on our payment obligations under our aircraft and facility leases or subleases with Continental, Continental would be entitled to reduce future payments to us under the capacity purchase agreement by the amount of the defaulted payment.

The scheduled minimum aircraft operating lease payments in the above table include the estimated reduction for the withdrawal of 69 aircraft beginning in December 2006. The scheduled minimum non-aircraft operating lease payments in the above table include payments for seven new engine leases. Prior to December 2005, under our power-by-the-hour agreement with Rolls Royce, we were obligated to acquire up to three spare engines to support our existing aircraft and the remaining eight aircraft on firm order. In December 2005, we negotiated the sale of eight engines to Rolls Royce and, in exchange, entered into seven new engine leases with a Rolls Royce subsidiary. The engines leased have greater interchangeability than the engines sold. As a result, we have satisfied our engine obligations and are no longer obligated to purchase the three engines. These leases are classified as operating leases; hence they are not reflected as assets and liabilities on our balance sheet. These leases do not have residual value guarantees and annual escalation of rental payments is based on customer price index.

In July 2005, we purchased certain building, land and related improvements (from a party related to American Composites) for an aggregate price of approximately $4.9 million. $4.2 million was recorded as building and related improvements and the balance was allocated to land. As of December 31, 2005, we have recorded approximately $0.1 million in accumulated depreciation for this building. At the same time, we lease the building, land and related improvements to American Composites for use in its operation. We account for the lease as an operating lease. The scheduled minimum future lease payments from American Composite are to be as follows (in millions):

Year ending December 31,	
2006	$ 0.5
2007	0.5
2008	0.5
2009	0.5
2010	0.5
Thereafter	2.3
Total	$ 4.8

Note 6 – Long-term Debt

As of December 31, 2005, long–term debt, including current maturities, totaled $15.3 million, which consisted of $15.3 million of secured debt owed to EDC.

EDC loaned us $10.7 million in May 2003 and $6.6 million in September 2003. The loan is secured by certain of our flight simulators, flight data software and other equipment related to the simulators. We used all of the proceeds from the loans to reduce the principal under our note payable to Continental. The amount due to EDC accrues interest at the six-month LIBOR plus 1.75% per annum. The term of each advance to us is 96 months. The loan agreement has customary representations, warranties and covenants. Additionally, Continental is the guarantor of this loan, and a default under the guarantee would cause an acceleration of the loan.

Prior to the completion of our initial public offering, Airlines issued the sole authorized and outstanding share of its non-voting Series A Preferred Stock, par value $.01 per share, to our subsidiary XJT Holdings, Inc. as partial consideration for its assets and liabilities. The series A Preferred Stock was entitled to receive, on a cumulative basis, dividends at a rate of 14% per annum on a liquidation preference of $5.0 million, callable beginning in April 2005 and mandatorily redeemable in April 2012. Upon issuance, XJT Holdings, Inc. sold the Preferred Stock to an independent third party in exchange for a $5.0 million promissory note, with no rights of offset, due in April 2012. The note bore interest equal to the three-month LIBOR plus 0.6% per annum, payable quarterly which commenced on August 1, 2002. On July 1, 2003, we adopted Statement of Financial Accounting Standard No.150 –"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Upon adoption, we reclassified our Series A Preferred Stock to long-term debt. We also began to recognize dividends declared related to our Series A Preferred Stock as interest expense.

On April 1, 2005, Airlines called the Series A Preferred Stock for redemption. The redemption price, including accrued but unpaid dividends, was approximately $5.0 million. The share was redeemed on April 16, 2005, and the corresponding dividends ceased. In addition, we received $5.0 million, including accrued but unpaid interest income, from the holder of the stock to retire a $5.0 million promissory note held by us.

Maturities of these long-term debts are summarized below in "– Note 8."

Note 7 – Note Payable to Continental

Under the promissory note dated March 31, 2001, net amounts due Continental were converted into a long-term note payable of $552.3 million, which bore interest at a fixed rate of 4.9% through June 30, 2001. Effective July 1, 2001, the rate for subsequent quarters was set at the three-month LIBOR plus 1.25% per annum. The note is our unsecured general obligation and is subordinated in right of payment to all of our future senior indebtedness and is junior to any of our secured obligations and the secured obligations of our wholly owned subsidiaries to the extent of the collateral pledged.

In 2004, we made a discretionary prepayment of $27.0 million in addition to our scheduled quarterly principal and interest payments, net of prepayments made in prior periods, to the extent required. The quarterly payment on our note payable to Continental for principal and interest is $27.9 million, to be paid through the earlier of March 31, 2007 or until the principal balance and any accrued interest are paid in full. We currently expect to pay off this obligation on March 31, 2006. Total payments made during 2005 and 2004 (including the discretionary prepayments) were $84.7 million and $98.8 million, respectively, of which $81.3 million and $94.4 million, respectively, related to principal. Based on the three-month LIBOR on December 31, 2005 plus 1.25% per annum and our current principal balance of $17.5 million, maturities of our note payable to Continental as of December 31, 2005 are detailed on the table included in "– Note 8" below.

The weighted average interest rate for the year ended December 31, 2005, 2004 and 2003 was 4.4%, 2.6% and 2.5% per annum, respectively. The statements of operations include total interest charges from Continental of $3.5 million, $4.3 million and $6.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Note 8 – 4.25% Senior Convertible Notes due 2023

During 2003, we completed the private placement of $137.2 million senior convertible notes due 2023, which were resold by the initial purchasers to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933. Cash interest is payable on the notes at a rate of 4.25% per year on the principal amount at maturity, payable semiannually in arrears on February 1 and August 1 of each year, beginning February 1, 2004. The aggregate amount of the principal will be due on August 1, 2023. The notes and the notes guarantee are senior unsecured obligations and rank equally with our existing and future senior unsecured indebtedness. The notes and the notes guarantee are junior to any of our secured obligations and the secured obligations of our wholly owned subsidiaries to the extent of the collateral pledged.

The notes are convertible into shares of our common stock at a conversion rate of 54.9451 shares per $1,000 in principal amount at maturity of the notes. This conversion rate is subject to adjustment in certain circumstances. Holders of the notes may convert all or a portion of their notes into shares of our common stock under the following circumstances: (i) at any time during or after any fiscal quarter commencing after September 30, 2003 if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the fiscal quarter prior to such quarter is greater than 120% of the conversion price per share of common stock on such last day; (ii) subject to certain exceptions, during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the notes for each of the five trading days was less than 98% of the product of the closing sales price of our common stock and the number of shares issuable upon conversion of $1,000 principal amount of the notes; (iii) if the notes have been called for redemption; or (iv) upon the occurrence of specified corporate transactions. We have reserved sufficient shares of our common stock to be issued upon conversion of these notes.

We can redeem the notes, in whole or in part, beginning on August 4, 2008, at a redemption price equal to 100% of the principal amount, plus accrued and unpaid cash interest, if any. The holders of the notes may require us to repurchase the notes on August 1, 2008, August 1, 2013 and August 1, 2018 ("Redemption Dates") at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We can choose to pay the repurchase price for any such notes in cash, in shares of common stock or any combination thereof should we be required to redeem the notes at any of the Redemption Dates. We have a shelf registration statement on file with the Securities and Exchange Commission covering the resale of the notes and the underlying common stock for the security holders name therein.

Proceeds from the offering, net of initial purchasers' fees, were used to repurchase 9,835,125 shares of our common stock from Continental at $13.60125 per share pursuant to a stock repurchase agreement with Continental. As a result of this repurchase, Continental's beneficial ownership of our common stock dropped below 50%.

Repayment of the convertible notes is jointly and severally guaranteed on an unconditional basis by Airlines. Except as otherwise specified in the indenture pursuant to which the notes were issued, there are no restrictions on Airlines' ability to transfer funds to us in the form of cash dividends, loans or advances. General provisions of applicable state law, however, may limit the ability of any subsidiary to pay dividends or make distributions to us in certain circumstances.

Separate financial statements of Airlines are not included herein because the aggregate assets, liabilities, earnings, and equity of that subsidiary remain substantially equivalent to our assets, liabilities, earnings and equity on a consolidated basis. Airlines is jointly and severally liable for the repayment of the notes. We do not believe that separate financial statements and other disclosures concerning Airlines would be material to investors.

The amount of all scheduled debt maturities, as described in Notes 6, 7 and 8 above, due over the next five years and thereafter is as follows (in millions):

Year ending December 31,	
2006	$ 18.4
2007	$ 1.7
2008	$140.7

2009	$ 3.5
2010	$ 3.5
Thereafter	$ 2.4

The table above assumes the senior convertible notes will be due on August 1, 2008, the earliest date that the holders of the notes may require us to repurchase the notes.

Other than the debt obligations described above, we do not have any other source of long-term borrowings or available lines of credit. There is no covenant under any of our current long-term debt agreements that restrict our ability to undertake additional debt or equity financing.

Note 9 – Income Taxes

Income tax expense (benefit) for the year ended December 2005, 2004 and 2003 consisted of the following (in millions):

	2005	2004	2003
Federal			
Current	$ 51.7	$ 60.6	$ 23.5
Deferred	1.5	10.4	39.0
State:			
Current	2.5	0.2	(0.1)
Deferred	0.5	4.0	4.3
Total Income Tax Expense	$ 56.2	$ 75.2	$ 66.7

The reconciliations of income tax computed at the United States federal statutory tax rates to income tax expense for the years ended December 31, 2005, 2004 and 2003 are as follows:

	Amount			Percentage		
	2005	2004	2003	2005	2004	2003
	(in millions)					
Income tax expense at United States statutory rates	$ 53.9	$ 69.3	$ 61.3	35.0%	35.0%	35.0%
State income tax expense (net of federal benefit)	2.3	4.2	4.2	1.5	2.1	2.4
Meals and entertainment disallowance	1.7	1.4	1.2	1.1	0.7	0.7
Other	(1.7)	0.3	-	(1.1)	0.2	-
Income tax expense, net	$ 56.2	$ 75.2	$ 66.7	36.5%	38.0%	38.1%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the related amounts used for income tax purposes. Significant components of our deferred tax liabilities and assets as of December 31, 2005 and 2004 are as follows (in millions):

	2005	2004
Deferred Tax Liabilities:		
Fixed assets	$ 48.3	$ 44.7
Other	1.7	2.5
Gross deferred tax liabilities	50.0	47.2
Deferred Tax Assets:		
Federal loss carryforwards	$ -	$ 6.1
State loss carryforwards, net	5.4	5.6
Intangible assets	317.8	343.8
Other	13.0	7.1
Gross deferred tax assets	336.2	362.6
Valuation allowance / net tax agreement obligation to Continental	334.8	362.0
Net deferred tax assets (liabilities)	$ (48.6)	$ (46.6)

At December 31, 2004, we had federal net operating loss carryforwards of approximately $17.4 million, which expire in 2019. In September 2005, Continental entered into a final settlement agreement with the IRS that included periods when we were included in its consolidated federal income tax return. Our taxable income was not adjusted, but the amount of net operating losses allocated to us was reduced by approximately $16.4 million. In accordance with our tax agreement with Continental, we recorded a receivable from Continental for approximately $5.7 million for the reduction of our federal net operating loss carryforwards. In addition, we adjusted our tax accounts to reflect a federal net operating loss carryforward at December 31, 2004 of approximately $1.0 million, which was utilized in 2005.

In conjunction with our initial public offering in April 2002, the tax basis of our tangible and intangible assets was adjusted to fair value. This adjustment to tax basis should result in additional tax deductions being available to us through 2017. In accordance with our tax agreement with Continental, to the extent we generate taxable income sufficient to realize the additional tax deductions, we are required to pay Continental a percentage of the amount of tax savings actually realized, excluding the effect of any loss carrybacks. We are required to pay Continental 100% of the first third of the anticipated tax benefit, 90% of the second third and 80% of the last third. However, if the tax benefits are not realized by the end of 2018, we will be obligated to pay Continental 100% of any benefit realized after that date. Since these payments are solely dependent on our ability to generate sufficient taxable income to realize these deferred tax assets, they are recorded as an obligation to Continental within the deferred tax asset accounts, and the portion we may retain in the future is offset by a valuation allowance. At the time of the initial public offering, the valuation allowance and the obligation to Continental offset the step-up in basis of assets in our long-term deferred tax asset account. We made approximately $25.3 million and $57.0 million of net payments to Continental under the tax agreement during 2005 and 2004, respectively.

The tax agreement requires Continental to reimburse us for any net increase in our cash tax payments resulting from any decreased availability of net operating loss carryovers related to the basis increase at the time our payment occurs. The resulting receivable and/or payable is recorded within the deferred tax asset account since its performance is dependent on our ability to generate taxable income.

No valuation allowance was established on our net operating loss carryforwards or on our receivable from Continental for reimbursing carryforward losses utilized resulting from the basis increase because we believe our stand-alone taxable income will be sufficient to utilize substantially all of these assets within the next several years.

We believe that our initial public offering created a change in ownership limitation on the utilization of our federal tax attribute carryforwards, primarily net operating losses. Section 382 of the Internal Revenue Code limits our utilization of these attributes to offset up to approximately $43.3 million of post-change taxable income per year. This limitation did not have any impact on our financial condition during the years ending 2005 and 2004.

Our tax agreement increases our dependence on Continental's financial condition. If it is determined that any of the tax benefits related to the basis increase should not have been available at the time of utilization and, as a result, we are required to pay additional taxes, interest and penalties, then we could be adversely affected if Continental were unable to indemnify us under the agreement.

Note 10 – Preferred, Common and Treasury Stock

Preferred Stock. We have 10 million shares of authorized preferred stock, par value $.01 per share. One share of preferred stock was issued and outstanding at December 31, 2004.

After Continental's ownership of common shares fell below 10% on April 7, 2005, we redeemed the sole share of our Special Voting Preferred Stock held by Continental. The redemption terminated Continental's right to elect a director to our board of directors. Pursuant to our capacity purchase agreement, Continental had the right to nominate a director to our board, but relinquished this right, effective October 2005. Continental currently owns less than 10% of our common stock and has indicated that it intends to dispose of some or all of its remaining shares, subject to market conditions. We do not believe that Continental's sale of its ownership interest will have an adverse impact on our results of operation or financial position.

Our board is divided into three classes, and our directors are elected by stockholders for three-year terms. Two of the classes are comprised of two directors and the third is comprised of three.

Common Stock. We currently have one class of common stock, par value $.01 per share, with 54.7 million shares issued. Each share of common stock is entitled to one vote. Common stockholders participate ratably in any dividends or distributions on the common stock.

Treasury Stock. In July 2005, our board of directors authorized the expenditure of up to $30 million to repurchase shares of our common stock. Purchases have been made from time to time in the open market; the timing of any share repurchases under the program depends on a variety of factors, including market conditions, and may be suspended or discontinued at any time. Common stock acquired through the program will be available for general corporate purposes. In 2005, we purchased 590,800 shares of our common stock at an average cost per share of $9.55.

In addition, under the Incentive Plan, our board of directors can approve the issuance of restricted stock to various employees and non-employee directors. Forfeitures of awarded shares resulted in common stock held in treasury from which subsequent restricted stock awards can be issued and stock option exercises can be satisfied.

Note 11 – Stock Based Compensation Plans

At December 31, 2005, we had a stock incentive plan and an employee stock purchase plan.

Stock Incentive Plans. Prior to the completion of our initial public offering, Continental, as our then sole stockholder, and our board of directors approved the Incentive Plan, which was subsequently ratified by our public stockholders in 2003. The Incentive Plan provides that we may grant awards in the form of stock options or restricted stock to our non-employee directors, our employees or employees of our subsidiaries. The aggregate number of shares of our common stock that may be issued under the Incentive Plan may not exceed 3.2 million shares, subject to adjustments as provided in the Incentive Plan. We have reserved 3.2 million shares of our common stock for issuance under this plan. Options granted under the Incentive Plan have been awarded with exercise prices equaling the fair market value of the stock on the date of grant, vest over a four-year period for employees or a six-month period for non-employee directors and expire seven years after the date of grant in the case of employees and ten years after the date of grant in the case of directors. During 2005, 2004, and 2003, we issued 489,500, 155,500 and 389,000 options, respectively, to purchase our common stock under the Incentive Plan, with a grant date fair value of approximately $2.4 million, $1.4 million and $3.2 million, respectively.

On November 4, 2005, our board of directors approved accelerating the vesting of 669,750 unvested options currently held by employees, including executive officers, with exercise prices greater than $11.00 per share and extended the term of 868,500 employee options that had a five-year term to seven years. These options were and remain out of the money, and the acceleration and extension were effective immediately. No options held by non-employee directors were subject to acceleration or extension. The acceleration of vesting reduces compensation expense upon the adoption of SFAS 123R. The reduction in compensation expense in the future, based on our implementation date of January 1, 2006, was approximately $3.1 million. We reported this future compensation expense in our 2005 pro forma footnote disclosures, as permitted under the transition guidance provided by the FASB.

In 2005 and 2004, our board of directors approved the issuance of 214,750 and 135,750 shares of restricted stock, respectively, net of forfeitures, to various employees and non-employee directors pursuant to the Incentive Plan, with fair value totaling $2.1 million and $1.7 million, respectively. The restricted shares granted to our employees to date vest ratably over three or four-year periods. Restricted shares granted to our non-employee directors vest over six months. Total expense recognized related to restricted stock for the year ended December 31, 2005 and 2004 was $1.6 million and $0.7 million, respectively. As of December 31, 2005 and 2004, we had 287,563 and 123,750 shares of restricted stock outstanding.

Continental has stock option and incentive plans under which our employees were granted awards of Continental common stock in the form of stock options or restricted stock (the "Continental Plans"). Our employees' eligibility to participate in the Continental Plans ceased in August 2003, when Continental's beneficial ownership of our common stock dropped below 50%. All options outstanding were either exercised or cancelled in 2003.

The table below summarizes stock option transactions pursuant to the Incentive Plan and Continental Plans (share data in thousands):

	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
ExpressJet Options						
Outstanding at Beginning of Year	1,402	$ 15.12	1,276	$ 15.46	989	$ 15.96
Granted	491	$ 9.99	156	$ 12.94	389	$ 11.67
Exercised	-	$ -	-	$ -	-	$ -
Cancelled	(21)	$ 14.04	(30)	$ 15.27	(102)	$ 15.47
Outstanding at End of Year	1,872	$ 14.63	1,402	$ 15.12	1,276	$ 15.46
Options Exercisable at End of Year	1,842	$ 14.93	582	$ 15.38	270	$ 15.73
Continental Options						
Outstanding at Beginning of Year	-	$ -	-	$ -	18	$ 36.03
Granted	-	$ -	-	$ -	-	$ -
Exercised	-	$ -	-	$ -	(2)	$ 10.69
Cancelled	-	$ -	-	$ -	(16)	$ 39.20
Outstanding at End of Year	-	$ -	-	$ -	-	$ -
Options Exercisable at End of Year	-	$ -	-	$ -	-	$ -

The following tables summarize the range of exercise prices and the weighted average remaining contractual life of our options outstanding and the range of exercise prices for our options exercisable at December 31, 2005 (share data in thousands):

Options Outstanding			
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price

$8.99 - $11.50	781	5.11	$	11.02
$11.51 - $14.00	135	5.42	$	12.72
$14.01 - $16.00	956	3.39	$	15.91
$8.99 - $16.00	1,872	3.88	$	14.63

Options Exercisable

Range of Exercise Prices	Shares		Weighted Average Exercise Price
$8.99 - $11.50	751	$	11.13
$11.51 - $14.00	135	$	12.72
$14.01 - $16.00	956	$	15.91
$8.99 - $16.00	1,842	$	14.93

Employee Stock Purchase Plans. On May 7, 2003, our stockholders approved the ESPP, which authorized the sale of up to one million shares of our common stock. We have reserved one million shares of our common stock for issuance under the ESPP. Under the plan, all of our employees are eligible to purchase shares of our common stock at 85% of the lower of the fair market value on the first or last day of the semi-annual purchase period. Our first purchase period began on July 1, 2003. Employees may sell shares obtained under the ESPP six months after the end of the plan period in which the shares were purchased. During 2005 and 2004, 69,347 and 72,970 shares, respectively, of our common stock were issued to our employees at prices ranging from $7.23 to $10.37 in 2005 and prices ranging from $10.32 to $12.75 in 2004. In January 2006, we issued 39,985 shares of our common stock to our employees at $6.88 per share.

Pro Forma SFAS 123 Results. Pro forma information regarding net income and earnings per share, as detailed in "–Note 1–Summary of Significant Accounting Policies–(p) Stock Plans and Awards," has been determined as if we had accounted for our stock options and stock purchase plan under the fair value method of SFAS 123. The fair value of Holdings' options granted during 2005, 2004 and 2003 was estimated at the date of grant using the Black-Scholes options pricing model with the following weighted-average assumptions for 2005, 2004 and 2003, respectively: risk-free interest rate of 3.9%, 3.5% and 3.3%, dividend yield of 0%, expected life of the option of 4.8, 7.4 and 6.6 years and expected volatility of Holdings' stock of 55.0%, 68.7% and 69.3%. Volatility used for options granted in 2005 was based on the actual volatility of our stock. 2004 and 2003 volatility was calculated as an average of the volatility of our and other comparable regional airlines' stock as our historical data is only available from April 23, 2002. We changed the method used to estimate volatility in 2005 because we believe this is more reflective of our actual volatility than using an industry average. The weighted-average grant date fair value of the stock options granted in 2005, 2004 and 2003 was $5.02, $8.96 and $8.03 per option, respectively.

The fair value of the purchase rights under the ESPP was also estimated using the Black-Scholes model with the following assumptions for 2005, 2004 and 2003, respectively: risk-free interest rate of 3.8%, 2.0% and 1.0%, dividend yield of 0%, expected volatility of Holdings' stock of 60.8%, 57.3% and 53.7% and an expected life of six months. The weighted-average fair value of each purchase right granted in 2005, 2004 and 2003 was $2.51, $3.53 and $4.20, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. As a result, we believe there are limitations in the Black-Scholes option valuation model when calculating the fair value of our options and purchase rights. However, due to the limited historical data related to our stock compensation, we believe the Black-Scholes option valuation model currently provides the best estimate.

Note 12 – Employee Benefit Plans

Effective December 31, 2002, the ExpressJet Airlines, Inc. 401(k) Savings Plan ("401(k) Plan") was adopted. Substantially all our domestic employees are covered by this plan. Under the plan, we offered the following benefits:

- a retirement match up to 5.0% of pay per person (which vests over five years); and
- a service-based match (which vested immediately), depending on years of service and the terms of the collective bargaining agreements, as applicable.

Effective October 1, 2004 for Airlines' mechanics, who are represented by the International Brotherhood of Teamsters, and January 1, 2005 for all other employees, the 401(k) Plan was amended. Under the amended plan, we offer the following benefits:

- a service-based retirement match from 4.0% up to 6.0% of pay per person (which vests over five years) depending on years of service; and
- a service-based retirement contribution (with 5-year cliff vesting) depending on years of service and the terms of the collective bargaining agreements, as applicable.

For the years ended December 31, 2005, 2004 and 2003, our total expense for the defined contribution plan was $18.2 million, $14.5 million and $10.8 million, respectively.

The ExpressJet Airlines, Inc. Profit Sharing Plan (the "Profit Sharing Plan") was adopted effective January 1, 2002 and amended on February 17, 2005. Under this plan, if Airlines achieves a 10% operating margin, the Profit Sharing Plan will pay out 5% of eligible base pay received during the year to our eligible employees, which excludes employees whose collective bargaining agreements provide otherwise and employees who participate in our management bonus program or any other bonus program designated by the Human Resources Committee of our Board. Profit sharing expense for the years ended December 31, 2005, 2004 and 2003 was $11.0 million, $10.0 million, and $8.3 million, respectively.

We also provide medical bridge coverage for employees between the age of 60 to 65, with at least 10 years of service who have retired from the company. As of December 31, 2005 and 2004, our benefit obligation was $2.6 million and $1.8 million, respectively. Total expense recognized related to this obligation for the years ended December 31, 2005, 2004 and 2003 was $0.6 million, $0.7 million and $1.3 million.

Note 13 – Commitments and Contingencies

***Capacity Purchase Agreement.* So long as Continental is our largest customer, if we enter into a capacity purchase or economically similar agreement with another major airline (defined as any airline with annual revenues greater than $500 million, prior to adjustment for inflation since 2000) to provide regional airline service for more than 10 aircraft on terms and conditions that are, in the aggregate, less favorable to us than those in the capacity purchase agreement, the capacity purchase agreement has a provision that may allow Continental to amend its agreement with us to conform to the terms and conditions of our new agreement.**

In addition, there are provisions in the capacity purchase agreement that require us to use commercially reasonable efforts to transfer, subject to applicable laws, to Continental or its designee any of our airport take-off or landing slots, route authorities or other regulatory authorizations used for Airlines' scheduled flights under the agreement.

Continental is generally responsible for all capital and start-up costs for airport terminal facilities at its hub airports and at any other facilities where it elects to provide baggage handling services to us. If Continental elects to provide baggage handling services at any facility where we previously provided baggage handling services, Continental will reimburse us for most of the capital and start-up costs we incurred at that facility. We are generally responsible for any capital and start-up costs associated with any airport terminal facilities at other airports where we fly and any non-terminal facilities not regularly used by Continental. If we exit a market at the direction of Continental (and we do not re-enter that market under our own code or that of an airline other than Continental within six months), Continental will reimburse us for certain losses incurred in connection with the closure of the related facility. If the capacity purchase agreement is terminated, we may be required to vacate the terminal facilities (or all facilities if the termination results from our material breach of the agreement) that are subleased to us by Continental, and to use commercially reasonable efforts to assign to Continental or designee any lease in our name for these facilities.

***Purchase Commitments.* As of December 31, 2005, we had firm commitments to acquire 8 regional jets from Embraer through 2006. The estimated aggregate cost of these firm commitments is approximately $0.2 billion. We will not have any obligation to take any of the aircraft under firm commitments if they are not financed by a third party and leased or subleased to either Continental or us. We also have options to purchase an additional 100 Embraer regional jets.**

Prior to December 2005, under our power-by-the-hour agreement with Rolls Royce, we were obligated to acquire up to three spare engines to support our existing aircraft and the remaining eight aircraft on firm order. In December 2005, we negotiated the sale of eight engines to Rolls Royce and, in exchange, entered into seven new engine leases with an affiliate of Rolls Royce. The engines leased have greater interchangeability than the engines sold. As a result, we have satisfied our engine obligations and are no longer obligated to purchase the three engines.

We also have other contractual obligations of approximately $1.3 billion under our power-by-the-hour contracts with various service providers. The power–by-the-hour contracts dictate the method by which we pay a vendor based on our actual level of operations in exchange for vendor coverage on specific parts and equipment on our aircraft when those parts and equipment are in need of repair or replacement. As a result of these agreements, our overall future maintenance costs will not increase; however, our short-term future costs will be higher, as we forego our warranty of these components and systems in return for future cost savings, insurance and more predictable maintenance expense. These agreements are expected to provide a better match of expenses with the usage of the aircraft. Each contract varies in term and payment procedure. The estimated amount of our future commitment is based on assumptions related to future level of operations and forecasted payment rates. Our level of operations is determined by Continental, which has exclusive scheduling authority over our fleet under the capacity purchase agreement. The level of operation inherent in the estimate is based on Continental's most recent operating plan for us, which can be altered at Continental's sole discretion. Forecasted payment rates are based on actual rates as of December 31, 2005 and increased annually according to the particular inflation index detailed in each individual contract. Contractual rate increases at actual time of occurrence may be different than the forecasted rates

See a summary of all our contractual obligations in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Commitments – Contractual Obligations and Commercial Commitments."

General Guarantees and Indemnifications. Pursuant to the capacity purchase agreement, we indemnify Continental for certain of our actions and it indemnifies us for some of its actions. During 2004, we incurred $4.0 million in other operating expenses relating to a claim by Continental for costs incurred during the post-retirement storage of certain turboprop aircraft engines.

Additionally, we are party to many contracts, in which it is common for us to agree to indemnify third parties for tort liabilities that arise out of or relate to the subject matter of the contract. In some cases, this indemnity extends to related liabilities that arising from the negligence of the indemnified parties, but typically excludes liabilities caused by gross negligence or willful misconduct. We cannot estimate the potential amount of future payments under these indemnities until events arise that would trigger a liability under the indemnities. However, we expect to be covered by insurance for a material portion of these liabilities, subject to deductibles, policy terms and condition.

Employees. As of December 31, 2005, approximately 70% of our employees are covered by collective bargaining agreements, which include pilots, mechanics, dispatchers and flight attendants. Our contracts with our pilots, dispatchers and mechanics will be amendable in December 2008, July 2009 and August 2009, respectively. Our contract with our flight attendants, which represents approximately 16% of our employees, became amendable in December 2004. We are currently engaged in labor negotiations with our flight attendants. At this time we cannot predict the outcome of these negotiations. Our other employees are not covered by collective bargaining agreements.

Legal Proceedings. We are a defendant in various lawsuits and proceedings arising in the ordinary course of our 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, results of operations or cash flows, we do not believe that the ultimate disposition of these proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

Note 14 – Related Party Transactions

The following is a summary of significant related party transactions that occurred during the three years ended December 31, 2005, other than those discussed elsewhere in the Notes to Consolidated Financial Statements.

Continental controls the scheduling, ticket prices and seat inventories with respect to Airlines' operations. In connection with this activity, Continental performs all sales and ticketing functions for Airlines on Continental ticket stock and receives cash directly from the sale of Airlines' tickets. Continental purchases or provides payment of certain items on our behalf, including fuel, certain payroll expenditures (including related benefits) and insurance, and charges us amounts as stipulated in the capacity purchase agreement. In general, transfers or sales of assets between us and Continental are recorded at net book value.

Continental provides various services to us and charges us amounts at rates in accordance with the capacity purchase and other agreements. The services provided to us by Continental are as follows.

- Certain customer services such as ground handling. Charges related to these services were approximately $75.3 million, $106.5 million and $90.1 million for the years ended December 31, 2005, 2004 and 2003.
- Centralized services and infrastructure costs, such as technology, transaction processing, treasury and risk management. Charges related to these services were approximately $8.7 million, $13.8 million and $14.4 million for the years ended December 31, 2005, 2004, and 2003.

During 2004, we amended our administrative support and information services provisioning agreement with Continental, which primarily extended the agreement for the term of the capacity purchase agreement. We also amended the capacity purchase agreement to incorporate the amendment to our power-by-the-hour agreement with Rolls Royce that was signed in September 2004.

Effective November 1, 2003, we amended our master facility and ground handling agreement with Continental to clarify how Continental allocates rent expenses to us at the airport locations where Airlines operates. Under this amendment, all terminal facility rents at the hub airports are now borne by Continental and Airlines pays for incremental rent at other Continental–managed locations unless Continental does not operate any aircraft there. In these situations, Airlines is responsible for the rent expense. At locations Airlines manages, rent is allocated between Continental and Airlines based on the number of respective passengers.

In December 2005, we recorded a current receivable from Continental in the amount of $1.7 million related to the reimbursement of the life-limited parts used on seven of the eight engines sold to Rolls Royce. This receivable is included in "Amounts due from Continental Airlines, Inc., net" on the face of the balance sheet.

During 2003, we finalized our 2002 income tax returns reflecting the tax impact of our spin-off from Continental. Upon reconciling the tax impact of the spin-off in our deferred tax accounts, a deferred tax asset of approximately $6.7 million remained. At the end of 2003, this asset was included in our deferred tax accounts. In 2004, based on Continental's agreement with our reconciliation and the conclusion that this asset was related to our spin-off from Continental, the item was reclassified as a receivable from Continental. In December 2004, we reached an agreement with Continental under which it agreed to pay half of this balance. As a result, in the fourth quarter we recorded a $3.4 million charge in other operating expenses. Continental paid us the remaining balance as full and final satisfaction of this matter in January 2005.

We also have related-party transactions between us (including our subsidiaries) and our equity investees or Continental. The following quantifies such activities:

- In July 2005, we purchased a 74,000 square foot maintenance facility shop in Miami, Florida for $4.9 million. We lease this property to American Composites, in which we own a 49% interest, under an operating lease. Rent revenue from American Composites totaled approximately $0.2 million in 2005.
- During 2005, Wing Holdings and American Composites, in which Holdings owns a non-controlling interest, provided approximately $0.2 million and $0.1 million worth of services to Airlines, respectively.
- During 2005, ExpressJet Services, a wholly owned subsidiary of Holdings, performed repair services for Wing Holdings in the amount of $0.1 million.
- During 2005, InTech, a wholly owned subsidiary of Holdings since November 2005, reported sales to Continental totaling $0.8 million.

As of December 31, 2005 and 2004, we had approximately $0.7 million of receivables from our employees (which does not include any of our officers). These receivables are related to uniforms, flight benefit charges and membership fees that are paid back to us through payroll deductions.

Note 15 – Subsequent Event

In February 2005, our board of directors authorized the inclusion of our 4.25% convertible notes due 2023 in our previously announced $30 million securities repurchase program, which includes our common stock. We expect any purchases of the notes or the stock to be made from time to time in the open market or in privately negotiated transactions. The timing of any repurchases under the program will depend on a variety of factors, including market conditions, and may be suspended or discontinued at any time. Common stock acquired through the repurchase program will be available for general corporate purposes, and convertible notes repurchased under the program will be cancelled.

Note 16 – Selected Quarterly Financial Data (Unaudited)

Unaudited summarized financial data by quarter for 2005 and 2004 is as follows (in millions, except per share data):

	March 31,	June 30,	September 30,	December 31,
2005				
Operating revenue	$ 375.4	$ 388.7	$ 393.8	$ 404.9
Operating income	38.8	40.0	38.0	39.7
Non-operating expense, net	(1.2)	(0.6)	(0.5)	-
Net income	23.3	24.3	25.5	24.9
Basic earnings per share[1]	$ 0.43	$ 0.45	$ 0.47	$ 0.46
Diluted earnings per share[3]	$ 0.39	$ 0.41	$ 0.43	$ 0.42
2004				
Operating revenue	$ 364.0	$ 370.8	$ 385.7	$ 387.0
Operating income	48.6	50.1	51.6	55.0
Non-operating expense, net	(2.1)	(2.2)	(1.8)	(1.3)
Net income	28.7	29.7	30.8	33.6
Basic earnings per share[1]	$ 0.53	$ 0.55	$ 0.57	$ 0.62
Diluted earnings per share[2][3]	$ 0.48	$ 0.49	$ 0.51	$ 0.56

(1) The sum of the individual quarterly earnings per share does not agree with year-to-date net income per share as each quarterly computation is based on the weighted average number of shares outstanding during that period.

(2) We adopted EITF 04-08 in 2004. As a result, we restated our Diluted EPS to include the potential common stock equivalents related to our senior convertible notes in our computation of Diluted EPS for all periods in which the convertible notes were outstanding (since August 2003).

(3) See detailed reconciliation of the numerator and denominator of Basic EPS to the numerator and denominator of Diluted EPS at - Note 1 - Summary of Significant Accounting Policies - (o) Earnings per Share."