

CONTINENTAL AIRLINES INC /DE/

Form POS AM

December 24, 2003

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As filed with the Securities and Exchange Commission on December 24, 2003

Registration No. 333-108576

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Post-Effective Amendment No. 3
to**

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Continental Airlines, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

74-2099724
(I.R.S. Employer Identification No.)

**1600 Smith Street
Houston, Texas 77002
(713) 324-5000**
(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

**Jennifer L. Vogel, Esq.
Senior Vice President,
General Counsel and Secretary
1600 Smith Street
Department HQSEO
Houston, Texas 77002
(713) 324-2950**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

**Kevin P. Lewis
Vinson & Elkins L.L.P.
2300 First City Tower
Houston, Texas 77002-6760
(713) 758-2222**

Approximate date of commencement of proposed sale to the public: From time to time after the registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following

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box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 24, 2003

PROSPECTUS

Continental Airlines, Inc.

\$175,000,000

5% Convertible Notes due 2023

This prospectus relates to the offering for resale of our 5% Convertible Notes due 2023 and the shares of our common stock issuable upon conversion of the notes. The notes were offered and issued on June 10, 2003 to qualified institutional buyers, as defined in, and in reliance on, Rule 144A under the Securities Act of 1933, as amended, or the Securities Act, in transactions exempt from, or not subject to, the registration requirements of the Securities Act. This prospectus will be used by selling securityholders to resell their notes and shares of our common stock issuable upon conversion of their notes. We will not receive any proceeds from sales by the selling securityholders.

We will pay interest at the rate of 5% per year on the principal amount from June 10, 2003, or from the most recent date to which interest has been paid or provided for, semiannually in arrears on June 15 and December 15 of each year, beginning December 15, 2003. The notes will mature on June 15, 2023.

Holders may convert all or a portion of their notes into shares of our common stock under the following circumstances: (1) at any time during or after any fiscal quarter commencing after June 30, 2003 if the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the fiscal quarter prior to such quarter is greater than 120% of the conversion price per share of common stock on such last day; (2) subject to certain exceptions, during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the notes for each day of the five trading day period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1,000 principal amount of the notes; (3) if the notes have been called for redemption; or (4) upon the occurrence of specified corporate transactions described in this prospectus.

The conversion rate is 50 shares of our common stock per \$1,000 principal amount of the notes, subject to adjustment. Upon conversion, we may at our option choose to deliver, in lieu of our common stock, cash or a combination of cash and common stock as described herein.

Beginning June 18, 2010, we may redeem all or a portion of the notes for cash for a price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any.

Holders may require us to repurchase all or a portion of their notes on June 15, 2010, June 15, 2013 and June 15, 2018 at a repurchase price equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any. We may at our option choose to pay the repurchase price for any such notes in cash or in shares of common stock (valued as described herein) or any combination thereof. Should we be required to repurchase the notes at any of the redemption dates, it is our policy that we would satisfy the requirement in cash.

The notes represent our unsubordinated, unsecured obligations. The notes rank equally with all of our other existing and future unsecured and unsubordinated indebtedness. However, the notes are effectively subordinated to all of our existing and future secured debt to the extent of the security on such other debt and to all existing and future obligations of our subsidiaries.

Our common stock is listed on the New York Stock Exchange and trades under the symbol **CAL**. On December 22, 2003, the last reported sale price of our common stock on the New York Stock Exchange was \$15.83 per share.

Investing in the notes involves risks. See Risk Factors beginning on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

, 2003

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You should rely only on the information contained in this prospectus and those documents incorporated by reference herein. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer or solicitation of an offer in such jurisdiction. You should not assume that the information contained in this prospectus or any document incorporated by reference is accurate as of any date other than the date on the front cover of the applicable document.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, utilizing a shelf registration process or continuous offering process. Under this shelf registration process, the selling securityholders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities which may be offered by the selling securityholders. Each time a selling securityholder sells securities, the selling securityholder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling securityholder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under "Where You Can Find More Information."

As used in this prospectus, the terms "company," "we," "our," "ours" and "us" may, depending on the context, refer to Continental Airlines, Inc. or one or more of its consolidated subsidiaries or to all of them taken as a whole. When we refer to "common stock" throughout this prospectus, we include all rights attaching to our common stock under any stockholder rights plan in effect at the relevant time.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference rooms at 450 Fifth Street, N.W., Room 1024, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public over the Internet at the SEC's website at <http://www.sec.gov>.

The SEC allows us to incorporate by reference into this prospectus the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the following documents we have already filed and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), other than Current Reports (or portions thereof) furnished under Items 9 or 12 of Form 8-K, until the offering of the notes is completed.

Annual Report on Form 10-K/A-1 for the year ended December 31, 2002;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003;

Current Reports on Form 8-K filed January 3, 2003, January 15, 2003, February 4, 2003, March 4, 2003, March 19, 2003, March 20, 2003, April 2, 2003, April 15, 2003, May 2, 2003, May 12, 2003, May 14, 2003, June 3, 2003, June 5, 2003, June 12, 2003, July 2, 2003, August 4, 2003, August 5, 2003, September 3, 2003, September 17, 2003, October 2, 2003, November 4, 2003, November 10, 2003, November 18, 2003, December 2, 2003 and December 22, 2003;

The description of our common stock contained in our Registration Statement on Form 8-A/A, as filed with the SEC on February 6, 2001; and

The description and terms of the preferred share purchase rights associated with our common stock contained in our registration statement on Form 8-A/A, as filed with the SEC on January 22, 2001.

You may obtain any of these incorporated documents from us without charge, excluding any exhibits to these documents unless the exhibit is specifically incorporated by reference in such document, from our website (www.continental.com) or by requesting them from us in writing or by telephone at the following address:

Continental Airlines, Inc.

1600 Smith Street
Dept. HQSLG
Houston, Texas 77002
Attention: Secretary
Telephone: (713) 324-2950

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents we incorporate by reference may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements include any statements that predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, will be, will continue, will result or words or phrases of similar meaning.

Any such forward-looking statements are not assurances of future performance and involve risks and uncertainties. Actual results may vary materially from anticipated results for a number of reasons, including those stated in our SEC reports incorporated in this prospectus by reference or as stated in Risk Factors .

All forward-looking statements attributable to us are expressly qualified in their entirety by the cautionary statements above.

You should not place undue reliance on these forward-looking statements. We caution that the foregoing list of important factors is not exhaustive. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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SUMMARY

This summary contains basic information about us and the notes. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled Risk Factors and our financial statements and the related notes, contained elsewhere or incorporated by reference in this prospectus, before making an investment decision.

Our Company

We are a major United States air carrier engaged in the business of transporting passengers, cargo and mail. We are the fifth largest United States airline (as measured by the number of scheduled miles flown by revenue passengers, known as revenue passenger miles, in 2002) and together with ExpressJet Airlines, Inc. (ExpressJet), and our wholly owned subsidiary, Continental Micronesia, Inc., served 222 airports worldwide at September 30, 2003. As of September 30, 2003, we flew to 125 domestic and 97 international destinations and offered additional connecting service through alliances with domestic and foreign carriers. We directly served 16 European cities, seven South American cities, Tel Aviv, Hong Kong and Tokyo as of September 30, 2003, and are one of the leading airlines providing service to Mexico and Central America, serving 29 cities, more destinations than any other United States airline. Through its Guam hub, Continental Micronesia provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

Our executive offices are located at 1600 Smith Street, Houston, Texas 77002. Our primary telephone number is (713) 324-2950. Our Internet address is www.continental.com. Information on our website is not incorporated into this prospectus and is not a part of this prospectus.

The Offering

Notes	\$175,000,000 aggregate principal amount of 5% Convertible Notes due 2023. Each note was issued at a price of \$1,000 per note and has a principal amount of \$1,000.
Maturity	June 15, 2023.
Interest	The notes bear interest at the rate of 5% per year on the principal amount beginning June 10, 2003, or from the most recent date to which interest has been paid or provided for. Interest is payable semiannually in arrears on June 15 and December 15 of each year, beginning December 15, 2003. The interest rate is calculated using a 360-day year composed of twelve 30-day months.
Conversion Rights	<p>Holders may convert all or a portion of their notes, in multiples of \$1,000 principal amount, into common stock only if at least one of the conditions described below is satisfied. For each \$1,000 principal amount of notes surrendered for conversion, if the conditions for conversion are satisfied, a holder will receive 50 shares of our common stock, subject to adjustment. When we refer to common stock throughout this prospectus, we include all rights attaching to our common stock under any stockholder rights plan in effect at the relevant time. In lieu of delivering shares of our common stock upon conversion of all or any portion of the notes, we may elect to pay cash or a combination of cash and shares of our common stock for the notes surrendered.</p> <p>Holders may surrender notes for conversion into shares of our common stock at any time during or after any fiscal quarter commencing after June 30, 2003 if the closing sale price of our</p>

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common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is more than 120% of the conversion price per share of common stock on such last day. If the foregoing condition is satisfied, then the notes will be convertible at any time at the option of the holder, through maturity. The conversion price per share as of any day will equal the principal amount of a note, divided by the conversion rate, subject to any adjustments to the conversion rate through that day.

Holders may also surrender notes for conversion during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of notes for each day of that period was less than 98% of the product of the closing sale price for our common stock for each day of that period and the number of shares of common stock issuable upon conversion of \$1,000 principal amount of notes; provided that if on the date of any such conversion that is on or after June 15, 2018, the closing sale price of our common stock is greater than the conversion price, then holders will receive, in lieu of common stock based on the conversion price, cash or common stock or a combination of cash and common stock, at our option, with a value equal to the principal amount of such notes plus accrued and unpaid interest, as of the conversion date.

Notes called for redemption may be surrendered for conversion until the close of business on the business day immediately preceding the redemption date. In addition, if we make a distribution to our stockholders with a per share value of more than 12.5% of the closing sale price of our common stock on the date immediately preceding the declaration of such distribution, or if we are a party to certain consolidations, mergers or binding share exchanges, notes may be surrendered for conversion, as provided in Description of Notes Conversion Rights. The ability to surrender notes for conversion will expire at the close of business on the business day immediately preceding the final maturity date.

Ranking	The notes represent our unsubordinated, unsecured obligations and rank equal in right of payment to all of our existing and future unsecured and unsubordinated debt. However, the notes are effectively subordinated to all of our existing and future secured debt to the extent of the collateral securing such debt and to all existing and future liabilities of our subsidiaries. See Description of Notes Ranking of the Notes.
Sinking Fund	None.
Redemption of Notes at Our Option	We may redeem for cash all or a portion of the notes at any time on or after June 18, 2010, at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest, if any. See Description of Notes Redemption of Notes at Our Option.
Repurchase at Option of the Holder on Specified Dates	Holders may require us to repurchase the notes on June 15 of 2010, 2013 and 2018 at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We may

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at our option choose to pay the repurchase price for any such notes in cash or in shares of common stock (valued as described herein) or any combination thereof. Should we be required to repurchase the notes at any of the redemption dates, it is our policy that we would satisfy the requirement in cash. See Description of Notes Repurchase at Option of the Holder on Specified Dates.

Repurchase at Option of the Holder
Upon a Change in Control

In certain circumstances involving a change in control (as described under Description of Notes Repurchase at Option of the Holder Upon a Change in Control) prior to maturity, holders may require us to purchase all or a portion of their notes for cash at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. See Description of Notes Repurchase at Option of the Holder Upon a Change in Control.

DTC Eligibility

The notes were issued in fully registered book entry form and are represented by one permanent global note without coupons. The global note was deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company in New York, New York. Beneficial interests in the global note are shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, and your interest in the global note may not be exchanged for certificated notes, except in limited circumstances described herein. See Description of Notes Book-Entry System.

Trading

We do not intend to list the notes on any national securities exchange. However, the notes and the common stock issuable upon conversion of the notes are eligible for trading in PORTAL.

Common Stock

Our common stock is listed on the New York Stock Exchange under the symbol CAL .

Use of Proceeds

We will not receive any of the proceeds from the sale of notes or the common stock contemplated by this prospectus.

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RISK FACTORS

You should read carefully this entire prospectus and the documents incorporated by reference in this prospectus before investing in the notes.

This prospectus includes Forward-Looking Statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included or incorporated by reference in this prospectus, including statements regarding our future financial position, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will be correct. Important factors that could cause actual results to differ materially from such expectations are disclosed below and elsewhere in this prospectus. See Special Note Regarding Forward-Looking Statements.

Terrorist Attacks and International Hostilities

The 2001 terrorist attacks and the recent war in Iraq have adversely affected, and any additional terrorist attacks or hostilities may further adversely affect, our financial condition, results of operations and prospects.

As described in greater detail in our filings with the SEC, the terrorist attacks of September 11, 2001 involving commercial aircraft adversely affected our financial condition, results of operations and prospects, and the airline industry generally. Those effects continue, although they have been mitigated somewhat by increased traffic, money received by us under the Air Transportation Safety and System Stabilization Act (the Stabilization Act) and the Emergency Wartime Supplemental Appropriations Act and by our cost-cutting measures. Moreover, additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks, could further negatively affect us and the airline industry. The recent war in Iraq further decreased demand for air travel, and additional hostilities could potentially have a material adverse impact on our financial condition, liquidity and results of operations.

Among the effects we experienced from the September 11, 2001 terrorist attacks were significant flight disruption costs caused by the Federal Aviation Administration (FAA) imposed grounding of the U.S. airline industry's fleet, significantly increased security, insurance and other costs, significantly higher ticket refunds, significantly reduced load factors (defined as revenue passenger miles divided by available seat miles), and significantly reduced yields. Further terrorist attacks against commercial aircraft could result in another grounding of our fleet, and would likely result in significant reductions in load factor and yields, along with increased ticket refunds and security, insurance and other costs. In addition, terrorist attacks not involving commercial aircraft, post-war unrest in Iraq or other world events could result in decreased load factors and yields and could also result in increased costs for us and the airline industry. For instance, fuel costs rose significantly during late 2002 and the first quarter of 2003 and remain at historically high levels. Premiums for aviation insurance have increased substantially, and could escalate further, or certain aviation insurance could become unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of insurance coverage required by aircraft lenders and lessors or required by applicable government regulations. Additionally, war-risk coverage or other insurance might cease to be available to our vendors, or might be available only at significantly increased premiums or for reduced amounts of coverage, which could adversely impact our operations or costs.

Due in part to the lack of predictability of future traffic, business mix and yields, we are currently unable to estimate the long-term impact on us of the events of September 11, 2001 or the impact of any further terrorist attacks or the recent war in Iraq. However, given the magnitude of the unprecedented events of September 11, 2001 and their continuing aftermath, the adverse impact to our financial condition, results of operations, liquidity and prospects may continue to be material, and our financial resources might not be sufficient to absorb it or that of any further terrorist attacks or post-war unrest in Iraq.

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Risk Factors Relating to the Company

We continue to experience significant losses.

Since September 11, 2001, we have incurred significant losses. We recorded net losses of \$451 million in 2002 and \$9 million for the first nine months of 2003. Based on current information and trends (including currently anticipated unit revenue and costs), and excluding previously announced special items and gains arising from our investment in Orbitz, we still expect to incur significant losses for the fourth quarter and full year 2003. Passenger revenue per available seat mile and overall passenger revenue for our mainline jet operations have declined since September 11, 2001. Passenger revenue per available seat mile dropped 4.1% for the year ended December 31, 2002 versus the same period in 2001 and overall passenger revenue declined 7.0% during 2002 compared to 2001. During the first nine months of 2003, the revenue decline has moderated slightly, as passenger revenue per available seat mile increased 0.7% and overall passenger revenue increased 1.9% versus the same period in 2002. Business traffic, our most profitable source of revenue, and yields are down significantly from historical levels, and carriers continue to offer reduced fares to attract passengers, which lowers our passenger revenue and yields and raises our break-even load factor. We cannot predict when business traffic or yields will increase. Further, the long-term impact of any changes in fare structures, most importantly in relation to business fares, booking patterns, low-cost competitor growth, increased usage of regional jets, competitor bankruptcies and other changes in industry structure and conduct, cannot be predicted at this time, but could have a material adverse effect on our financial condition, liquidity and results of operations.

In addition, our capacity purchase agreement with ExpressJet provides that we purchase, in advance, all of ExpressJet's available seat miles for a negotiated price, and we are at risk for reselling the available seat miles at market prices. We previously announced our intention to sell or otherwise dispose of our remaining interests in ExpressJet. During the third quarter of 2003, we sold approximately 9.8 million shares of Holdings common stock to Holdings, reducing our ownership of Holdings from 53.1% to 44.6%. We also contributed approximately 7.4 million shares of Holdings common stock to our defined benefit pension plan, further reducing our ownership of Holdings to 30.9% as of September 30, 2003. The independent trustee for our defined benefit pension plan subsequently sold a portion of the shares of Holdings that we contributed to the plan. As a result of such sales by the defined benefit pension plan, the combined amount of Holdings common stock owned by us and our defined benefit plan fell below 41% on November 12, 2003, the point at which we will no longer consolidate Holdings and ExpressJet. Accordingly, we have deconsolidated Holdings and ExpressJet as of November 12, 2003. The primary effects of the deconsolidation of Holdings from our financial statements are a decrease in current assets, primarily due to the elimination of Holdings' cash, a decrease in total assets, a decrease in long-term debt and a decrease in operating income as a result of the exclusion of Holdings' operating income from our statement of operations. This decrease in operating income is offset by increases in income from our equity in Holdings' earnings. Among the documents incorporated by reference into this Prospectus is a Current Report on Form 8-K dated November 18, 2003, which presents our pro forma consolidated financial statements reflecting (1) our results of operations for the nine months ended September 30, 2003 and the year ended December 31, 2002, as if the accounts of Holdings had been accounted for using the equity method of accounting set forth in APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", rather than being consolidated, effective as of the beginning of each period, and (2) our balance sheet as of September 30, 2003, adjusted to report Holdings using the equity method of accounting as of that date.

Our high leverage may affect our ability to satisfy our significant financing needs or meet our obligations.

As is the case with our principal competitors, we have a high proportion of debt compared to our equity capital. We also have significant operating lease and facility rental obligations, as well as significant future funding requirements for a noncontributory defined benefit plan. During 2002, the amount of our long-term debt increased 24%. In addition, we have fewer cash resources than some of our principal competitors and substantially all of our property and equipment is subject to liens securing indebtedness. Accordingly, we may be less able than some of our competitors to withstand a prolonged recession in the airline industry or respond

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as well to changing economic and competitive conditions. Moreover, competitors emerging from bankruptcy will likely have lower cost structures and greater operating flexibility after reorganizing their companies in bankruptcy.

As of September 30, 2003, we had approximately:

\$6.1 billion (including current maturities) of long-term debt and capital lease obligations.

\$764 million of stockholders' equity.

\$1.6 billion in consolidated cash, cash equivalents and short-term investments, of which \$139 million is restricted cash and \$171 million is cash held by Holdings to which we did not have access. Effective November 12, 2003, we no longer consolidate Holdings and ExpressJet.

We have substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of September 30, 2003, we had firm purchase commitments for 67 aircraft from Boeing, with an estimated cost of approximately \$2.6 billion and options to purchase an additional 87 Boeing aircraft. During the second quarter of 2003, we agreed to defer firm deliveries of 36 Boeing 737 aircraft that were originally scheduled for delivery in 2005, 2006 and 2007. These aircraft will now be delivered in 2008 and beyond. Additionally, we reached an agreement with Boeing regarding the terms of delivery of the 11 Boeing 757-300 aircraft that we had on order as of September 30, 2003. We now expect to take delivery of five 757-300 aircraft in 2004. The final six 757-300 aircraft originally scheduled for delivery in late 2004 and the first half of 2005 have been substituted with six 737-800 aircraft expected to be delivered in the second half of 2005. Furthermore, the 757-300 option count has been reduced from 11 to zero. As a result, we have taken delivery of four Boeing aircraft in the fourth quarter of 2003, and expect to take delivery of 16 Boeing aircraft in 2004 (including the five 757-300 aircraft) and seven Boeing aircraft in 2005. Incorporating these changes to the Boeing order, we have firm purchase commitments for 63 Boeing aircraft with an estimated cost of approximately \$2.5 billion and options to purchase an additional 84 Boeing aircraft.

We currently have agreements in principle for the financing of six of the eleven 737-800 aircraft scheduled for delivery in 2004 and all five of the 757-300 aircraft scheduled for delivery in 2004. We do not have backstop financing or any other financing currently in place for the remainder of the aircraft. In addition, we have firm commitments outstanding to purchase four spare engines related to the new Boeing aircraft for approximately \$25 million. We also expect to finalize financing of three spare engines that were delivered in the fourth quarter of 2003 by December 31, 2003. Otherwise, we do not have any financing currently in place for the remaining four spare engines contracted for delivery in 2004 and the first quarter of 2005. Further financing will be needed to satisfy our capital commitments for our firm aircraft. We can provide no assurance that sufficient financing will be available for the aircraft on order or other related capital expenditures.

As of September 30, 2003, ExpressJet had firm commitments for an additional 56 regional jets from Empresa Brasileira de Aeronautica S.A. delivering through 2006, with an estimated aggregate cost of \$1.1 billion. ExpressJet does not have any obligation to take any of these firm aircraft that are not financed by a third party and leased either to ExpressJet or us. Under the capacity purchase agreement between us and ExpressJet, we have agreed to lease as lessee and sublease to ExpressJet the regional jets that are subject to ExpressJet's firm purchase commitments. In addition, under the capacity purchase agreement with ExpressJet, we generally are obligated to purchase all of the capacity provided by these new aircraft as they deliver to ExpressJet. We cannot predict whether passenger traffic levels will enable us to utilize fully regional jets delivering to ExpressJet in the future.

We also have significant operating lease and facility rental obligations, as well as significant future funding requirements for our noncontributory defined benefit plan. For the year ended December 31, 2002, annual aircraft and facility rental expense under operating leases approximated \$1.3 billion. We have a noncontributory defined benefit plan covering substantially all of our employees. We contributed \$272 million in cash to the plan in 2003 and approximately 7.4 million shares of Holdings common stock valued at approximately \$100 million to the plan on September 9, 2003. As a result, we have satisfied all minimum

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required contributions to the plan during 2003. Although our 2004 minimum funding requirements are not expected to be material, we currently expect to make significant contributions to the plan in 2004 and thereafter.

Additional financing will be needed to satisfy our capital commitments. We cannot predict whether sufficient financing will be available. On several occasions subsequent to September 11, 2001, including in March and April 2003, each of Moody's, Standard & Poor's and Fitch, Inc. downgraded the credit ratings of a number of major airlines, including our credit ratings, and further downgrades are possible. Reductions in our credit ratings have increased the interest we pay on new issuances of debt and may increase the cost of and reduce the financing available to us in the future. We do not have debt obligations that would be accelerated as a result of a credit rating downgrade.

Significant changes or extended periods of high fuel costs or fuel supply disruptions would materially affect our operating results.

Fuel costs, which are at historically high levels, constitute a significant portion of our operating expense. Fuel costs represented approximately 11.7% of our operating expenses for the year ended December 31, 2002 and 13.9% of our operating expenses for the year ended December 31, 2001. Fuel costs represented approximately 15.0% of our operating expenses for the nine months ended September 30, 2003, compared to 11.1% for the same period in 2002. Fuel prices and supplies are influenced significantly by international political and economic circumstances, such as the political crises in Venezuela and Nigeria and post-war unrest in Iraq. From time to time we enter into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide some short-term protection (generally three to six months) against a sharp increase in jet fuel prices. Depending upon the hedging method employed, our strategy may limit our ability to benefit from declines in fuel prices. We have hedged approximately 60% of our fuel requirements for the remainder of 2003 with petroleum call options. If a future fuel supply shortage were to arise from OPEC production curtailments, a disruption of oil imports, post-war unrest in Iraq, other conflicts in the Middle East, or otherwise, higher fuel prices or reduction of scheduled airline service could result. Significant changes in fuel costs would materially affect our operating results.

Labor costs impact our results of operations.

Labor costs constitute a significant percentage of our total operating costs. Many of our work groups are represented by unions. Our mechanics, represented by the International Brotherhood of Teamsters, ratified a new four-year collective bargaining agreement in December 2002 that made an adjustment to current pay and recognized current industry conditions. This agreement becomes amendable with respect to wages, pension and health insurance provisions on December 31, 2003. Work rules and other contract items are established through 2006. Collective bargaining agreements between us and our pilots and between ExpressJet and its pilots (both of whom are represented by the Air Line Pilots Association) became amendable in October 2002. After being deferred due to the economic uncertainty following the September 11, 2001 terrorist attacks, negotiations recommenced in September 2002 and are continuing. Although we may incur increased labor costs in connection with the negotiation of the pilot collective bargaining agreements, the labor cost uncertainty associated with recent major hub-and-spoke carrier bankruptcies makes predicting the outcome of negotiations more difficult. US Airways Group, Inc. and United Air Lines, Inc. have significantly decreased their labor costs during their bankruptcy cases. Earlier this year, American Airlines, Inc. agreed with its major labor groups on significant labor cost reductions. Delta Air Lines, Inc. and Northwest Airlines, Inc. have each announced that they are seeking to decrease their labor costs significantly. Although we enjoy generally good relations with our employees, we can provide no assurance that we will not experience labor disruptions in the future.

Our ability to utilize certain net operating loss carryforwards or investment tax credits may be limited by certain events.

Our ability to utilize certain net operating loss carryforwards may be limited by certain events. At December 31, 2002, we had estimated net operating loss carryforwards (NOLs) of \$2.0 billion for federal

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income tax purposes that will expire through 2022. Due to a change in our ownership on April 27, 1993, the ultimate utilization of our NOLs may be limited, as described below.

Section 382 of the Internal Revenue Code (Section 382) imposes limitations on a corporation's ability to utilize NOLs if it experiences an ownership change. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. In the event of an ownership change, utilization of our NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate (which is 4.65% for September 2003). Any unused annual limitation may be carried over to later years. The amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by us at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, our annual NOL utilization would be limited to approximately \$52 million per year other than through the recognition of future built-in gain transactions.

We believe that ExpressJet Holdings, Inc.'s initial public offering created a change in ownership limitation on the utilization of ExpressJet's NOLs. As a result, ExpressJet will be limited in the utilization of its NOLs to offset up to approximately \$43 million of post-change taxable income per year. At December 31, 2002, ExpressJet's stand-alone NOLs were \$105 million, which expire between 2004 and 2020. We do not expect this limitation to have any material impact on our financial condition.

The Internal Revenue Service (IRS) is in the process of examining our income tax returns for years through 1999 and has indicated that it may disallow certain deductions we claimed. In addition, the IRS has begun an examination of our income tax returns for the years 2000 and 2001. We believe the ultimate resolution of these audits will not have a material adverse effect on our financial condition, liquidity or results of operations.

Continental Micronesia's dependence on the Japanese economy may result in currency risk.

Because the majority of Continental Micronesia's traffic originates in Japan, its results of operations are substantially affected by the Japanese economy and changes in the value of the yen as compared to the U.S. dollar. To reduce the potential negative impact on Continental Micronesia's earnings associated with fluctuations in currency, we have entered into option and forward contracts as a hedge against a portion of our expected net yen cash flow position. As of September 30, 2003, we had entered into option and forward contracts to hedge approximately 70% and 51% of our projected yen-denominated net cash flows for the remainder of 2003 and 2004, respectively.

Risk Factors Relating to the Airline Industry

The airline industry is highly competitive.

The airline industry is highly competitive and susceptible to price discounting. Carriers use discount fares to stimulate traffic during periods of slack demand, to generate cash flow and to increase market share. Some of our competitors have substantially greater financial resources or lower cost structures than us, or both. In recent years, the market share held by low cost carriers has increased significantly and is expected to continue to increase.

Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels are influenced by, among other things, the state of the global economy, domestic and international events, airline capacity and pricing actions taken by carriers. The weak U.S. economy, turbulent international events and extensive price discounting by carriers contributed to unprecedented losses for U.S. airlines from 1990 to 1993. Since September 11, 2001, these same factors, together with the effects of the terrorist attacks and the recent war in Iraq, have resulted in dramatic losses for us and the airline industry generally. We cannot predict when conditions will improve. US Airways Group, Inc., United Air Lines, Inc. and several small competitors have filed for bankruptcy protection, although US Airways emerged from bankruptcy on March 31, 2003. Other carriers could follow. These carriers could

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operate under bankruptcy protection in a manner that would be adverse to us and could emerge from bankruptcy as more vigorous competitors with substantially lower costs.

In recent years, the major U.S. airlines have sought to form marketing alliances with other U.S. and foreign air carriers. Such alliances generally provide for codesharing, frequent flyer reciprocity, coordinated scheduling of flights of each alliance member to permit convenient connections and other joint marketing activities. Such arrangements permit an airline to market flights operated by other alliance members as its own. This increases the destinations, connections and frequencies offered by the airline, which provide an opportunity to increase traffic on its segment of flights connecting with its alliance partners. Our alliance with Northwest Airlines, Inc. and our new alliance with Delta Air Lines, Inc. and Northwest Airlines, Inc. are examples of such arrangements, and we have existing alliances with numerous other air carriers. Other major U.S. airlines have alliances or planned alliances more extensive than ours, providing them with route systems of relatively greater utility to customers than our more limited route system. We cannot predict the extent to which we will be disadvantaged by competing alliances.

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

The Aviation Security Act will impose additional costs and may cause service disruptions.

In November 2001, the President signed into law the Aviation and Transportation Security Act (the "Aviation Security Act"). This law federalized substantially all aspects of civil aviation security, creating a new Transportation Security Administration under the Department of Transportation (the "TSA"). Among other things, the law required that all checked baggage be screened by explosive detection systems by December 31, 2002 (although during the implementation phase, other permitted methods of screening are being utilized and federal law permits individual airports to request extensions of such deadline). At some airports, the TSA has provided for temporary security measures. Implementation of the requirements of the Aviation Security Act has resulted in increased costs for the airline industry and may result in additional costs, delays and disruptions in air travel. However, pursuant to the Emergency Wartime Supplemental Appropriations Act, some of these costs have been reimbursed by the U.S. government. In May 2003, Continental received and recognized in earnings \$176 million in cash from the U.S. government pursuant to the Emergency Wartime Supplemental Appropriations Act. This amount is reimbursement for Continental's proportional share of passenger security and air carrier security fees paid or collected by U.S. carriers as of the date of enactment of the legislation, together with other items.

Our business is subject to extensive government regulation.

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

Additionally, because of significantly higher security and other costs incurred by airports since September 11, 2001, and because reduced landing weights since September 11, 2001 have reduced the fees airlines pay to airports, many airports are significantly increasing their rates and charges to air carriers, including to us. Restrictions on the ownership and transfer of airline routes and takeoff and landing slots have also been

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proposed. The ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time, or because appropriate slots or facilities are not made available. We cannot provide assurance that current laws and regulations, or laws or regulations enacted in the future, will not adversely affect us.

Our operations are affected by the seasonality associated with the airline industry.

Due to greater demand for air travel during the summer months, revenue in the airline industry in the second and third quarters of the year is generally stronger than revenue in the first and fourth quarters of the year for most U.S. air carriers. Our results of operations generally reflect this seasonality.

Risks Related to the Notes

The notes are unsecured and effectively subordinated to our secured debt and to all obligations of our subsidiaries.

The notes represent our unsubordinated, unsecured obligations and rank equal in right of payment to all of our other existing and future unsecured and unsubordinated debt. However, the notes are effectively subordinated to all of our existing and future secured debt, to the extent of the security on such other debt and to all existing and future obligations of our subsidiaries. As of September 30, 2003, after giving effect to the offering of the notes, we and our subsidiaries had \$6.1 billion (including current maturities) of long-term debt and capital lease obligations outstanding, of which \$5.1 billion was secured by our assets and the assets of our subsidiaries. In addition, we have entered into guarantees for approximately \$1.6 billion aggregate principal amount of tax-exempt special facilities revenue bonds and related interest. These bonds, issued by various airport municipalities, are payable solely from our rentals paid under long-term agreements with the respective governing bodies.

In the event of any distribution of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have prior claim to those of our assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than holders of secured indebtedness.

We are not restricted by the notes from incurring indebtedness, and our subsidiaries may incur significant indebtedness without guaranteeing the notes. In addition, the notes do not restrict the ability of us or our subsidiaries to incur liens.

We may not have the financial resources to repurchase the notes upon the occurrence of a change in control or at the option of a holder.

In the event of a change in control under the indenture governing the notes, we will have to offer to repurchase all outstanding notes at a purchase price equal to 100% of the principal amount plus accrued and unpaid interest, if any. In addition, holders may require us to repurchase their notes on June 15 of 2010, 2013 and 2018. It is possible that we will not have, nor have access to, sufficient funds at the time of any such repurchase request or change of control to make the required repurchase of the notes. In addition, our ability to repurchase the notes in cash in such event may be limited by law, by the indenture, by the terms of other agreements relating to our outstanding debt and by debt and agreements which may be entered into, replaced, supplemented or amended from time to time. Further, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the indenture. See Description of Notes Repurchase at Option of the Holder and Repurchase at Option of the Holder Upon a Change in Control.

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There is no public market for the notes.

There is no established trading market for the notes. The notes are eligible for trading in PORTAL, but no market for the notes may develop, and any market that develops may not last. We do not intend to apply for listing of the notes on any securities exchange or other stock market.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the notes or the common stock contemplated by this prospectus. See [Selling Securityholders](#) for a list of those entities receiving proceeds from the sale of the notes or the underlying common stock.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

The ratios of our earnings to our fixed charges for each of the years 1998 through 2002 and for the nine months ended September 30, 2003 were:

Nine Months Ended September 30, 2003	Year Ended December 31,				
	2002	2001	2000	1999	1998
1.11	(1)	(1)	1.51	1.80	1.87

- (1) For the years ended December 31, 2002 and 2001, earnings were inadequate to cover fixed charges and the coverage deficiency was \$640 million and \$159 million, respectively.

For purposes of the ratios, earnings means the sum of:

our pre-tax income (loss) adjusted for undistributed income of companies in which we have a minority equity interest; and

our fixed charges, net of interest capitalized.

Fixed charges represent:

the interest we pay on borrowed funds;

the amount we amortize for debt discount, premium and issuance expense and interest previously capitalized; and

that portion of rentals considered to be representative of interest expense.

PRICE RANGE OF OUR COMMON STOCK

Our common stock (Class B common stock) is quoted on the New York Stock Exchange under the symbol CAL. The table below shows the high and low sales prices for our common stock for the period indicated below:

	High	Low
Fiscal 2003		
Fourth Quarter (through December 22)	\$ 21.70	\$ 14.49
Third Quarter	18.87	12.05
Second Quarter	15.90	5.30
First Quarter	9.39	4.16
Fiscal 2002		
Fourth Quarter	\$ 9.85	\$ 3.59
Third Quarter	16.00	4.80
Second Quarter	30.50	14.46
First Quarter	35.25	25.74
Fiscal 2001		
Fourth Quarter	\$ 27.50	\$ 14.85
Third Quarter	52.32	12.35
Second Quarter	51.95	38.70
First Quarter	57.88	39.10

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DIVIDEND POLICY

We have paid no cash dividends on our common stock and have no current intention of doing so. Certain of our credit agreements restrict our and some of our subsidiaries' ability to pay cash dividends or repurchase capital stock by imposing minimum unrestricted cash requirements on us and limiting the amount of any dividends and repurchases when aggregated with other payments or distributions. Any future determination to pay cash dividends will be at the discretion of our board of directors, subject to applicable limitations under Delaware law, and will be dependent upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

DESCRIPTION OF NOTES

We issued the notes under an indenture, dated as of June 10, 2003, between us, as issuer, and J. P. Morgan Trust Company, National Association, as successor trustee to Bank One, N.A. The following summarizes the material provisions of the notes. We refer to the indenture as the indenture. The following description does not purport to be complete and is subject to, and qualified by reference to, all of the provisions of the indenture and the notes, which we urge you to read because they, and not this description, define your rights as a note holder. A copy of the indenture has been filed with the registration statement relating to this prospectus. As used in this description of notes, the words we, us and our refer only to Continental Airlines, Inc. and do not include any current, former or future subsidiary of Continental Airlines, Inc.

General

The notes are limited to \$175,000,000 aggregate principal amount. The notes will mature on June 15, 2023. The principal amount, and the issue price, of each note is \$1,000. The notes are payable at the principal corporate trust office of the paying agent, which is currently an office or agency of the trustee, or an office or agency maintained by us for such purpose, in the Borough of Manhattan, The City of New York.

The notes bear interest at the rate of 5% per year on the principal amount from June 10, 2003, or from the most recent date to which interest has been paid or provided for. Interest is payable semiannually in arrears on June 15 and December 15, commencing on December 15, 2003, to holders of record at the close of business on the June 1 and December 1 immediately preceding such interest payment date. Each payment of interest on the notes will include interest accrued through the day before the applicable interest payment date (or purchase, redemption or, in certain circumstances, conversion date, as the case may be). Any payment required to be made on any day that is not a business day will be made on the next succeeding business day. The interest rate is calculated using a 360-day year composed of twelve 30-day months.

Maturity, conversion, repurchase by us at the option of a holder or redemption of a note at our option will cause the interest, if any, to cease to accrue on such note. We may not reissue a note that has matured or been converted, repurchased by us at your option, redeemed or otherwise cancelled, except for registration of transfer, exchange or replacement of such note.

Notes may be presented for conversion at the office of the conversion agent and for exchange or registration of transfer at the office of the registrar. The conversion agent and the registrar are currently the trustee. No service charge will be made for any registration of transfer or exchange of notes. However, the holder will be required to pay any tax, assessment or other governmental charge payable as a result of such transfer or exchange.

The indenture does not limit the amount of other indebtedness or securities that may be issued by us or any of our subsidiaries. The indenture does not contain any financial covenants or restrictions on the payment of dividends, the incurrence of senior debt or the issuance or repurchase of our securities (other than the notes). The indenture contains no covenants or other provisions to afford protection to holders of notes in the event of a highly leveraged transaction or a change in control except to the extent described under Repurchase at Option of the Holder Upon a Change in Control.

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Methods of Receiving Payments on the Notes

Each installment of semiannual interest on any note shall be paid in same-day funds by transfer to an account maintained by the payee located inside the United States, if the trustee shall have received proper wire transfer instructions from such payee not later than the related record date or, if no such instructions have been received, by check drawn on a bank in New York City mailed to the payee at its address set forth on the registrar's books.

Paying Agent and Registrar for the Notes

The trustee is currently acting as paying agent and registrar. We may change the paying agent or registrar without prior notice to the holders of the notes, and we or any of our subsidiaries may act as paying agent or registrar.

Ranking of the Notes

The notes represent our unsubordinated, unsecured obligations and rank equal in right of payment to all of our other existing and future unsecured and unsubordinated indebtedness. However, the notes are effectively subordinated to all of our existing and future secured indebtedness to the extent of the security on such other debt and to all existing and future obligations of our subsidiaries.

As of September 30, 2003, we and our subsidiaries had:

approximately \$6.1 billion (including current maturities) of long-term debt and capital lease obligations, including outstanding debt of approximately \$4.4 billion that would have been effectively senior to the notes;

entered into guarantees for \$1.6 billion aggregate principal amount of tax-exempt special facilities revenue bonds and related interest; and

\$764 million of stockholders' equity.

Holders of the notes are creditors of only Continental Airlines, Inc. and not our subsidiaries. The ability of our creditors, including you, to participate in any distribution of assets of any of our subsidiaries upon liquidation or bankruptcy will be subject to the prior claims of that subsidiary's creditors, including trade creditors, and any prior or equal claim of any equity holder of that subsidiary. As a result, you may receive less, proportionately, than our secured creditors and the creditors of our subsidiaries. See **Risk Factors**. The notes are unsecured and effectively subordinated to our secured debt and to all obligations of our subsidiaries.

Conversion Rights

Holders may convert all or a portion of their notes, in multiples of \$1,000 principal amount, into common stock only if at least one of the conditions described below under **Events Permitting Conversion** is satisfied. In addition, a holder may convert a note until the close of business on the business day immediately preceding the redemption date if we call a note for redemption. A note for which a holder has delivered a repurchase notice or a notice requiring us to repurchase such note upon a Change in Control (as defined below) may be surrendered for conversion only if such notice is withdrawn in accordance with the indenture.

The initial conversion rate is 50 shares of common stock per \$1,000 principal amount of each note, subject to adjustment upon the occurrence of the events described below. A holder of a note otherwise entitled to a fractional share will receive cash equal to the applicable portion of the closing sale price of our common stock on the trading day immediately preceding the conversion date. Upon a surrender of notes for conversion, we will have the option to deliver cash or a combination of cash and shares of our common stock as described below. The ability to surrender notes for conversion will expire at the close of business on the business day immediately preceding the final maturity date.

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To exercise its conversion right, a holder must:

complete and manually sign a conversion notice, a form of which is on the back of the note, and deliver the conversion notice to the conversion agent;

surrender the note to the conversion agent;

if required by the conversion agent, furnish appropriate endorsements and transfer documents; and

if required, pay all transfer or similar taxes.

On conversion of a note, a holder will not receive, except as described below, any cash payment of accrued interest. Delivery to the holder of the full number of shares of common stock (or, at our option, cash in lieu thereof) into which \$1,000 principal amount of the note is convertible, together with any cash payment of such holder's fractional shares, will be deemed to satisfy:

our obligation to pay the principal amount of the note; and

except as described below, our obligation to pay accrued but unpaid interest attributable to the period from the most recent interest payment date through the conversion date.

As a result, accrued interest will be deemed to be paid in full rather than cancelled, extinguished or forfeited, except as described below. Holders of notes at the close of business on a record date will receive payment of interest payable on the corresponding interest payment date notwithstanding the conversion of such notes at any time after the close of business on such record date. Notes surrendered for conversion by a holder during the period from the close of business on any record date to the opening of business on the next interest payment date, except for notes to be redeemed within this period or on the next interest payment date, must be accompanied by payment of an amount equal to the interest that the holder is to receive on the principal amount of notes so converted.

In lieu of delivery of shares of our common stock upon notice of conversion of any notes, we may elect to pay holders surrendering notes an amount in cash per \$1,000 principal amount per note equal to the average sale price of our common stock for the five consecutive trading days immediately following either (a) the date of our notice of our election to deliver cash as described below if we have not given notice of redemption, or (b) the conversion date, in the case of conversion following our notice of redemption specifying that we intend to deliver cash upon conversion, in either case multiplied by the conversion rate in effect on that date. We will inform the holders through the trustee no later than two business days following the conversion date of our election to deliver shares of our common stock or to pay cash in lieu of delivery of the shares, unless we have already informed holders of our election in connection with our optional redemption of the notes as described under

Redemption of Notes at Our Option. If we elect to deliver all of such payment in shares of our common stock, the shares will be delivered through the conversion agent no later than the fifth business day following the conversion date. If we elect to pay all or a portion of such payment in cash, the payment, including any delivery of our common stock, will be made to holders surrendering notes no later than the tenth business day following the applicable conversion date. If an Event of Default, as described under Events of Default below (other than a Default (as defined below) in a cash payment upon conversion of the notes), has occurred and is continuing, the indenture will not permit us to pay cash upon conversion of any notes or portion of a note (other than cash for fractional shares).

For a discussion of the tax treatment of a holder receiving shares of our common stock or cash upon surrendering notes for conversion, see Certain United States Federal Income Tax Considerations Consequences to U.S. Holders, Exchange of Notes into Common Stock, Cash or a Combination Thereof.

We will adjust the initial conversion rate for certain events, including:

(1) the payment of dividends or distributions payable in our common stock on our common stock;

(2) the issuance to all holders of our common stock of certain rights or warrants to purchase our common stock (or securities convertible into our common stock) at less than (or having a conversion price per share less than) the current market price of our common stock; *provided, however*, that if the

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rights or warrants are exercisable only upon the occurrence of a triggering event, then the conversion price will not be adjusted until such triggering event occurs;

(3) subdivisions and combinations of our common stock;

(4) the payment of dividends or distributions to all holders of our common stock consisting of our indebtedness, securities or capital stock (including dividends or other distributions of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit of Continental Airlines, Inc.), cash or assets, excluding any rights, warrants, dividends or distributions referred to in paragraphs (1) and (2) above and dividends and distributions paid exclusively in cash;

(5) distributions consisting exclusively of cash (excluding any cash portion of distributions referred to in the preceding paragraph and excluding cash distributed upon certain mergers or consolidations) to all holders of our common stock in an aggregate amount that, combined together with (i) other such all-cash distributions made within the preceding 12 months in respect of which no adjustment to the conversion rate has been made and (ii) any cash and the fair market value of other consideration payable in respect of any tender offer by us or any of our subsidiaries for common stock concluded within the preceding 12 months in respect of which no adjustment to the conversion rate has been made, exceeds 12.5% of our market capitalization (being the product of the then current market price of the common stock and the number of shares of common stock then outstanding) on the record date for such distribution; and

(6) the successful completion of a tender offer made by us or any of our subsidiaries for our common stock which involves an aggregate consideration that, together with (i) any cash and other consideration payable in any other previous successfully completed tender offer made by us or any of our subsidiaries for our common stock expiring within the 12 months preceding the expiration of the first tender offer referred to in this paragraph in respect of which no adjustment to the conversion rate has been made and (ii) the aggregate amount of any such all-cash distributions referred to in the preceding paragraph to all holders of common stock within the 12 months preceding the expiration of the first tender offer referred to in this paragraph in respect of which no adjustments to the conversion rate have been made, exceeds 12.5% of our market capitalization on the expiration of such tender offer; *provided*, that for purposes of this paragraph, purchases pursuant to a stock buyback program shall not constitute a tender offer.

The conversion rate will not be adjusted for the issuance of our common stock (or securities convertible into or exchangeable for our common stock), except as described above. For example, the conversion rate will not be adjusted upon the issuance of shares of our common stock:

under any present or future plan providing for the reinvestment of dividends or interest payable on our securities;

in connection with the investment of additional optional amounts in shares of our common stock under any plan described in the preceding bullet point;

under any present or future employee benefit plan or program of ours; or

pursuant to any option, warrant or right or exercisable, exchangeable or convertible security outstanding as of the date the notes are first issued