

CONTINENTAL AIRLINES INC /DE/

Form DEF 14A

April 22, 2005

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OMB APPROVAL

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant    
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Continental Airlines, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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April 22, 2005

To Our Stockholders:

On behalf of the Board of Directors, we are pleased to invite you to attend the Continental Airlines, Inc. 2005 Annual Meeting of Stockholders. As indicated in the attached notice, the meeting will be held at the Doubletree Hotel at Allen Center, 400 Dallas Street, Houston, Texas on Thursday, June 16, 2005, at 10:00 a.m., local time. At the meeting, we will act on the matters described in the attached proxy statement and there will be an opportunity to discuss other matters of interest to you as a stockholder.

Please authorize your proxy or direct your vote by internet or telephone as described in the enclosed proxy statement, even if you plan to attend the meeting in person. Alternatively, you can date, sign and mail the enclosed proxy card in the envelope provided. We look forward to seeing you in Houston.

Cordially,

Larry Kellner  
*Chairman of the Board and  
Chief Executive Officer*

Jeff Smisek  
*President*

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**CONTINENTAL AIRLINES, INC.  
1600 Smith Street, Dept. HQSEO  
Houston, Texas 77002**

**NOTICE OF 2005 ANNUAL MEETING OF STOCKHOLDERS  
To Be Held June 16, 2005**

The 2005 annual meeting of stockholders of Continental Airlines, Inc. will be held at the Doubletree Hotel, 400 Dallas Street, Houston, Texas on Thursday, June 16, 2005, at 10:00 a.m., local time, for the following purposes:

1. To elect eleven directors to serve until the next annual meeting of stockholders;
2. To consider and act upon a proposal to re-approve the material terms of the performance goal under the performance award provisions of the company's Incentive Plan 2000 to enable certain compensation paid under the plan to continue to qualify as deductible performance-based compensation under Section 162(m) of the Internal Revenue Code;
3. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent auditors of the company and its subsidiaries for 2005; and
4. To consider and act upon any other matters that may properly come before the annual meeting or any postponement or adjournment thereof.

The holders of record of the company's common stock at the close of business on April 21, 2005 are entitled to notice of and to vote at the meeting. A list of the stockholders entitled to vote at the meeting will be available for examination, during ordinary business hours, for ten days before the meeting at our principal place of business, 1600 Smith Street, Houston, Texas.

Jennifer L. Vogel  
*Secretary*

Houston, Texas  
April 22, 2005

**Please authorize your proxy or direct your vote by internet or telephone as described in the enclosed proxy statement, even if you plan to attend the meeting in person. Alternatively, you may date, sign and mail the enclosed proxy and return it promptly by mail in the envelope provided. If you mail the proxy card, no postage is required if mailed in the United States. If you do attend the meeting in person and want to withdraw your proxy, you may do so as described in the enclosed proxy statement and vote in person on all matters properly brought before the meeting.**

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**CONTINENTAL AIRLINES, INC.  
1600 Smith Street, Dept. HQSEO  
Houston, Texas 77002**

**PROXY STATEMENT  
2005 ANNUAL MEETING OF STOCKHOLDERS  
To Be Held June 16, 2005**

**THE MEETING**

**Purpose, Place, Date and Time**

We are providing this proxy statement to you in connection with the solicitation on behalf of Continental's board of directors of proxies to be voted at the company's 2005 annual stockholders meeting or any postponement or adjournment of that meeting. The meeting will be held at the Doubletree Hotel, 400 Dallas Street, Houston, Texas on Thursday, June 16, 2005, at 10:00 a.m., local time, for the purposes set forth in the accompanying Notice of 2005 Annual Meeting of Stockholders. This proxy statement and the accompanying proxy, which are accompanied by a copy of our 2004 Annual Report, are being first mailed or otherwise delivered to stockholders on or about April 25, 2005.

**Record Date; Stockholders Entitled to Vote**

Stockholders of record at the close of business on April 21, 2005, the record date, are entitled to notice of and to vote at the meeting and at any postponement or adjournment of the meeting. At the close of business on the record date, Continental had outstanding 66,853,911 shares of Class B common stock, which we refer to simply as common stock, and one share of Series B Preferred Stock, held by Northwest Airlines, Inc. (Northwest). Subject to certain limitations on voting by non-U.S. citizens, as described below, each share of our common stock is entitled to one vote per share. The share of Series B Preferred Stock held by Northwest is not entitled to vote with respect to the matters set forth in the Notice.

Under U.S. law, no more than 25% of the voting stock of a U.S. air carrier such as Continental may be owned or controlled, directly or indirectly, by persons who are not U.S. citizens, and Continental itself must be a U.S. citizen. For these purposes, a U.S. citizen means:

an individual who is a citizen of the United States;

a partnership, each of whose partners is an individual who is a citizen of the United States; or

a corporation or association organized under the laws of the United States or a state, the District of Columbia, or a territory or possession of the United States, of which the president and at least two-thirds of the board of directors and other managing officers are citizens of the United States, which is under the actual control of citizens of the United States, and in which at least 75% of the voting interest is owned or controlled by persons who are citizens of the United States.

The U.S. Department of Transportation has broad authority to determine on a case-by-case basis whether an air carrier is effectively owned and controlled by citizens of the United States.

In order to comply with these rules, our certificate of incorporation provides that persons who are not U.S. citizens may not vote shares of our capital stock unless the shares are registered on a separate stock record maintained by us. We will not register shares on this record if the amount registered would cause us to violate the foreign ownership rules or adversely affect our operating certificates or authorities. Registration on this record is made in chronological order based on the date we receive a written request

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for registration. As of the record date, shares registered on this record comprised less than 25% of our voting stock.

**Quorum**

A quorum of stockholders is necessary for a valid meeting. The required quorum for the transaction of business at the annual meeting is a majority of the total outstanding shares of stock entitled to vote at the meeting, either present in person or represented by proxy.

Abstentions will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum, as will broker non-votes. A broker non-vote occurs under stock exchange rules when a broker is not permitted to vote on a matter without instructions from the beneficial owner of the shares and no instruction is given. However, there will be no broker non-votes in connection with this meeting as the nature of the proposals to be considered at the meeting allows brokers discretionary voting in the absence of timely instructions from beneficial owners.

**Vote Required for Proposal 1: Election of Directors**

Directors will be elected by a plurality of the votes cast for directors.

In the vote to elect directors, stockholders may:

- (a) vote in favor of all nominees;
- (b) vote to withhold votes as to all nominees; or
- (c) withhold votes as to specific nominees.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES.**

**Vote Required for Proposal 2: Proposal to Re-Approve the Material Terms of the Performance Goal Under the Performance Award Provisions of the Company's Incentive Plan 2000**

The proposal relating to re-approval of the material terms of the performance goal under the performance award provisions of the company's Incentive Plan 2000 will require approval by a majority of the votes cast at the meeting on Proposal 2 by the holders of common stock entitled to vote thereon. Abstentions are not treated as votes cast and thus will not affect the outcome of the proposal.

In the vote on the proposal relating to re-approval of the material terms of the performance goal under the performance award provisions of the company's Incentive Plan 2000, stockholders may:

- (a) vote in favor of the proposal;
- (b) vote against the proposal; or
- (c) abstain from voting on the proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO RE-APPROVE THE MATERIAL TERMS OF THE PERFORMANCE GOAL UNDER THE PERFORMANCE AWARD PROVISIONS OF THE COMPANY'S INCENTIVE PLAN 2000 SO THAT PAYMENTS MADE PURSUANT TO SUCH AWARDS REMAIN TAX DEDUCTIBLE. THE COMPANY IS NOT PROPOSING ANY CHANGES IN THE INCENTIVE PLAN 2000, NOR IS THE COMPANY SEEKING TO INCREASE THE AGGREGATE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE UNDER THE INCENTIVE PLAN 2000. THE ONLY CONSEQUENCE OF A FAILURE TO APPROVE THIS PROPOSAL IS THAT PAYMENTS MADE PURSUANT TO PERFORMANCE AWARD GRANTS WOULD NO LONGER BE DEDUCTIBLE FOR FEDERAL INCOME TAX PURPOSES BY THE COMPANY.**

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**Vote Required for Proposal 3: Ratification of Appointment of Independent Auditors**

The proposal to ratify the appointment of Ernst & Young LLP as independent auditors will require approval by a majority of the votes cast at the meeting on Proposal 3 by the holders of common stock entitled to vote thereon.

Abstentions are not treated as votes cast and thus will not affect the outcome of the proposal.

In the vote on the ratification of the appointment of Ernst & Young LLP as independent auditors, stockholders may:

(a) vote in favor of the ratification;

(b) vote against the ratification; or

(c) abstain from voting on the ratification.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS.**

**Voting of Proxies**

Although you may return the proxy card or voting form that accompanies this proxy statement in the enclosed postage-paid envelope, we ask that you vote instead by internet or telephone, which saves us money. Please note that the telephonic voting procedures described below are not available for shares held by non-U.S. citizens.

*Shares Held of Record.* Stockholders with shares registered in their names with Mellon Investor Services LLC, Continental's transfer agent and registrar, may authorize a proxy by internet at the following internet address: [www.proxyvoting.com/cal](http://www.proxyvoting.com/cal) or telephonically by calling Mellon Investor Services at 1-866-540-5760. Proxies submitted through Mellon Investor Services by internet or telephone must be received by 11:59 p.m. eastern time on June 15, 2005. The giving of such proxy will not affect your right to vote in person if you decide to attend the meeting.

*Shares Held in a Bank or Brokerage Account.* A number of banks and brokerage firms participate in a program, separate from that offered by Mellon Investor Services, that also permits stockholders to direct their vote by internet or telephone. If your shares are held in an account at such a bank or brokerage firm, you may direct the voting of those shares by internet or telephone by following the instructions on their enclosed voting form. Votes directed by internet or telephone through such a program must be received by 11:59 p.m. eastern time on June 15, 2005. Directing the voting of your shares will not affect your right to vote in person if you decide to attend the meeting; however, you must first request a valid proxy either on the internet or the voting form that accompanies this proxy statement. Requesting a valid proxy prior to the deadlines described above will automatically cancel any voting directions you have previously given by internet or by telephone with respect to your shares.

The internet and telephone proxy procedures are designed to authenticate stockholders' identities, to allow stockholders to give their proxy instructions and to confirm that those instructions have been properly recorded. Stockholders authorizing proxies or directing the voting of shares by internet should understand that there may be costs associated with electronic access, such as usage charges from internet access providers and telephone companies, that must be borne by the stockholder.

**Revocation of Proxies**

You can revoke your proxy before it is exercised at the meeting in any of three ways:

by submitting written notice to our Secretary before the meeting that you have revoked your proxy;

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by timely submitting another proxy via the internet, by telephone or by mail that is later dated and, if by mail, that is properly signed; or

by voting in person at the meeting, provided you have a valid proxy to do so if you are not the record holder of the shares.

**Expenses of Solicitation**

Continental will bear the costs of the solicitation of proxies. In addition to the solicitation of proxies by mail, proxies may also be solicited by internet, telephone, telegram, fax or in person by regular employees and directors of Continental, none of whom will receive additional compensation for that solicitation. In addition, we have retained Mellon Investor Services LLC to assist in the solicitation of proxies for a fee estimated not to exceed \$5,000 plus reasonable out-of-pocket expenses. Arrangements will be made with brokerage houses and with other custodians, nominees and fiduciaries to forward proxy soliciting materials to beneficial owners, and we will reimburse them for their reasonable out-of-pocket expenses incurred in doing so.

**Stockholders Sharing the Same Last Name and Address**

We are sending only one copy of our proxy statement to stockholders who share the same last name and address, unless they have notified us that they want to continue receiving multiple copies. This practice, known as householding, is designed to reduce duplicate mailings and save significant printing and postage costs.

If you received a householded mailing this year and you would like to have additional copies of our proxy statement mailed to you or you would like to opt out of this practice for future mailings, please submit your request to our Secretary in writing at Continental Airlines, Inc., P.O. Box 4607, Houston, Texas 77210-4607. You may also contact us if you received multiple copies of the annual meeting materials and would prefer to receive a single copy in the future.

**Other Matters To Be Acted on at the Annual Meeting**

We will not act on any matters at the meeting other than those indicated on the accompanying Notice and procedural matters related to the meeting.

**Table of Contents****VOTING RIGHTS AND PRINCIPAL STOCKHOLDERS**

We have one class of securities outstanding that is entitled to vote on the matters to be considered at the meeting, Class B common stock, which is entitled to one vote per share, subject to the limitations on voting by non-U.S. citizens described above. The following table sets forth, as of April 15, 2005 (unless otherwise indicated below), information with respect to persons owning beneficially (to our knowledge) more than five percent of any class of our voting securities.

Name and Address of Beneficial Holder	Beneficial Ownership of Class B Common Stock	Percent of Class
Amaranth LLC c/o Amaranth Advisors L.L.C. One American Lane Greenwich, CT 06831	4,880,300(1)	7.2%
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	3,424,653(2)	5.1%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	4,787,942(3)	7.2%
Harbert Convertible Arbitrage Master Fund, Ltd. c/o HMC Convertible Arbitrage Offshore Manager, L.L.C. 555 Madison Avenue, 16th Floor New York, NY 10022	3,653,574(4)	5.5%
Mellon Financial Corporation One Mellon Center Pittsburgh, PA 15258	5,113,191(5)	7.6%
Vanguard Windsor Funds-Vanguard Windsor Fund 100 Vanguard Blvd. Malvern, PA 19355	5,242,500(6)	7.8%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	9,223,200(7)	13.8%

- (1) According to an amendment to Schedule 13G filed with the Securities and Exchange Commission ( SEC ) in February 2005, the Amaranth parties reported that, as of December 31, 2004, they have shared voting power and shared dispositive power with respect to all of the shares reflected in the table. The shares reported are comprised of 30,300 shares of common stock, Continental s 5% convertible notes which are convertible into an aggregate of 1,150,000 shares of common stock, and listed options exercisable into 3,700,000 shares of common stock. The Amaranth parties are comprised of (i) Amaranth LLC, a Cayman Islands exempted company ( Amaranth ), (ii) Amaranth Advisors L.L.C., a Delaware limited liability company and investment advisor for Amaranth, and (iii) Nicholas M. Maounis, a United States citizen and the managing member of Amaranth Advisors L.L.C.
- (2) According to a Schedule 13G filed with the SEC in February 2005, the following entities, which are affiliates of one another, may be deemed to beneficially own all of the shares reflected in the table as of December 31, 2004

and have sole voting power with respect to 3,159,646 shares, sole dispositive power with respect to all of the shares, and no shares subject to shared voting or shared dispositive power. The following affiliates own common stock in the amounts and manner indicated: Barclays Global Investors, NA., beneficial owner of 1,984,838 shares, with sole voting power with respect to 1,724,048 shares and sole dispositive power with respect to 1,984,838 shares; Barclays Global Fund Advisors, beneficial owner of 939,815 shares, with sole voting power with respect to 935,598 shares and sole dispositive power with respect to 939,815 shares; and Barclays Bank PLC, beneficial owner of

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500,000 shares, with sole voting power and sole dispositive power with respect to all of such shares. The Schedule 13G states that the shares reported are held by the company in trust accounts for the economic benefit of the beneficiaries of those accounts.

- (3) According to an amendment to Schedule 13G filed with the SEC in February 2005, Dimensional Fund Advisors Inc. ( Dimensional ), an investment adviser, may be deemed to have, as of December 31, 2004, beneficial ownership of the shares owned by its advisory clients. Of such shares, Dimensional reported sole voting and sole dispositive power with respect all of the shares reflected in the table and no shares subject to shared voting or shared dispositive power. Dimensional disclaims beneficial ownership of such shares and reported that none of its clients was known by it to own more than five percent of the common stock.
- (4) According to a Schedule 13G filed with the SEC in January 2005, the Harbert parties reported that, as of January 4, 2005, they have shared voting power and shared dispositive power with respect to all of the shares reflected in the table. The Harbert parties are comprised of (i) Harbert Convertible Arbitrage Master Fund, Ltd., a Cayman Islands corporation; (ii) HMC Convertible Arbitrage Offshore Manager, L.L.C., a Delaware limited liability corporation; (iii) HMC Investors, L.L.C., a Delaware limited liability corporation; and (iv) Jeffrey Parket, Mitchell Thaw, Raymond J. Harbert and Michael D. Luce, each a United States citizen. The Harbert parties disclaim beneficial ownership in the shares reported in the Schedule 13G except to the extent of their pecuniary interest therein.
- (5) According to a Schedule 13G filed with the SEC in February 2005, Mellon Financial Corporation ( Mellon ) reported beneficial ownership, through its direct and indirect subsidiaries, of up to 5,113,191 shares of our common stock. Of such shares, Mellon reported sole voting power with respect to 4,605,292 shares, sole dispositive power with respect to 5,101,291 shares, and no shares subject to shared voting or shared dispositive power.
- (6) According to an amendment to Schedule 13G filed with the SEC in February 2005, Vanguard Windsor Funds-Vanguard Windsor Fund, an investment company, may be deemed to beneficially own the shares reflected in the table as of December 31, 2004. It reported that it has sole power to vote and shared power to dispose of all of those shares and that no shares are subject to shared voting or sole dispositive power. The shares reported in the table as held by Wellington Management Company, LLP include the shares held by Vanguard Windsor Funds-Vanguard Windsor Fund.
- (7) According to an amendment to Schedule 13G filed with the SEC in February 2005, Wellington Management Company, LLP, an investment adviser, may be deemed to have owned the shares reflected in the table as of December 31, 2004. It reported that it has shared voting power with respect to 3,193,900 of those shares, shared dispositive power with respect to 9,223,200 of those shares, and no shares subject to sole voting or dispositive power. It also reported that all of the shares of common stock are owned of record by its clients and that none of its clients, other than Vanguard Windsor Funds, Inc., 100 Vanguard Blvd., Malvern, PA 19355, was known by it to own more than five percent of the common stock. The shares reported in the table as held by Wellington Management Company, LLP, include the shares reported in the table as held by Vanguard Windsor Funds-Vanguard Windsor Fund.

**Table of Contents****Beneficial Ownership of Common Stock by Directors and Executive Officers**

The following table shows, as of April 15, 2005 (unless otherwise indicated below), the number of shares of common stock beneficially owned by our current directors, the executive officers (including two retired executive officers) named below in the Summary Compensation Table, and all executive officers and directors as a group.

Name of Beneficial Owners	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Thomas J. Barrack, Jr.	45,000(2)	*
Gordon M. Bethune**	907,422(3)	1.3%
Kirbyjon H. Caldwell	30,288(4)	*
Michael H. Campbell**	182,500(5)	*
James Compton	40,465(6)	*
Mark A. Erwin	147,839(7)	*
Lawrence W. Kellner	400,270(8)	*
Douglas H. McCorkindale	60,000(9)	*
Henry L. Meyer III	15,000(10)	*
Jeffrey J. Misner	62,262(11)	*
Oscar Munoz	5,000(2)	*
George G. C. Parker	46,400(9)	*
Jeffery A. Smisek	328,095(12)	*
Karen Hastie Williams	46,000(9)	*
Ronald B. Woodard	10,000(2)	*
Charles A. Yamarone	56,000(13)	*
All executive officers and directors as a group (26 persons)	2,992,422(14)	4.3%

\* Less than 1%

\*\* Retired executive officer

- (1) The persons listed have the sole power to vote and dispose of the shares beneficially owned by them except as otherwise indicated.
- (2) Represents shares subject to stock options that are exercisable within sixty days of April 15, 2005 ( Exercisable Options ).
- (3) Includes 800,000 Exercisable Options. All of Mr. Bethune s outstanding stock options vested in connection with his retirement from the company effective December 30, 2004. Shares reflected in the table as being beneficially owned by Mr. Bethune are as of that date.
- (4) Includes 30,000 Exercisable Options.
- (5) Includes 180,000 Exercisable Options. All of Mr. Campbell s outstanding stock options vested in connection with his retirement from the company effective December 30, 2004. Shares reflected in the table as being beneficially owned by Mr. Campbell are as of that date.
- (6) Includes 921 restricted shares and 36,258 Exercisable Options.

- (7) Includes 1,562 restricted shares and 140,000 Exercisable Options.
- (8) Includes 9,375 restricted shares and 329,687 Exercisable Options. Also includes 200 shares owned by a relative of Mr. Kellner, as to which shares Mr. Kellner shares dispositive power but disclaims beneficial ownership.
- (9) Includes 45,000 Exercisable Options.
- (10) Includes 10,000 Exercisable Options.

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- (11) Includes 2,000 restricted shares and 53,062 Exercisable Options.
- (12) Includes 8,000 restricted shares and 266,500 Exercisable Options.
- (13) Includes 48,000 Exercisable Options.
- (14) Includes 32,432 restricted shares and 2,639,046 Exercisable Options.

**Table of Contents****INFORMATION ABOUT OUR BOARD****Board of Directors Meetings**

Regular meetings of our board of directors are generally held four times per year, and special meetings are scheduled when required. The board held seven meetings in 2004. During 2004, each director attended at least 75% of the sum of the total number of meetings of the board and each committee of which he or she was a member. Last year, all ten of our directors attended the annual meeting of stockholders.

The following table lists our five committees, the directors who currently serve on them and the number of committee meetings held in 2004.

**Membership on Board Committees**

<b>Name</b>	<b>Audit</b>	<b>Human Resources</b>	<b>Corporate Governance</b>	<b>Finance</b>	<b>Executive</b>
Mr. Barrack		X	C		C
Mr. Caldwell		X	X		
Mr. Kellner				X	X
Mr. McCorkindale					X
Mr. Meyer	X				X
Mr. Munoz	X				
Mr. Parker	C			X	
Mr. Smisek				X	
Ms. Williams				C	
Mr. Woodard	X	X		X	
Mr. Yamarone		C	X		
2004 Meetings	9	9	4	1	0

C = Chair

X = Member

The board of directors has adopted Corporate Governance Guidelines developed by the corporate governance committee of the board. The Corporate Governance Guidelines, together with the charters of our board committees, the company's Principles of Conduct for employees and directors and the Directors' Code of Ethics, provide the framework for the governance of Continental. A complete copy of these documents can be found under Corporate Governance at [www.continental.com/company/investor](http://www.continental.com/company/investor). Under our Corporate Governance Guidelines, directors are expected to diligently fulfill their fiduciary duties to stockholders, including by preparing for, attending and participating in meetings of the board and the committees of which the directors are a member. We do not have a formal policy regarding director attendance at annual meetings. However, when considering a director's renomination to the board, the Corporate Governance Committee must consider the director's history of attendance at annual meetings and at board and committee meetings as well as the director's preparation for and participation in such meetings.

Our non-management directors regularly meet separately in executive session without any members of management present. Our Corporate Governance Guidelines provide that the presiding director at each such session rotates among the non-management members, in order of seniority of board service. If any of our non-management directors were to fail to meet the NYSE's criteria for independence, then our independent directors would meet separately at least once a year in accordance with the rules of the NYSE. Currently, all of our non-management directors are independent within the meaning of the NYSE's criteria for independence.



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### **Standing Committees of the Board**

*Audit Committee.* The Audit Committee has the authority and power to act on behalf of the board of directors with respect to the appointment of our independent auditors and with respect to authorizing all audit and other activities performed for us by our internal and independent auditors. The committee, among other matters, reviews with management and the company's independent auditors the effectiveness of the accounting and financial controls of the company and its subsidiaries, and reviews and discusses the company's audited financial statements with management and the independent auditors. It is the responsibility of the committee to evaluate the qualifications, performance and independence of the independent auditors and to maintain free and open communication among the committee, the independent auditors, the internal auditors and management of the company. See Report of the Audit Committee below. All members of the Audit Committee are independent directors as required under the applicable rules of the NYSE.

*Corporate Governance Committee.* The Corporate Governance Committee identifies individuals qualified to become members of the board of directors, consistent with criteria approved by the board, and recommends to the board the slate of directors to be nominated by the board at the annual stockholders meeting and any director to fill a vacancy on the board. The committee will consider recommendations for nominees for directorships submitted by stockholders. Stockholders desiring the committee to consider their recommendations for nominees should submit their recommendations, together with appropriate biographical information and qualifications, in writing to the committee, care of the Secretary of the company at our principal executive offices. The committee also recommends directors to be appointed to committees of the board, including in the event of vacancies, recommends to the board the compensation and benefits of non-employee members of the board and its committees and oversees the evaluation of the board and management. The committee developed and recommended to the board the company's Corporate Governance Guidelines and is responsible for overseeing the company's Directors Code of Ethics, including determining the appropriate course of action with respect to any potential or actual conflicts of interest involving a director brought to the attention of the chair of the committee. All members of the Corporate Governance Committee are independent directors as required under the applicable rules of the NYSE. The committee recommended to the board that it nominate the 11 director nominees described below.

*Executive Committee.* The Executive Committee exercises certain powers of the board of directors between board meetings. The committee currently consists of three non-employee directors and one officer-director of the company.

*Finance Committee.* The Finance Committee reviews our annual financial budget, including the capital expenditure plans, and makes recommendations to the board of directors regarding adoption of the budget as the committee deems appropriate. The committee currently consists of two officer-directors and three non-employee directors.

*Human Resources Committee.* The Human Resources Committee reviews and approves corporate goals and objectives relevant to the company's chief executive officer's (CEO's) compensation, evaluates the CEO's performance in light of those goals and objectives, and determines and approves the CEO's compensation level based on its evaluation. The committee also reviews and approves compensation of the company's Section 16 Officers (as defined in Rule 16a-1(f) of the Securities Exchange Act) and incentive compensation plans and programs applicable to them. See Executive Compensation Report of the Human Resources Committee below. The committee also administers our stock plans, executive bonus program and other incentive programs. All members of the Human Resources Committee are independent directors as required under the applicable rules of the NYSE.

### **Communications with the Board**

Stockholders or other interested parties can contact any director or committee of the board by writing to them c/o Corporate Compliance Officer, Continental Airlines, Inc., P. O. Box 4607, Houston, Texas 77210-4607. Comments or complaints relating to the company's accounting, internal accounting controls or

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auditing matters will also be referred to members of the Audit Committee. All such communications will be forwarded to the appropriate member(s) of the board, except that the board has instructed the company to direct communications that do not relate to the company's accounting, internal accounting controls or auditing matters, to the Chair of the Corporate Governance Committee and not to forward to the board certain categories of routine communications.

### **Qualifications of Directors**

When identifying director nominees, the Corporate Governance Committee will consider the following:

The person's reputation, integrity and (for NYSE and SEC purposes) independence;

The person's skills and business, government or other professional experience and acumen, bearing in mind the composition of the board and the current state of the company and the airline industry generally at the time of determination;

The number of other public companies for which the person serves as a director and the availability of the person's time and commitment to the company;

Diversity;

The person's knowledge of a major geographical area in which the company operates (such as a hub) or another area of the company's operational environment; and

The person's age.

In the case of current directors being considered for renomination, the Committee will also take into account the director's tenure as a member of the board, the director's history of attendance at annual stockholder meetings and at board and committee meetings and the director's preparation for and participation in such meetings.

### **Director Nomination Process**

Our director nomination process for new board members is as follows:

The Corporate Governance Committee, the Chairman of the Board and Chief Executive Officer, or other board member identifies a need to add a new board member who meets specific criteria or to fill a vacancy on the board.

The Corporate Governance Committee initiates a search by working with staff support, seeking input from board members and senior management and hiring a search firm, if necessary.

The Corporate Governance Committee also considers recommendations for nominees for directorships submitted by stockholders.

The initial slate of candidates that will satisfy specific criteria and otherwise qualify for membership on the Board, are identified and presented to the Corporate Governance Committee, which ranks the candidates.

The Chairman of the Board and Chief Executive Officer and at least one member of the Corporate Governance Committee interviews prospective candidate(s).

The full board is kept informed of progress.

The Corporate Governance Committee offers other board members the opportunity to interview the candidate(s) and then meets to consider and approve the final candidate(s).

The Corporate Governance Committee seeks full board endorsement of the final candidate(s).

The final candidate(s) are nominated by the board or elected to fill a vacancy.

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### **Compensation of Directors**

As previously reported, effective February 28, 2005, the non-employee members of the Board of Directors voluntarily elected to reduce by 30% their annual cash retainer and board and committee meeting attendance fees, which reductions are reflected in the description below. The board also elected to forego their annual grant of 5,000 stock options that would otherwise be awarded in connection with their re-election to the board at the 2005 annual meeting. Due to the increased oversight responsibilities caused by compliance with the Sarbanes-Oxley Act of 2002, the board determined not to decrease the audit committee's meeting fees or that portion of the audit committee's retainer that exceeds the base retainer for all board members.

Members of our board of directors who are not our full-time employees receive:

\$24,500 per year, plus an additional \$25,000 for members of the Audit Committee (\$40,000 for the chairperson of the Audit Committee);

\$1,400 (\$2,100 for the chairperson) for each board and committee meeting physically attended (other than an Audit Committee meeting);

\$2,000 (\$3,000 for the chairperson) for each Audit Committee meeting physically attended;

\$700 for each board meeting attended by telephone;

\$350 for each committee meeting attended by telephone (\$500 for each Audit Committee meeting attended by telephone);

stock options to purchase 5,000 shares of common stock at the grant date fair market value, which are fully vested upon grant and have a 10-year term. Such options are granted following each annual stockholders meeting and upon election to the board if they are first elected to the board other than at an annual stockholders meeting; and

lifetime flight benefits, comprised of space-available personal and family flight passes, a travel card permitting positive space travel by the director, the director's family and certain other individuals (which is taxable to the director, subject to the reimbursement of certain of such taxes by the company), frequent flyer cards and airport lounge cards ( Flight Benefits ).

In addition, non-employee directors who conduct Continental business in their capacities as directors on Continental's behalf at the request of the board or the Chairman of the Board are paid (i) for telephone participation in board and committee meetings as if they were physically present, if their conducting that business makes it impractical for them to attend the meeting in person, and (ii) \$3,000 per day spent outside the United States while conducting that business. Directors may also participate in director education programs and director institutes offered by third parties and the company will reimburse them for expenses incurred in connection with their participation.

During 2004, the value we imputed to the use of the flight benefits described above, including our reimbursement of related taxes, varied by director, but did not exceed approximately \$36,000 for any of the non-employee directors. As is common in the airline industry, directors also receive travel privileges on some other airlines through arrangements entered into between Continental and such airlines.

All directors, including those who are full-time employees who serve as directors, receive reimbursement of expenses incurred in attending meetings.

### **Certain Transactions**

On January 15, 2005, Karen Hastie Williams, one of our directors, retired as a partner of Crowell & Moring LLP, a law firm that has provided services to us and our subsidiaries for many years. Ms. Williams will continue to work on a part-time basis on special assignments for the firm. Ms. Williams does not personally provide any legal services to Continental or its subsidiaries. Our fee arrangement with Crowell & Moring LLP is negotiated on the same basis as

our arrangements with other outside legal

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counsel and is subject to the same terms and conditions. The fees we pay to Crowell & Moring LLP are comparable to those we pay to other law firms for similar services. Our board of directors has reviewed this arrangement and determined that it is not material to Ms. Williams.

An adult child of Gordon Bethune, our retired Chairman of the Board and Chief Executive Officer, and an adult child (by former marriage) of the spouse of Mr. Bethune are employed by the company: Xavier Bethune (Senior Director-Purchasing) and Michael Natale, Staff Vice President and Chief Technology Officer. Xavier Bethune is the son of Mr. Bethune and Mr. Natale is the son (by former marriage) of Mr. Bethune's spouse. Mr. Natale's original employment by Continental predated Mr. Bethune's employment by Continental. These individuals received aggregate salaries and bonuses in 2004 of \$156,147 and \$205,509, respectively, along with employee flight and other benefits typical to their levels of employment.

**Compensation Committee Interlocks and Insider Participation**

Our executive compensation programs are administered by the Human Resources Committee of the board of directors. The committee is currently composed of four independent, non-employee directors, and no member of the committee has been an officer or employee of Continental or any of its subsidiaries.

**Report of the Audit Committee**

The Audit Committee is comprised of four non-employee members of the board of directors (listed below). After reviewing the qualifications of the current members of the committee, and any relationships they may have with the company that might affect their independence from the company, the board has determined that (1) all current committee members are independent as that concept is defined in Section 10A of the Exchange Act, (2) all current committee members are independent as that concept is defined in the applicable rules of the NYSE, (3) all current committee members are financially literate, and (4) Mr. Parker and Mr. Munoz each qualifies as an audit committee financial expert under the applicable rules promulgated pursuant to the Exchange Act.

The board of directors appointed the undersigned directors as members of the committee and adopted a written charter setting forth the procedures and responsibilities of the committee. Each year, the committee reviews the charter and reports to the board on its adequacy in light of applicable NYSE rules. In addition, the company will furnish an annual written affirmation to the NYSE relating to, among other things, clauses (2)-(4) of the first paragraph of this report and the adequacy of the committee charter.

During the last year, and earlier this year in preparation for the filing with the SEC of the company's annual report on Form 10-K for the year ended December 31, 2004 (the "10-K"), the committee:

reviewed and discussed the audited financial statements included as Appendix A to this proxy statement with management and the company's independent auditors;

reviewed the overall scope and plans for the audit and the results of the independent auditors' examinations;

met with management periodically during the year to consider the adequacy of the company's internal controls and the quality of its financial reporting and discussed these matters with the company's independent auditors and with appropriate company financial personnel and internal auditors;

discussed with the company's senior management, independent auditors and internal auditors the process used for the company's chief executive officer and chief financial officer to make the certifications required by the SEC and the Sarbanes-Oxley Act of 2002 in connection with the 10-K and other periodic filings with the SEC;

reviewed and discussed with the independent auditors (1) their judgments as to the quality (and not just the acceptability) of the company's accounting policies, (2) the written communication required by Independence Standards Board Standard No. 1, Independence Discussions with Audit

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Committees and the independence of the independent auditors, and (3) the matters required to be discussed with the committee under auditing standards generally accepted in the United States, including Statement on Auditing Standards No. 61, Communication with Audit Committees ;

based on these reviews and discussions, as well as private discussions with the independent auditors and the company's internal auditors, recommended to the board of directors the inclusion of the audited financial statements of the company and its subsidiaries in the 10-K; and

determined that the non-audit services provided to the company by the independent auditors (discussed below under Proposal 3) are compatible with maintaining the independence of the independent auditors. The committee's pre-approval policies and procedures are discussed below under Proposal 3.

Notwithstanding the foregoing actions and the responsibilities set forth in the committee charter, the charter clarifies that it is not the duty of the committee to plan or conduct audits or to determine that the company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. Management is responsible for the company's financial reporting process including its system of internal controls, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. The independent auditors are responsible for expressing an opinion on those financial statements. Committee members are not employees of the company or accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, the committee has relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States and on the representations of the independent auditors included in their report on the company's financial statements.

The committee meets regularly with management and the independent and internal auditors, including private discussions with the independent auditors and the company's internal auditors and receives the communications described above. The committee has also established procedures for (a) the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters, and (b) the confidential, anonymous submission by the company's employees of concerns regarding questionable accounting or auditing matters. However, this oversight does not provide us with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, our considerations and discussions with management and the independent auditors do not assure that the company's financial statements are presented in accordance with generally accepted accounting principles or that the audit of the company's financial statements has been carried out in accordance with generally accepted auditing standards.

The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the company specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

Respectfully submitted,

*Audit Committee*

George G. C. Parker, Chairman

Henry L. Meyer III

Oscar Munoz

Ronald B. Woodard

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**INFORMATION ABOUT OUR EXECUTIVE OFFICERS AND COMPENSATION MATTERS**

**Executive Officers**

The following table sets forth information with respect to our current executive officers:

<b>Name, Age and Position</b>	<b>Term of Office and Business Experience</b>
LAWRENCE W. KELLNER, age 46 Chairman of the Board and Chief Executive Officer	Chairman of the Board and Chief Executive Officer since December 2004. President and Chief Operating Officer (March 2003-December 2004); President (May 2001-March 2003); Executive Vice President and Chief Financial Officer (November 1996-May 2001). Director since 2001. Director of: Marriott International, Inc.
JEFFERY A. SMISEK, age 50 President	President since December 2004. Executive Vice President (March 2003-December 2004); Executive Vice President Corporate and Secretary (May 2001-March 2003); Executive Vice President, General Counsel and Secretary (November 1996-May 2001). Director since 2004. Director of: National Oilwell Varco, Inc.
JAMES COMPTON, age 49 Executive Vice President Marketing	Executive Vice President Marketing since August 2004. Senior Vice President Marketing (March 2003-August 2004). Senior Vice President Pricing and Revenue Management (February 2001-March 2003); Vice President Pricing and Revenue Management (August 1999-February 2001).
JEFFREY J. MISNER, age 51 Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer since August 2004. Senior Vice President and Chief Financial Officer (November 2001-August 2004). Senior Vice President Finance (May 2001-November 2001); Vice President Finance and Treasurer (November 1999-May 2001).
MARK J. MORAN, age 49 Executive Vice President Operations	Executive Vice President Operations since August 2004. Senior Vice President Technical Operations and Purchasing (September 2003- August 2004). Vice President Technical Operations and Purchasing (March 2003-September 2003); Vice President Aircraft Maintenance (February 1998-March 2003).
WILLIAM G. BRUNGER, age 55 Senior Vice President Network	Senior Vice President Network since August 2004. Vice President Network (July 2003-August 2004); Vice President Distribution Planning (March 2003-July 2003); Vice President Distribution Planning & Revenue Decision Support (August 1999-March 2003).
REBECCA G. COX, age 50 Senior Vice President Government Affairs	Senior Vice President Government Affairs since September 2003. Vice President Government Affairs (November 1990-September 2003).
MARK A. ERWIN, age 49 Senior Vice President Asia/ Pacific and Corporate Development President and Chief Executive Officer of Continental Micronesia, Inc.	Senior Vice President Asia/Pacific and Corporate Development since August 2004. Director, President and Chief Executive Officer of Continental Micronesia, Inc. (the company's western Pacific subsidiary) since September 2002. Senior Vice President Airport Services (April 1995-September 2002).

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**Name, Age and Position**

**Term of Office and Business Experience**

DAVID L. HILFMAN, age 44  
Senior Vice President Sales

Senior Vice President Sales since August 2004. Vice President Sales and Reservations (September 2003-August 2004); Vice President Sales (March 2003-September 2003); Vice President Multi-National Sales and Revenue Programs (January 2000-May 2001).

GERALD LADERMAN, age 47  
Senior Vice President Finance and Treasurer

Senior Vice President Finance and Treasurer since May 2001; Senior Vice President Finance (January 2000-May 2001); Vice President Corporate Finance (June 1995 December 1999).

DANTE R. MARZETTA II, age 61  
Senior Vice President Technical Operations and Purchasing

Senior Vice President Technical Operations and Purchasing since August 2004. Senior Vice President Airport Services (February 2003-August 2004). Vice President Airport Services (September 2002-February 2003); Staff Vice President Cleveland Hub (February 2001-September 2002); Senior Director Cleveland Hub (November 1999-February 2001).

WILLIAM A. MEEHAN, age 44  
Senior Vice President Airport Services

Senior Vice President Airport Services since August 2004. Vice President Houston Hub (March 2003-August 2004); Vice President Cleveland Hub (September 2002-March 2003); President and Chief Operating Officer of Continental Micronesia, Inc. (the company's western Pacific subsidiary) (May 1998-September 2002).

HOLDEN E. SHANNON, age 42  
Senior Vice President Global Real Estate and Security

Senior Vice President Global Real Estate and Security since August 2004. Vice President Corporate Real Estate and Environmental Affairs (January 1995-August 2004).

JENNIFER L. VOGEL, age 43  
Senior Vice President, General Counsel, Secretary and Corporate Compliance Officer

Senior Vice President, General Counsel, Secretary and Corporate Compliance Officer since September 2003. Vice President, General Counsel, Secretary and Corporate Compliance Officer (March 2003- September 2003). Vice President, General Counsel, Corporate Compliance Officer and Assistant Secretary (February 2003-March 2003); Vice President, General Counsel and Assistant Secretary (May 2001-February 2003); Vice President Legal and Assistant Secretary (September 1995-May 2001).

JOHN E. (NED) WALKER, age 53  
Senior Vice President Worldwide Corporate Communications

Senior Vice President Worldwide Corporate Communications since March 2000. Vice President Corporate Communications (November 1994-March 2000).

There is no family relationship between any of the executive officers. All officers are appointed by the board of directors to serve until their resignation, death or removal.

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**Executive Compensation Report of the Human Resources Committee**

The Human Resources Committee of the Board of Directors (the committee) is comprised of four non-employee members (listed below) of the board of directors (the board) who are independent, as defined by the applicable rules of the New York Stock Exchange. Mr. Woodard joined the committee on March 12, 2004. The board appoints the members of the committee and has adopted a written charter setting forth the procedures, authority and responsibilities of the committee, which include reviewing and approving corporate goals and objectives relevant to Chief Executive Officer (CEO) compensation, evaluating the CEO's performance and setting the CEO's compensation based on such evaluation, setting the compensation of the company's Section 16 Officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934), reviewing and approving incentive compensation plans and programs applicable to the Section 16 Officers, making recommendations to the board with respect to equity based incentive compensation plans and producing this report on executive compensation.

*General Compensation Strategy*

The current U.S. domestic network carrier financial environment continues to be the worst in history and could deteriorate further. Faced with a weak domestic yield environment, significant growth by low cost competitors and fuel prices at twenty-year highs, Continental has aggressively sought to reduce its cost structure to remain competitive. Many of Continental's network competitors, such as American Airlines, Delta Air Lines, United Airlines and US Airways, have used bankruptcy or the threat of bankruptcy to reduce their costs significantly.

In the face of this difficult operating and financial environment, the committee retained Mercer Human Resource Consulting (Mercer) to perform an independent peer and competitive executive compensation analysis and to assist the committee in developing recommendations for restructuring the company's executive compensation programs for 2004 and beyond. The committee worked with Mercer to structure performance-based incentive programs designed to retain the company's highly experienced executive management team, to ensure a smooth transition upon the retirement of long-time CEO Gordon Bethune, to keep management focused during this period of unprecedented challenges in the airline industry and to motivate them to achieve goals that maximize the chances of recovery and increased stockholder value.

After the committee restructured and implemented the company's executive compensation programs, the company determined in November 2004 that it needed to achieve \$500 million in annual pay and benefit cost reductions by March 2005 without negatively impacting the company's culture and positive employee relations. These reductions were in addition to the \$1.1 billion in cost reductions and revenue enhancements announced and largely implemented by the company since September 11, 2001. The company's officers felt it was important to take the lead in the \$500 million cost reduction initiative. Pursuant to compensation reduction agreements entered into in December 2004 and amended in February 2005, the company's officers voluntarily agreed to reduce their base salary by up to 25% and to surrender the entire RSU award (as defined below) for the performance period ended June 30, 2005. Messrs. Kellner, Smisek, Compton and Misner also voluntarily reduced all of their other long-term performance compensation and Messrs. Kellner and Smisek voluntarily waived their annual incentive bonus payment for 2004. These reductions were in addition to the waiver by Messrs. Bethune and Kellner of their salary and any cash bonus otherwise earned by them with respect to the period between September 26, 2001 and December 31, 2001 in wake of the September 11 terrorist attacks and the company's resulting reduction in force. Further, in 2003, Messrs. Bethune and Kellner each voluntarily waived significant amounts of compensation otherwise payable to him so that the company would be eligible to receive a reimbursement of approximately \$176 million under the Emergency Wartime Supplemental Appropriations Act of 2003, as described below. The committee is aware of the challenge it faces going forward in retaining and attracting experienced executives in light these pay and benefit reductions.

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Effective in April 2005, Continental finalized and began implementing changes to wages, work rules and benefits for all work groups (other than flight attendants, employees of Continental Micronesia, Inc. and certain international employees) that when fully implemented are expected to achieve approximately \$418 million of the annual targeted reductions. Implementation of reductions for Continental Micronesia, Inc. and certain international employees is progressing and discussions with the flight attendants have resumed.

While aware that industry challenges have significantly diminished stockholder value since the terrorist attacks of September 11, 2001, the committee also recognizes that Continental has markedly outperformed its peer network competitors during this difficult period on the basis of a number of operational and financial performance measures that the committee recognizes are important. The committee also believes that the company's experienced and well-regarded management team is key to Continental's survival and the ultimate preservation and growth of stockholder value. To that end, in 2004 the committee reexamined and reaffirmed its compensation strategy to:

appropriately link compensation levels with the creation of stockholder value;

provide total compensation capable of attracting, motivating and retaining executives of outstanding talent;

achieve competitiveness of total compensation; and

emphasize at risk pay tied to performance.

In considering appropriate executive compensation levels, the committee applies these factors to available marketplace compensation data for U.S. airlines of comparable size and certain non-airline companies with revenue and other characteristics deemed by the committee and Mercer to be comparable to Continental's. The committee also considered recent trends in executive compensation and the concerns expressed by institutional investors on the topic of executive compensation. For 2004, the committee expanded the peer group for both pay and performance comparisons (which has traditionally included major network carriers such as American Airlines, United Airlines, Delta Air Lines, Northwest Airlines and US Airways) to include smaller network carrier America West (which is also a low cost airline), Alaska Airlines and Southwest Airlines. This expanded peer group offers a broader comparison for determining the appropriate financial performance goals, relative to the broader industry, that must be achieved before executive incentive compensation is paid. The elements of compensation included in the competitive analysis generally are base salaries, annual incentives and long-term incentives. Continental competes for executive talent principally with companies other than airlines; consequently, the committee emphasizes compensation data from non-airline companies of similar size and complexity in its analysis of competitive compensation packages.

*Principal Elements of Executive Compensation*

*Base Salaries.* The committee believes it is crucial for the company to provide executive salaries within a competitive market range in order to attract and retain highly talented executives. The specific competitive markets considered depend on the nature and level of the positions in question, the labor markets from which qualified individuals are recruited, and the companies and industries competing for the services of our executives. Base salary levels are also dependent on the performance of each individual executive over time. Thus, executives who sustain higher levels of performance over time will have correspondingly higher salaries. Salary adjustments are based on competitive market salaries and general levels of market increases in salaries, individual performance, overall financial results and changes in job duties and responsibilities. As described above, each of the non-retiring named executive officers agreed to voluntarily reduce his base salary effective February 28, 2005 by up to 25% pursuant to compensation reduction agreements. Further, as described below, each of Mr. Kellner's and Mr. Bethune's base salary was limited through March 31, 2004 pursuant to his compensation cap agreement.

*Annual and Long-Term Incentive Compensation.* The committee developed and implemented new annual and long-term incentive compensation programs for executives of the company effective April 1,

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2004. The goal in implementing the new programs described below was to establish an appropriate balance between absolute and relative performance and to develop new performance measures that drive stockholder value.

The committee established a new annual executive bonus program, which for 2004 offered bonus opportunities of between 50% (entry) and 150% (stretch) of base salary, with a target of 100% of base salary, depending on achievement of an absolute level of Continental's cash flow and capital efficiency. The performance measure is Continental's return on base invested capital (ROBIC), which is defined as earnings before interest, taxes, depreciation, and aircraft rent (EBITDAR) divided by net property, plant and equipment plus 7.5 times aircraft rentals. The ROBIC goals are reviewed and new goals established annually by the committee. The program also permits the committee to establish different levels of target and stretch bonus opportunity, on an annual basis. The program for 2004 also required an unrestricted cash, cash equivalent and short term investment minimum balance of \$1 billion at the end of the fiscal year, which unrestricted cash, cash equivalent and short term investment balance amount is also set by the committee each year. If this minimum unrestricted cash, cash equivalent and short term investment balance is not achieved, no bonuses are paid regardless of ROBIC performance.

The committee also established a new long-term incentive compensation program, which has two components—a new long-term incentive plan (NLTIP) based on relative performance, and a restricted stock unit (RSU) program based on absolute performance (together, the NLTIP/RSU Program).

The NLTIP compares Continental's EBITDAR margin for a three-year performance period against the average EBITDAR margin represented by the expanded peer group. For the first performance period under the NLTIP plan (April 1, 2004 through December 31, 2006), performance targets were set by the committee so that executives will earn (i) nothing for EBITDAR margin performance below peer group average performance, (ii) below market incentives for EBITDAR margin performance equal to peer group average performance, (iii) graduated payments up to market average incentives for above average EBITDAR margin performance and (iv) graduated payments up to above average incentives for superior EBITDAR margin performance. The 2004 NLTIP award also requires an unrestricted cash, cash equivalent and short term investment minimum balance of \$1 billion at the end of the performance period, which unrestricted cash, cash equivalent and short term investment balance amount is set by the committee for each performance period. If this minimum cash, cash equivalent and short-term investment balance is not achieved, no NLTIP payments are made, irrespective of relative EBITDAR margin performance. Performance targets are reviewed and new targets established annually by the committee with respect to each subsequent three-year performance period.

The RSU program measures the absolute performance of Continental's stock during the relevant performance period. RSUs are denominated in share-based units (equal in value to one share of common stock at the time of payout if the performance requirements are achieved). RSUs vest during the performance period only if Continental's stock achieves the target price (based on a 20-day average price), and pays out only at the end of the performance period, in an amount in cash based on the 20-day average price at the end of the performance period. There is no time element to vesting, so vesting is entirely performance based. The performance periods for the three initial RSU grants were 4/1/04 to 6/30/05, 4/1/04 to 3/31/06, and 4/1/04 to 12/31/07. Future grants will be for 4-year terms and the committee will determine the appropriate stock price hurdles for all future grants. Based on Continentals' stock price of \$12.4775 at the time of grant, the target prices for the three initial RSU grants were set at:

\$5 above grant price (stock price appreciation of 40%)

\$8 above grant price (stock price appreciation of 64%)

\$10 above grant price (stock price appreciation of 80%)

The phase-in of the RSU grants (i.e., the first two grants) was designed for retention and to take into account the lack of annual stock option awards in 2003 and 2004, and to provide executives an opportunity



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to earn a partial long-term incentive payout in 2005 and 2006 while at the same time demanding performance for stockholders. As described above, the RSU award that could have paid out for the performance period ended June 30, 2005 was subsequently voluntarily surrendered by officers pursuant to their compensation reduction agreements and amendments thereto. RSUs will be settled in cash. If the company's stockholders later approve a plan to use stock to settle the awards, the committee has the authority to and will consider settling the awards in stock.

The following programs were terminated during 2004:

the previous annual executive bonus program; and

the previous long term incentive program ( LTIP ), except for outstanding awards for performance periods ending in 2004 and 2005, which did not result in any payments for 2004 and are not expected to result in any payments in 2005.

The committee believes that we have designed significant improvements into the new programs that appropriately balance absolute and relative performance in an effort to drive long-term stockholder value by doing the following:

*Alignment with Restructuring of the Industry* We have expanded the peer group used for performance to include America West, Alaska Airlines, and Southwest Airlines. The inclusion of these peers sends a strong message that Continental is aware that investors are favoring the low-cost carriers, and that Continental must compete effectively with these competitors.

*Share Price Appreciation* In lieu of the traditional grant of stock options, we have instituted performance contingent RSUs, which require significant share price appreciation before the executives can earn anything under the RSU program, and also place the executives' compensation reward at risk for any share price decline that occurs before the end of the performance period (even though stockholders can benefit from the share price appreciation before the executives are permitted to do so).

*Longer Vesting Schedules and Performance Vesting* The four-year performance period for RSUs is longer than is common. Moreover, the RSUs vest on a cliff performance basis, not ratably over the period. There is no time vesting element to the RSUs; vesting is entirely performance based.

*Introduction of Return on Capital Performance Measure* In prior years, EBITDAR margin was the main performance measure used in both the annual and long-term incentive compensation programs at Continental. For 2004 and going forward, we have introduced ROIC into the annual program. The rationale for using this measure is to recognize the capital-intensive nature of the airline industry, and to ensure that Continental is achieving a sufficient return on its capital, thereby better aligning this program with stockholders' long-term interests.

*Improved Performance Goal Setting* Beginning in 2004 and beyond, the committee sets entry, target, and stretch performance goals that require not only that we beat the average of our competitors in order for management to receive market levels of compensation, but also that require strong absolute performance. Going forward, these goals will be reestablished each year based on Continental's business objectives and the competitive environment. This, in turn, is designed to align management compensation with drivers of stockholder return.

*Significant at risk Pay* The CEO's at risk compensation, and that of our other top officers, constitutes the vast majority of their total compensation potential.

The following existing long-term executive compensation programs remain in effect:

*Officer Retention and Incentive Award Program (Incentive Award Program)*. This program was designed to retain officers and encourage Continental's participation in more cost-effective distribution and marketing channels by allowing officers to participate in a portion of any gains and profits that the company realizes in its e-commerce and internet investments. There were no new awards under this program during 2004. There were

payouts in 2004 in connection with the

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company's realization of gains from the sale of the remainder of its investment in Orbitz, Inc. to Cendant Corporation as well as payouts as awards related to the company's 2003 sale of its investments in Orbitz and Hotwire vested. In addition, in the case of Messrs. Bethune and Kellner, awards became eligible for redemption and payout upon the expiration of the compensation cap agreements described below.

*Stock Options.* No stock options were granted to the named executive officers and none of the stock options held by them was exercised in 2004.

*Restricted Stock.* From time to time, grants of restricted shares of our common stock are made pursuant to the company's Incentive Plan 2000. No restricted stock grants were made to the named executive officers in 2004.

*Compensation of the Chief Executive Officer*

The committee applies the criteria and strategy described in this report in establishing compensation for the company's CEO. The committee has established a procedure and criteria for the annual evaluation of the CEO and the setting of CEO compensation based on this evaluation. The CEO is evaluated based on his performance in various areas including leadership, strategic planning, financial results, human resources and diversity, communications and external relations, board interface, ethics and conduct.

In January of 2004, Mr. Bethune announced his intention to retire effective at the end of 2004. In order to ensure a smooth transition, the board immediately elected Mr. Kellner to serve as Chairman and CEO effective upon Mr. Bethune's retirement. In connection with the succession planning, in April 2004 Mr. Kellner received a compensation package in recognition of his increased responsibilities that includes base salary, annual and long-term incentive opportunities, a supplemental executive retirement plan and customary perquisites, each determined in accordance with the committee's compensation strategy set forth above. Mr. Kellner demonstrated his commitment to the company and his leadership by voluntarily reducing his compensation for the 12 months ended March 31, 2004 pursuant to his compensation cap agreement described below and again, effective February 28, 2005, pursuant to his compensation reduction agreement in connection with the company's initiative to achieve \$500 million in annual pay and benefit cost reductions. Mr. Kellner also voluntarily waived his right to receive his 2004 annual performance bonus and surrendered for cancellation 25% of his outstanding unvested stock options, restricted stock and PARs (as defined in the Incentive Award Program) and surrendered all of his award of RSUs (as defined in the NLTIP/RSU Program) for the performance period ending in June 2005.

Mr. Bethune retired as Chairman and CEO on December 30, 2004. Mr. Bethune's incentive compensation for 2004 was determined in accordance with the committee's compensation strategy set forth above. Mr. Bethune also voluntarily reduced his compensation for the 12 months ended March 31, 2004 pursuant to his compensation cap agreement described below. In connection with his retirement, the committee reviewed the provisions of Mr. Bethune's employment agreement and approved a retirement agreement. In determining Mr. Bethune's retirement package, the committee considered Mr. Bethune's extraordinary leadership over the past ten years, his role in turning the company around, leading the company to be a top performer even in a most difficult industry downturn, his vision in shaping aviation policy, his outstanding service to the board and his personal sacrifices during this period. Mr. Bethune's employment and retirement agreements provided the following benefits to Mr. Bethune upon his retirement: a lump sum payment of approximately \$22 million under his supplemental executive retirement plan, a payment of approximately \$5.1 million (the amount to which he was entitled under a previous employment agreement if he had left our employ following the purchase in 1998 by Northwest and its affiliates of a majority of our voting power), the retention of RSUs awarded to him in 2004 under the company's NLTIP/RSU Program to be paid if and when paid to other participants under the program, and various perquisites, all as described in the Employment Agreements section of this proxy. The committee also deemed him eligible to receive his 2004 bonus under the Annual Executive Bonus Program for the performance period beginning April 1, 2004 and ending December 31, 2004 if and when paid to other participants under such program. In addition, as provided for in the applicable program upon the

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retirement of a participant in the program, all of Mr. Bethune's unvested stock options, restricted stock, and PARs vested upon his retirement, and he became eligible to receive a pro rata payout of his NLTIP award although he agreed only to be paid such amount if and when NLTIP awards are paid to other participants under such program.

*Compensation Cap Agreements.* Continental received reimbursement from the Transportation Security Administration (the TSA) under the Emergency Wartime Supplemental Appropriations Act of 2003 (the Act) for passenger security and air carrier security fees paid to or collected for the TSA through the date of enactment of the Act. As required by the Act as a condition of our obtaining and retaining such reimbursement, the company entered into an agreement with the United States of America, acting through the TSA, pursuant to which we agreed not to provide total cash compensation to either of our two then most highly-compensated named executive officers (then, Messrs. Bethune and Kellner) during the 12-month period ending March 31, 2004 in an amount equal to or more than the annual base salary paid to such executive officers with respect to fiscal year 2002. In order to permit us to comply with our agreement with the TSA, each of Messrs. Bethune and Kellner voluntarily entered into a compensation cap agreement with the company to amend certain of his then existing contractual rights relating to compensation and to waive significant amounts of compensation otherwise payable to him. Under the compensation cap agreements, each of Messrs. Bethune and Kellner agreed to reduce his base salary during the 12-month period ending March 31, 2004 (the Restricted Period), agreed to defer the vesting of his restricted stock and PARs awards under the Incentive Award Program that would otherwise vest during the Restricted Period, agreed not to redeem his vested PARs during the Restricted Period, agreed to surrender without value his bonus awards with respect to 2003 and his LTIP award with respect to the 3-year performance period ending December 31, 2003, agreed that he would not receive any PARs awards during the Restricted Period, and agreed to take such other action with respect to his compensation provided to him by the company during the Restricted Period as he and the company reasonably agree to be necessary in order to permit the company to comply with the terms of its agreement with the TSA. The executives' willingness voluntarily to enter into the compensation cap agreements resulted in a material reduction to the compensation that otherwise would have been payable to the executives, and benefited Continental by permitting it to obtain and retain approximately \$176 million of passenger and air carrier security fee reimbursements from the TSA. The compensation cap agreements terminated on March 31, 2004.

*Broad Based Incentive Compensation*

To recognize the contributions made by the company's employees in connection with the recent pay and benefit cost reduction efforts, the committee recommended and the board approved the issuance of stock options for up to 10 million shares of Continental's common stock to all non-officer employees that participated in the cost reduction efforts. On March 30, 2005, the company issued stock options for approximately 8.7 million shares of its Class B common stock with an exercise price of \$11.89 per share, the closing price of the company's common stock on the date of grant, to all employees, except flight attendants, officers, employees of CMI and certain international employees. In addition, the company maintains its long-standing on-time arrival bonus program and has recently implemented an enhanced profit sharing plan to incentivize all employees who participate in the pay and benefit reductions (except officers and certain other management and foreign-based employees) to have a continued focus on operational and financial performance. The committee believes that these incentives play a significant part in Continental's performance and success.

*Section 162(m) of the Internal Revenue Code*

In conducting the programs applicable to executives, the committee considers the effects of section 162(m) of the Internal Revenue Code. Section 162(m) denies publicly held companies a tax deduction for annual compensation in excess of one million dollars paid to their chief executive officer or any of their four other most highly compensated executive officers employed on the last day of a given year, unless their compensation is based on qualified performance criteria. To qualify for deductibility,

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these criteria must be established by a committee of outside directors and approved, as to their material terms, by that company's stockholders. Most of Continental's compensation plans applicable to the company's executive officers, including its stock option plans, the annual executive bonus program, the NLTIP/RSU Program and the Incentive Award Program, were designed to qualify as performance-based compensation under section 162(m). The committee may approve compensation or changes to plans, programs or awards that may cause the compensation or awards not to comply with section 162(m) if it determines that such action is appropriate and in the company's best interests. Although some amounts recorded as compensation by the company to certain executives with respect to 2004 were limited by section 162(m), that limitation did not result in the current payment of increased federal income taxes by the company due to its significant net operating loss carry forwards.

Respectfully submitted,

*Human Resources Committee*

Charles A. Yamarone, Chairman

Thomas J. Barrack, Jr.

Kirbyjon H. Caldwell

Ronald B. Woodard

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**Table of Contents****Compensation of Executive Officers**

Since the terrorist attacks of September 11, 2001, the company has operated in the worst U.S. domestic network carrier financial environment in history. Current trends in the airline industry include a weak domestic yield environment, significant growth by low cost competitors and record fuel prices. Throughout this difficult period, the company has aggressively sought to reduce its cost structure to remain competitive, with the company's management team taking the lead by repeatedly voluntarily reducing their compensation.

In December 2004, the company entered into compensation reduction agreements, as amended in February 2005, with all of its non-retiring officers to reduce contractually provided compensation as an element of the pay and benefit cost reduction program announced by the company in November 2004. Pursuant to such agreements, each Messrs. Kellner, Smisek, Compton, Misner and Erwin (the current executive officers named in the Summary Compensation Table below) voluntarily agreed to reduce his annual base salary by 25%, 20%, 20%, 20% and 17.5%, respectively.

The following table shows, for each currently employed named executive officer, the salary reductions that became effective on February 28, 2005.

**2005 Salary Reductions**

Name	Former Annual Salary	Current Annual Salary
Larry Kellner	\$ 950,000	\$ 712,500
Jeff Smisek	\$ 720,000	\$ 576,000
Jim Compton	\$ 450,000	\$ 360,000
Jeff Misner	\$ 450,000	\$ 360,000
Mark Erwin	\$ 400,000	\$ 330,000

In addition, Messrs. Kellner and Smisek each voluntarily waived his right to receive his 2004 annual performance bonus. Messrs. Kellner, Smisek, Compton and Misner each also agreed to surrender for cancellation the same percentage of their respective outstanding unvested stock options, unvested restricted stock and unvested PARs (as defined in the Incentive Award Program) and agreed to surrender all of their respective awards of RSUs (as defined in the NLTIP/ RSU Program) for the performance period ending in June 2005. Mr. Erwin also agreed to surrender his entire award of RSUs for the performance period ending in June 2005. In addition, payouts to these officers under the annual executive bonus program and the NLTIP, if and when earned, as well as benefits under supplemental executive retirement plans (the SERPs), will be similarly reduced as a result of the base salary reductions described above.

In 2003, Continental received reimbursement of \$176 million from the Transportation Security Administration (TSA) under the Emergency Wartime Supplemental Appropriations Act of 2003 (the Act) for passenger security and air carrier security fees paid to or collected for the TSA through the date of enactment of the Act. As required by the Act as a condition of our obtaining and retaining such reimbursement, the company entered into an agreement with the United States of America, acting through the TSA, pursuant to which we agreed not to provide total cash compensation to either of our two then most highly-compensated named executive officers (Messrs. Kellner and Bethune) during the 12-month period ending March 31, 2004 in an amount equal to or more than the annual salary paid to such executive officers with respect to fiscal year 2002. In order to permit us to comply with our agreement with the TSA, Messrs. Kellner and Bethune each voluntarily entered into a compensation cap agreement with us to amend certain of his then existing contractual rights relating to compensation and to waive significant amounts of compensation otherwise payable to him.

In addition, in 2001, following the September 11 terrorist attacks and the company's resulting reduction in force, Messrs. Kellner and Bethune voluntarily waived their salary and any cash bonus otherwise earned by them as employees of the company with respect to the period between September 26, 2001 and December 31, 2001.



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The following table sets forth certain of the reductions to contractually provided compensation voluntarily agreed to by each of Messrs. Kellner, Smisek and Bethune during the period from September 2001 through December 31, 2004.

**Total Compensation Reductions 2001-2004**

Name	Reductions in	Reductions in	Reductions in	Total Waived
	Base Salary	Annual Bonus	Long Term Incentive Payout	Cash Compensation
Larry Kellner	\$ 273,852	\$ 1,696,305	\$ 2,217,375	\$ 4,187,532
Jeff Smisek		594,042		594,042
Gordon Bethune	366,720	1,303,125	3,518,438	5,188,283
Total	\$ 640,572	\$ 3,593,472	\$ 5,735,813	\$ 9,969,857

Since the September 11, 2001 terrorist attacks and their aftermath, which had a material adverse effect on the company and the airline industry, we have focused on taking action to increase productivity and reduce costs, without compromising our product or culture. These efforts have resulted in payroll and headcount cost reductions in many areas of the company, including executive salaries and officer headcount.

The following table shows compensation and headcount reductions for the officer group since 2001.

**Officer Salary and Headcount Reductions 2001-2005**

	As of April 15, 2001	As of April 15, 2005	% Change
Average Annual Base Salary 5 Most Highly Compensated Officers	\$ 755,200	\$ 473,700	(37)%
Number of Officers	59	45	(24)%

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The following tables set forth (i) the aggregate amount of compensation we paid during 2004, 2003 and 2002 to each person who served as chief executive officer during 2004, our four other most highly compensated executive officers in 2004, and a retired executive who would have been one of our four most highly compensated executive officers but for the fact that he was not serving as an executive officer at the end of 2004 (collectively the persons listed in the table below are referred to in this proxy statement as the named executive officers), (ii) year-end option values of exercisable and unexercisable options held by them, and (iii) information regarding long-term incentive awards made to them during 2004. None of the named executive officers received any option grants during 2004.

**Summary Compensation Table**

Name and Principal Position	Year	Long-Term Compensation						
		Annual Compensation			Awards	Payouts		
		Salary	Bonus	Other Annual Compensation(3)	Restricted Stock Awards(4)	Securities Underlying Options	LTIP Payouts(5)	All Other Compensation(7)
Lawrence W. Kellner Chairman of the Board and Chief Executive Officer	2004	\$ 865,508(1)	\$ 783,806(2)	\$ 68,262	\$ 0	0	\$ 1,937,139(6)	\$ 2,856,539(8)
	2004		\$ 0 Paid(2)					
	2003	662,704(1)	0(1)	20,948	0	0	0(6)	6,489
	2002	730,000	456,250	67,831	1,405,000	335,000	2,217,375	6,489
Jeffery A. Smisek President	2004	\$ 645,923	\$ 594,042(2)	\$ 21,750	\$ 0	0	\$ 941,584	\$ 7,958
	2004		\$ 0 Paid(2)					
	2003	600,000	750,000	74,430	0	0	2,134,443	7,908
	2002	600,000	375,000	18,625	1,124,000	270,000	1,350,000	6,236
James Compton Executive Vice President Marketing	2004	\$ 419,135	\$ 371,276	\$ 20,896	\$ 0	0	\$ 325,983	\$ 2,050
	2003	350,686	438,358	14,479	0	0	832,218	2,000
	2002	315,016	196,886	9,808	175,625	68,750	519,750	2,000
Jeffrey J. Misner Executive Vice President & Chief Financial Officer	2004	\$ 419,135	\$ 371,276	\$ 11,962	\$ 0	0	\$ 292,830	\$ 2,050
	2003	350,686	438,358	13,211	0	0	832,218	2,000
	2002	315,016	196,886	9,144	281,000	54,687	519,750	2,000
Mark A. Erwin Senior Vice President	2004	\$ 400,000	\$ 330,023	\$ 76,610	\$ 0	0	\$ 402,149	\$ 5,400
	2003	386,667	456,250	44,291	0	0	1,002,131	750
	2002	359,103	215,846	61,218	175,625	140,000	598,500	5,326

Asia/ Pacific  
and  
Corporate  
Development  
Retired  
Officers  
Gordon M.

Bethune	2004	\$ 1,014,742(1)	\$ 860,123	\$ 202,160	\$ 0	0	\$ 5,106,128(6)	\$ 27,070,627(9)
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Former Chairman of the Board and Chief	2003	966,480(1)	0(1)	113,244	0	0	0(6)	43,835
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Executive Officer	2002	1,042,500	651,563	120,394	2,318,250	800,000	3,518,438	43,835
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Michael H. Campbell	2004	\$ 465,000	\$ 383,652	\$ 22,956	\$ 0	0	\$ 402,149	\$ 3,073,319(10)
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Former Senior Vice President	2003	465,000	581,250	22,251	0	0	1,104,506	2,000
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Human Resources and Labor Relations	2002	465,000	290,625	16,596	281,000	180,000	732,375	2,000
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- (1) As discussed above, in order to permit us to comply with our agreement with the TSA, Messrs. Kellner and Bethune each voluntarily entered into a compensation cap agreement that limited the compensation to him during the twelve month period ending March 31, 2004. To further ensure compliance with the Act, the company withheld additional amounts of salary from Messrs. Kellner and Bethune. At the end of the compensation cap period, these additional withholdings of salary were audited by the company for compliance with the Act. The company paid the excess withholdings to Mr. Kellner and Mr. Bethune in April 2005 and the amounts are included in their 2003 and 2004 salary amounts.
- (2) The amounts shown represent the 2004 annual performance bonus to which Messrs. Kellner and Smisek were contractually entitled but which they voluntarily waived pursuant to their compensation reduction agreements made in December 2004. These bonus amounts have not been paid and will not be paid to Messrs. Kellner and Smisek.

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- (3) Includes cash amounts received under a flexible benefits program and tax reimbursements relating to (i) Flight Benefits, (ii) with respect to Messrs. Kellner, Smisek and Bethune, term life insurance benefits we provided to such officers, (iii) with respect to Mr. Bethune in 2004, the company car assigned to him in connection with his retirement, and (iv) with respect to Mr. Erwin in 2003, state tax assessments in connection with a required relocation on behalf of the company. The value of perquisites and other personal benefit amounts also are included in the table if they exceed the lesser of \$50,000 or 10% of the named executive officer's total annual salary and bonus. We have calculated the incremental cost to the company of personal use of a company car based on the company's actual purchase or lease payments, insurance, tax, registration and other miscellaneous costs related to the automobile with respect to the executive's allocated percentage of personal use. Tax reimbursements associated with Flight Benefits have been included as part of the incremental cost of providing such Flight Benefits and for determining the officer's total annual perquisites. We have applied these methodologies to all three years shown in the table. Mr. Kellner's 2004 compensation includes Flight Benefits (including tax reimbursements) in the amount of \$34,416, and his 2002 compensation includes Flight Benefits (including tax reimbursements) in the amount of \$21,596, and tax planning services in the amount of \$22,850. Mr. Smisek's 2003 compensation includes Flight Benefits (including tax reimbursements) in the amount of \$20,804, a car benefit in the amount of \$21,677, and tax planning services in the amount of \$15,044. Mr. Erwin's 2004 compensation includes a housing allowance in the amount of \$48,276 and his 2002 compensation includes a car benefit in the amount of \$44,463, each relating to his service in Hawaii and Guam as President of Continental Micronesia, Inc. Mr. Bethune's 2004 compensation includes the incremental cost to the company of the car assigned to Mr. Bethune in connection with his retirement (including tax reimbursements) in the amount of \$141,225, his 2003 compensation includes Flight Benefits (including tax reimbursements) in the amount of \$20,602, and tax planning services in the amount of \$35,070, and his 2002 compensation includes tax planning services in the amount of \$50,725.
- (4) Value of the award determined based on the closing price of the common stock on the date the restricted shares were granted. At the end of 2004, the aggregate number of restricted shares held by Messrs. Kellner, Smisek, Compton, Misner and Erwin was 25,000 shares, 20,000 shares, 3,124 shares, 5,000 shares and 3,124 shares, respectively, and the year-end values of the shares were \$338,500, \$270,800, \$42,299, \$67,700 and \$42,299, respectively, based on the December 31, 2004 closing price of the common stock of \$13.54. The restricted shares held by Mr. Bethune vested and those held by Mr. Campbell were forfeited in connection with their retirements in accordance with the terms of the restricted stock awards and neither held any restricted shares at the end of 2004. Although we have paid no dividends on our common stock, any dividends would be payable upon both vested and non-vested shares. Messrs. Kellner, Smisek, Compton and Misner each also agreed to surrender for cancellation 25%, 20%, 20% and 20% respectively of such restricted stock holdings pursuant to their compensation reduction agreements, effective February 28, 2005.
- (5) Amounts include payouts under our prior Long Term Incentive Performance Award Program (LTIP) and our Incentive Award Program, each of which was implemented under our Incentive Plan 2000. LTIP payments are with respect to 3-year performance periods ending on December 31 of the year shown. These payments were made in the first quarter following the end of the performance period, following certification by the Human Resources Committee of achievement of performance goals. No LTIP payment was earned with respect to the performance period ended December 31, 2004. Incentive Award Program payouts relate to the company's realization of gain in connection with the disposition of all or a part of its equity investment in e-commerce businesses and are paid out to the named executive upon redemption and, if unvested, upon vesting. Messrs. Kellner and Bethune received Incentive Award Program payments in 2004 that included payments relating to awards that were not eligible for redemption in 2003 due to the terms contained in the compensation cap agreements. See footnotes 1 and 6.
- (6)

Pursuant to their compensation cap agreements with the company described above and in footnote 1, each of Messrs. Kellner and Bethune waived his right to receive the payout under his LTIP award for the performance period ending December 31, 2003. In addition, each of their awards under the

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Incentive Award Program was not eligible for redemption during the 12-month period ending March 31, 2004. The 2004 amounts include payouts of awards that each of Messrs. Kellner and Bethune would have been eligible to redeem in 2003 but for the compensation cap agreements, and which they became eligible to redeem, and did redeem, after April 1, 2004.

- (7) Amounts shown for 2004 include matching contributions pursuant to the company's 401(k) savings plan as follows: Mr. Kellner \$2,050, Mr. Smisek \$2,050, Mr. Compton \$2,050, Mr. Misner \$2,050, Mr. Erwin \$5,400, Mr. Bethune \$4,100 and Mr. Campbell \$2,050. With respect to Messrs. Kellner, Smisek and Bethune also included are the dollar value of insurance premiums paid by the company with respect to term life insurance for such executive pursuant to his employment agreement in the amounts of \$4,489, 5,908 and \$41,835, respectively.
- (8) Includes a cash payment of \$2,850,000 in consideration of his covenant not to compete with the company for a period of two years following the termination of his employment for any reason other than a termination by the company without cause or a termination by Mr. Kellner for cause. This covenant not to compete, and corresponding payment, was made in connection with a new employment agreement executed April 14, 2004 between the company and Mr. Kellner in connection with his election as chairman and CEO upon the retirement of Gordon Bethune, the company's retired chairman and CEO. See Employment Agreements below.
- (9) Mr. Bethune's amount includes a payment of \$5,062,500 upon his retirement made pursuant to his employment agreement that relates to the 1998 change in control transaction with Northwest Airlines and \$21,962,192 paid pursuant to his SERP. See Employment Agreements below.
- (10) Mr. Campbell's amount includes a payment of \$1,200,000 made pursuant to his retirement agreement in consideration of his agreement to continue to represent the company in connection with its labor negotiations and \$1,871,269 paid pursuant to his SERP. See Employment Agreements below.

**Aggregated Option Exercises in 2004 and Year-End Option Values**

Name	Shares		Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End	
	Acquired on Exercise	Value	Exercisable	Unexercisable	Exercisable	Unexercisable
		Realized				
Lawrence W. Kellner	0	\$ 0	313,750	21,250	\$ 0	\$ 0
Jeffery A. Smisek	0	0	252,500	17,500	0	0
James Compton	0	0	30,336	7,402	0	0
Jeffrey J. Misner	0	0	46,562	8,125	0	0
Mark A. Erwin	0	0	130,000	10,000	0	0
Retired Officers						
Gordon M. Bethune	0	0	800,000	0	0	0
Michael H. Campbell	0	0	180,000	0	0	0

None of the named executive officers exercised options during 2004 and no options were granted to them in 2004. Pursuant to their compensation reduction agreements, on February 28, 2005, Messrs. Kellner, Smisek, Compton and Misner surrendered to the company 25%, 20%, 20% and 20%, respectively, of their unexercisable options shown in the above table.

**Table of Contents****Long Term Incentive Plans Awards in 2004**

The following table sets forth information regarding awards granted in 2004 under our Long Term Incentive and RSU Program (the NLTIP/RSU Program) which has been implemented under our Incentive Plan 2000. The NLTIP/RSU Program was adopted by the Human Resources Committee in April 2004 in connection with the committee's review and restructuring of the company's long-term performance incentive compensation programs. The company did not make any awards of PARs under the Incentive Award Program during 2004.

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturaton or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Threshold	Target	Maximum
Lawrence W. Kellner	NLTIP Awards(1) 150,000 RSUs(2) 150,000 RSUs(2) 200,000 RSUs(2)	3 years (3) (4) (5)	\$ 1,202,344	\$ 1,603,125	\$ 2,404,688
Jeffery A. Smisek	NLTIP Awards(1) 100,000 RSUs(2) 100,000 RSUs(2) 125,000 RSUs(2)	3 years (3) (4) (5)	\$ 907,200	\$ 1,166,400	\$ 1,749,600
James Compton	NLTIP Awards(1) 40,000 RSUs(2) 40,000 RSUs(2) 50,000 RSUs(2)	3 years (3) (4) (5)	\$ 405,000	\$ 607,500	\$ 810,000
Jeffrey J. Misner	NLTIP Awards(1) 40,000 RSUs(2) 40,000 RSUs(2) 50,000 RSUs(2)	3 years (3) (4) (5)	\$ 405,000	\$ 607,500	\$ 810,000
Mark A. Erwin	NLTIP Awards(1) 40,000 RSUs(2) 40,000 RSUs(2) 50,000 RSUs(2)	3 years (3) (4) (5)	\$ 222,750	\$ 371,250	\$ 519,750
Retired Officers Gordon M. Bethune(6)	NLTIP Awards(1) 125,000 RSUs(2) 75,000 RSUs(2) 50,000 RSUs(2)	3 years (3) (4) (5)	\$ 478,353	\$ 637,804	\$ 956,707
Michael H. Campbell(7)	NLTIP Awards(1) 45,000 RSUs(2) 45,000 RSUs(2) 60,000 RSUs(2)	3 years (3) (4) (5)	\$ 0	\$ 0	\$ 0

- (1) Amounts set forth in the table represent potential payout of awards under the NLTIP based on awards made in 2004 for the performance period commencing on April 1, 2004 and ending on December 31, 2006. The amounts set forth in the table have been revised to reflect the salary reductions pursuant to the compensation reduction agreements. Payouts are based on Continental's achievement of entry (threshold), target or stretch (maximum) EBITDAR margin performance goals as determined by the committee. Payout is also contingent upon our having an unrestricted cash balance of at least \$1 billion at the end of the performance period. See Executive Compensation Report of the Human Resources Committee above.
- (2) The RSU program measures the absolute performance of Continental's stock during the performance period. RSUs are denominated in share-based units (equal in value to one share of common stock at the time of payout if the performance requirements are achieved). RSUs vest only if Continental's stock achieves a specified target price (based on a 20 day average price) and then pay out only at the

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end of the relevant performance period (based on a 20 day average price at the end of the performance period). RSUs will be settled in cash. See Executive Compensation Report of the Human Resources Committee above.

- (3) The award vests upon the company's common stock averaging a market price of not less than \$17.4775 per share over a 20 consecutive day trading period during the performance period ending on June 30, 2005. Each of the named executive officers (other than Mr. Bethune and Mr. Campbell) surrendered this award in connection with their compensation reduction agreements and Mr. Campbell forfeited his award in connection with his retirement.
- (4) The award vests upon the company's common stock averaging a market price of not less than \$20.4775 per share over a 20 consecutive day trading period during the performance period ending on March 31, 2006.
- (5) The award vests upon the company's common stock averaging a market price of not less than \$22.4775 per share over a 20 consecutive day trading period during the performance period ending on December 31, 2007.
- (6) Under the terms of Mr. Bethune's retirement agreement, he will receive payment under his NLTIP (on a pro-rated basis) and RSU awards only if and when paid to other participants under such programs. Mr. Bethune's estimated future NLTIP payouts reflect adjustments based on his retirement.
- (7) Under the terms of Mr. Campbell's retirement agreement, all of his NLTIP and RSU awards were forfeited on the date of his retirement.

**Employment Agreements**

*Agreement with Mr. Kellner.* We entered into an employment agreement with Mr. Kellner effective April 14, 2004, relating to his service as an officer and director of the company and providing for a minimum annual base salary of \$950,000. As previously discussed, Mr. Kellner and the company subsequently entered into a compensation reduction agreement whereby, effective February 28, 2005, Mr. Kellner agreed to accept a reduction in annual base salary of 25%, reducing his minimum base salary to \$712,500. His employment agreement also entitles him to a SERP, annual performance bonus and long-term incentive payment opportunities of up to 150% of annual base salary if performance goals under the applicable program are met. He is also entitled to participate in the compensation and benefit plans available to all management employees, receive company-provided disability benefits and life insurance, Flight Benefits, certain tax indemnity payments (some of which may not be deductible by the company), use of a company provided automobile, and certain other fringe benefits. In addition, Mr. Kellner's compensation will be grossed up for any excise or other special additional tax imposed as a result of any payment or benefit provided to Mr. Kellner under the employment agreement, including, without limitation, any excise tax imposed under Section 4999 of the Internal Revenue Code. The agreement is in effect until April 14, 2009, subject to automatic successive five-year extensions, but may be terminated at any time by either party, with or without cause.

If Mr. Kellner's employment is terminated by the company for cause (as described in the agreement) or by Mr. Kellner without good cause (as described in the agreement), he will receive his SERP benefit, Flight Benefits, and continued coverage for himself and his eligible dependents under the company's medical and health plans for the remainder of his lifetime (at no greater cost to Mr. Kellner than a similarly situated company executive who has not terminated employment), (together with the SERP, the Base Benefits). If we terminate his employment for reasons other than death, disability or cause or if he terminates his employment for good cause, then we must, in addition to providing the Base Benefits: (i) cause all options, shares of restricted stock, awards under the Incentive Award Program and similar incentives awarded to him to vest; (ii) pay to him, at the same time as payments are made to other participants under the LTIP and NLTIP/RSU programs, all amounts with respect to any outstanding awards made to him under the LTIP and the NLTIP/RSU programs as if he had remained our employee; (iii) make a lump sum cash severance payment to him in an amount equal to three times the sum of

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(a) his then current annual base salary and (b) a deemed bonus equal to the amount of such salary times 150% (such payment referred to herein as the Termination Payment ); (iv) provide him with out-placement, office and other perquisites for certain specified periods and (v) transfer to him title to his company car without cost to Mr. Kellner. If his employment is terminated due to his death or disability, then he or his estate will receive the above benefits (but not the Termination Payment, out-placement services, office space or certain other perquisites) and he or his estate will be entitled to certain disability or life insurance payments, as the case may be. Mr. Kellner's employment agreement also includes a two-year non-compete with the company following termination of his employment, except if such termination is by the company without cause or by Mr. Kellner for cause, for which he received a cash payment of \$2,850,000 in 2004.

*Agreements with Other Named Executives.* We have also entered into employment agreements with Messrs. Smisek, Misner and Compton, effective August 12, 2004, relating to their services as officers of the company and providing for minimum annual base salaries of \$720,000, \$450,000 and \$450,000, respectively. Each of these officers subsequently agreed to accept a reduction in annual base salary of 20%, effective February 28, 2005, reducing his base salary to \$576,000, \$360,000 and \$360,000, respectively. Each agreement is otherwise similar to that of Mr. Kellner's, except that the agreements do not include non-compete provisions, the automatic extension after the first five years of the contract are for one year periods, and Termination Payments under the agreements with Messrs. Misner and Compton are limited to two times the sum of (a) the executive's then current annual base salary and (b) a deemed bonus equal to the amount of such salary times 125%, unless their termination occurs within two years following a change in control (in which case it is three times that sum).

Our employment agreement with Mr. Erwin, effective August 12, 2004, provides for a minimum annual base salary of \$400,000, which Mr. Erwin agreed to reduce by 17.5% to \$330,000, effective February 28, 2005. His employment agreement also entitles him to participate in the company's compensation and benefit plans, and receive Flight Benefits, certain tax indemnity payments (some of which may not be deductible by the company) and certain other fringe benefits. Mr. Erwin's employment agreement is otherwise similar to that of the company's executive vice presidents, except that Mr. Erwin does not have use of a company automobile and would not be entitled to office space or a company car upon termination. In accordance with the terms of Mr. Erwin's compensation reduction agreement, in the event that we terminate his employment between February 28, 2005 and February 28, 2007 due to his death or disability or for a reason other than cause or if he terminates his employment for good cause, then (i) all amounts payable to Mr. Erwin under the employment agreement (including any Termination Payment or payments under any compensation plans) must be calculated, and (ii) any awards forfeited pursuant to the compensation reduction agreement must be restored (or, if unable to be restored, the then fair market value of such awards shall be paid to either Mr. Erwin or his estate, as the case may be), in both cases, as if his compensation reduction agreement was never in force.

*Agreements with Retired Executives.* We employed Mr. Bethune, effective July 25, 2000, under a five-year employment agreement. On January 16, 2004, we announced that Mr. Bethune had informed the company of his intention to retire effective at the end of 2004. The employment agreement provided for an annual base salary of not less than \$1,042,500 and entitled Mr. Bethune to participate in Continental's executive compensation and benefit plans at specific levels, to participate in the compensation and benefit plans available to all management employees, and to receive life insurance, Flight Benefits, tax indemnity payments (some of which may not be deductible by the company), a company car and certain other fringe benefits. On April 14, 2004, the company and Mr. Bethune entered into a retirement agreement, which, together with Mr. Bethune's employment agreement, provided that Mr. Bethune would be entitled to receive certain benefits upon his retirement, including a payment of approximately \$5.1 million (the amount he would have been entitled to receive under a previous employment agreement if he had left our employ following the purchase in 1998 by Northwest and its affiliates of a majority of our voting power) and a lump sum payment of approximately \$22.0 million under his SERP. Mr. Bethune also received a payment of approximately \$410,000 relating to accelerated vesting of PAR awards under the Incentive Award Program. Under the agreements, in his retirement Mr. Bethune is entitled to Flight Benefits (the



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unused balance of which may be used by his surviving spouse and children upon his death), continued coverage for himself and his eligible dependents under the company's medical and health plans for the remainder of his lifetime at no cost to Mr. Bethune, office space and secretarial assistance for ten years and other incidental benefits. The company estimates that the annual cost to the company of providing these continuous benefits (other than Flight Benefits) is approximately \$104,000. This total includes an estimate for the average cost of providing the medical coverage but because the company is self-insured, actual cost will vary based on claims experience. We cannot estimate the cost to the company of Mr. Bethune's Flight Benefits since it depends upon usage; however, during the last three years, the cost to the company of Mr. Bethune's Flight Benefits did not exceed \$21,000 in any one year. The company incurred a one-time cost of approximately \$127,000 for the build out and furnishing of Mr. Bethune's office space and assigned to Mr. Bethune title to his company car, which had an incremental cost to the company of \$141,225 (including tax reimbursements of \$51,477). In addition, on the date of his retirement, all options, shares of restricted stock, and PARs awards vested in accordance with the terms of the applicable plan or program pursuant to which they were granted or pursuant to his employment agreement. All of his vested options will expire on December 30, 2005, unless exercised sooner. Mr. Bethune will receive payment under his NLTIP (on a pro-rated basis) and RSU awards only if and when paid to other participants under such programs.

In connection with Mr. Campbell's retirement from the company, Mr. Campbell and the company entered into an early retirement agreement on October 29, 2004. Pursuant to the terms of the retirement agreement and Mr. Campbell's employment agreement, Mr. Campbell received certain retirement benefits including a lump sum payment of approximately \$1.9 million under his SERP, Flight Benefits, continued coverage for himself and his eligible dependents under the company's medical and health plans for the remainder of his lifetime (at no greater cost to Mr. Campbell than a similarly situated company executive who has not terminated employment), and accelerated vesting of outstanding options. All of his vested options will expire on December 30, 2005, unless exercised sooner. In addition, the company paid Mr. Campbell \$1.2 million in consideration of his agreement to continue to represent the company in connection with its labor negotiations, including its negotiation of collective bargaining agreements, for a period of one year following his retirement. The company has also agreed to pay for Mr. Campbell's legal services at an hourly rate consistent with the senior partner rates charged by the law firm of Ford and Harrison LLP, where he serves in an of counsel position.

**Retirement Plans**

The Continental Retirement Plan (the Retirement Plan) is a noncontributory, defined benefit pension plan. Substantially all of our domestic employees, including the named executive officers, are entitled to participate in the Retirement Plan. The Retirement Plan currently limits the annual compensation it considers for benefit determination purposes to \$170,000 for the named executive officers. The named executive officers are also eligible to receive retirement benefits pursuant to a supplemental executive retirement plan (SERP) provided for in their employment agreements, which benefits are not pre-funded and are paid out of the company's general assets. Benefits payable under the SERP are not protected from a bankruptcy by the company and will be offset by amounts paid or payable under the Retirement Plan.

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The following table represents the estimated combined annual benefits payable under the Retirement Plan and the SERPs as of January 1, 2005 in the form of a single life annuity to the named executive officers at age 60 in specified years of service and compensation categories.

**Pension Plan Table**

Final Average Compensation	Years of Service(1)					
	5	10	15	20	25	30
\$500,000	\$ 62,500	\$ 125,000	\$ 187,500	\$ 250,000	\$ 312,500	\$ 375,000
\$600,000	75,000	150,000	225,000	300,000	375,000	450,000
\$800,000	100,000	200,000	300,000	400,000	500,000	600,000
\$1,000,000	125,000	250,000	375,000	500,000	625,000	750,000
\$1,500,000	187,500	375,000	562,500	750,000	937,500	1,125,000
\$2,000,000	250,000	500,000	750,000	1,000,000	1,250,000	1,500,000

(1) As calculated under the SERP.

Payouts under the SERPs are based on final average compensation and credited years of service (up to a maximum of 30 years for Messrs. Kellner and Smisek, 26 years for Messrs. Compton and Misner, and 24 years for Mr. Erwin). Under the SERP, final average compensation means the average of the participant's highest five years of compensation during their last ten calendar years with Continental. For purposes of such calculation, compensation includes annual salary and cash bonuses (but excludes other annual compensation, bonuses paid prior to 1995, certain stay bonuses and all long-term compensation and other incentive compensation). At December 31, 2004, the final average compensation for purposes of calculating SERP benefits for the non-retiring named executive officers was as follows: Mr. Kellner, \$1,137,771, Mr. Smisek, \$1,076,809, Mr. Compton, \$556,497, Mr. Misner, \$544,095, and Mr. Erwin, \$695,730.

Credited years of service under the SERP began in 1995 for Messrs. Kellner and Smisek, in 2000 for Mr. Erwin and in 2001 for Messrs. Compton and Misner. In addition, to induce our named executive officers to remain in our employ, each of them receive additional credited years of service under the SERP for each actual year of service as follows: from 2000 - 2004, two additional years for each of Messrs. Kellner and Smisek, and one additional year for Mr. Erwin; and from 2001 - 2006, one additional year for each of Messrs. Compton and Misner. Their total credited years of service as of December 31, 2004 was as follows: Mr. Kellner, twenty years, Mr. Smisek, twenty years, Mr. Compton, eight years, Mr. Misner, eight years and Mr. Erwin, ten years. In lieu of a monthly annuity, Messrs. Kellner and Erwin may, upon meeting specified age and/or service requirements, elect to receive a lump sum benefit. Messrs. Smisek, Compton and Misner are not eligible to receive the monthly annuity option and may only receive a lump sum benefit. The lump sum benefit will be the actuarial equivalent of a single life annuity and will vary over time based on actuarial assumptions and other factors such as interest rates, years of service, age and compensation. In connection with their retirement, Messrs. Bethune and Campbell, who retired with thirty and ten years of service respectively, each received a lump sum benefit under their SERP as described under Employment Agreements above.

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The following graph compares the cumulative total return on our common stock with the cumulative total returns (assuming reinvestment of dividends) on the Amex Airline Index and the Standard & Poor's 500 Stock Index as if \$100 were invested in the common stock and each of those indices on December 31, 1999.

	<b>12/31/99</b>	<b>12/31/00</b>	<b>12/31/01</b>	<b>12/31/02</b>	<b>12/31/03</b>	<b>12/31/04</b>
Continental Airlines	\$ 100.00	\$ 116.34	\$ 59.06	\$ 16.34	\$ 36.66	\$ 30.51
Amex Airline Index	\$ 100.00	\$ 110.28	\$ 57.93	\$ 25.65	\$ 40.65	\$ 39.82
S&P 500 Index	\$ 100.00	\$ 90.97	\$ 80.19	\$ 62.57	\$ 80.32	\$ 88.94

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The table below provides information relating to our equity compensation plans as of December 31, 2004.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Compensation Plans (Excluding Securities Reflected in First Column)</b>
Equity compensation plans approved by security holders	6,175,232	\$ 17.10	3,722,757(1)
Equity compensation plans not approved by security holders(2)	N/A	N/A	N/A
<b>Total</b>	<b>6,175,232</b>	<b>\$ 17.10</b>	<b>3,722,757(1)</b>

- (1) The number of securities remaining available for future issuance under equity compensation plans includes 15,062 shares under restricted stock provisions and 2,750,840 shares under the employee stock purchase plan.
- (2) During the first quarter of 2005, we adopted the 2005 Broad Based Employee Stock Option Plan and the 2005 Pilot Supplemental Option Plan, as a commitment to our employees that their wage and benefits cost reduction contributions represent an investment in their future. We did not seek stockholder approval to adopt these plans because the audit committee of our board of directors determined that the delay necessary in obtaining such approval would seriously jeopardize our financial viability. On March 4, 2005, the NYSE accepted our reliance on this exception to its shareholder approval policy. A total of 10 million shares of common stock may be issued under these plans. As of March 30, 2005, approximately 8.7 million options with an exercise price of \$11.89 per share had been issued to eligible employees under these plans, in connection with wage and benefit reductions and workrule changes being implemented with respect to those employees. The options will become exercisable in three equal installments and have terms ranging from six to eight years.