CONTINENTAL AIRLINES INC /DE/
Form 424B5
November 08, 2006

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-133187

SUBJECT TO COMPLETION, DATED NOVEMBER 8, 2006

PROSPECTUS SUPPLEMENT
(To Prospectus dated April 10, 2006)

$200,000,000
Continental Airlines, Inc.
% Notes Due 2011

We will pay interest at the rate of % per year on the principal amount of the notes from , 2006, or from the most recent date to which interest has been paid or provided for, semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2007. The notes will mature on December 1, 2011.

We may redeem all or a portion of the notes at any time or from time to time prior to their maturity for cash at the redemption price described in this prospectus supplement.

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.

Investing in our notes involves a high degree of risk. Before buying any notes, you should read the discussion of material risks of investing in the notes in Risk Factors beginning on page S-3 of this prospectus supplement.

The notes will be issued in the form of a global security held in book-entry form and will be issued in minimum denominations of $2,000 and $1,000 multiples thereof. The notes will not be listed on any national securities exchange. For a further description of the terms of the notes, see Description of Notes beginning on page S-10.

	Per Note	**Total**
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

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

The underwriters are offering the notes as set forth under Underwriting. Delivery of the notes will be made on or about November , 2006.

Sole Book-Running Manager
MORGAN STANLEY

Co-Managers

CREDIT SUISSE *GOLDMAN, SACHS & CO*

The date of this prospectus supplement is November , 2006

You should rely only upon the information contained or incorporated by reference in this prospectus supplement and accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement does not constitute an offer to sell, or a solicitation of an offer to buy, any of the notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. You should assume the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of those documents respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of notes. The second part, the base prospectus, gives more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined, and when we refer to the accompanying prospectus, we are referring to the base prospectus.

If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may be used only where it is legal to sell these securities. The information in this document may be accurate only on the date of this document.

Information contained on our website does not constitute part of this prospectus supplement.

In this prospectus supplement, Continental Airlines, our company, we, us, and our refer to Continental Airli
Inc. and our consolidated subsidiaries.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary includes basic information about our company and this offering. It may not contain all of the information that is important to you. For a more complete understanding of our company and this offering, we encourage you to read this entire prospectus supplement and the accompanying prospectus, including the section entitled Risk Factors.

Continental Airlines, Inc.

We are a major United States air carrier engaged in the business of transporting passengers, cargo and mail. We are the world s fifth largest airline (as measured by the number of scheduled miles flown by revenue passengers, known as revenue passenger miles, in the nine-month period ended September 30, 2006). Together with ExpressJet Airlines, Inc. (operating as Continental Express and referred to in this prospectus as ExpressJet), a wholly owned subsidiary of ExpressJet Holdings, Inc., from which we purchase seat capacity, and our wholly-owned subsidiary, Continental Micronesia, Inc. (CMI), each a Delaware corporation, we operate more than 2,800 daily departures. As of September 30, 2006, Continental Airlines flew to 128 domestic and 126 international destinations and offered additional connecting service through alliances with domestic and foreign carriers. We directly served 26 European cities, nine South American cities, Tel Aviv, Delhi, Hong Kong, Beijing and Tokyo as of September 30, 2006. In addition, we provide service to more destinations in Mexico and Central America than any other United States airline, serving 41 cities. Through our Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

We are a Delaware corporation, with executive offices located at 1600 Smith Street, Houston, Texas 77002. Our telephone number is (713) 324-2950.

The Offering

Notes	$200,000,000 aggregate principal amount of % Notes due 2011.
Maturity	December 1, 2011
Interest	The notes will bear interest at the rate of % per year on the principal amount beginning , 2006 or from the most recent date to which interest has been paid or provided for. Interest is payable semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2007. Interest will be calculated using a 360-day year composed of twelve 30-day months.
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 or from time to time, by paying the redemption price described under Description of Notes Redemption of Notes at Our Option, which will be equal to the greater of (1) 100% of the principal amount of the notes being redeemed and (2) a make whole amount, if any, together with accrued and unpaid interest to the redemption date.

Merger and Sales of Assets	The indenture governing the notes, as supplemented, will contain a covenant that limits our ability to merge or consolidate with another entity or sell, lease or transfer substantially all of our properties or assets to another entity. See Description of Notes Merger and Sales of Assets by the Company.
DTC Eligibility	The notes will be issued in fully registered book entry form and will be represented by one permanent global note without coupons. The global note will be deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company (DTC) in New York, New York. Beneficial interests in the global note will be 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. The notes will be new securities for which there is currently no public market.
Use of Proceeds	Assuming the notes are sold at 100% of their par value, we estimate that the net proceeds from the offering after deducting the underwriter s discount and expenses will be approximately $196.5 million. We intend to use the proceeds we receive from this offering for general corporate purposes.

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RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with all of the other information included in or incorporated by reference into this prospectus supplement and the accompanying prospectus, before purchasing the notes. If any of these risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. As a result, the market value of the notes could decline, and you could lose part or all of your investment.

Risk Factors Relating to the Company

We have suffered significant losses.

We have suffered substantial losses since September 11, 2001, the magnitude of which is not sustainable if those losses were to continue. Our ability to return to sustained profitability depends, among other factors, on implementing and maintaining a more competitive cost structure, retaining our domestic length-of-haul adjusted revenue per available seat mile premium to the industry and responding effectively to the factors that threaten the airline industry as a whole. Although the current U.S. domestic network carrier environment continues to improve as several of our network competitors reduce domestic capacity and as carriers have increased fares in response to record-high fuel prices, a number of factors continue to pressure the industry. Among the many factors that threaten us are the continued rapid growth of low-cost carriers and resulting pressure on domestic fares, high fuel costs, excessive taxation and significant pension liabilities. Additionally, a number of our competitors are increasing their international capacity, which is resulting in pressure on yields in impacted markets.

Record high fuel costs have materially and adversely affected our operating results.

Fuel costs, which are currently at historically high levels, constitute a significant portion of our operating expense. Mainline fuel costs represented approximately 26.7% and 29.8% of our mainline operating expenses for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. We expect that fuel expense will be our single largest operating expense item in 2006. Based on gallons expected to be consumed in 2006, for every one dollar increase in the price of a barrel of crude oil, our annual fuel expense would increase by approximately $42 million. Our fuel expense could further increase if the refining margin (the component of the price of jet fuel attributable to the refining of crude oil into jet fuel) increases above current levels.

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

Fuel prices and supplies are influenced significantly by international political and economic circumstances, such as increasing demand by developing nations, conflicts or instability in the Middle East or other oil producing regions, and diplomatic tensions between the U.S. and oil producing nations, as well as OPEC production curtailments, disruptions of oil imports, environmental concerns, weather and other unpredictable events. For example, Hurricane Katrina and Hurricane Rita caused widespread disruption in 2005 to oil production, refinery operations and pipeline capacity in portions of the U.S. Gulf Coast. As a result of these disruptions, the price of jet fuel increased significantly and the availability of jet fuel supplies was diminished.

From time to time we enter into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide some short-term hedge protection (generally three to six months) against sudden and significant increases in jet fuel prices. As of September 30, 2006, we had hedged approximately 31% of our projected fuel requirements for the fourth quarter of 2006 using petroleum swap contracts with a weighted average swap price of $74.11 per barrel. In addition, we had hedged 3% of our projected fuel requirements for the fourth quarter of 2006 using jet fuel option contracts forming zero cost collars. We had also hedged 10% of our projected fuel requirements for the first quarter of 2007 using petroleum swap contracts with a weighted average swap price of $71.40.

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

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

As is the case with our principal competitors, we have a high proportion of debt compared to our equity capital. As of September 30, 2006, we had approximately:

- $5.5 billion (including current maturities) of long-term debt and capital lease obligations,
- $704 million of stockholders equity, and
- $2.7 billion in consolidated cash, cash equivalents and short-term investments (of which $247 million was restricted cash).

Our combined long-term debt and capital lease obligations coming due in the fourth quarter of 2006 total $291 million, and we have significant amounts coming due in 2007 and thereafter. We also have significant operating lease and facility rental costs. Annual aircraft and facility rental expense under operating leases was $1.4 billion for the year ended December 31, 2005 and $1.1 billion for the nine months ended September 30, 2006.

In addition, we have substantial commitments for capital expenditures, including the acquisition of new aircraft and related spare engines. As of September 30, 2006, we had firm commitments for 83 new aircraft from Boeing, with an estimated cost of $4.3 billion, and options to purchase 67 additional Boeing aircraft. We are scheduled to take delivery of one new 737-800 aircraft in the remainder of 2006, with delivery of the remaining 82 new Boeing aircraft occurring from 2007 through 2012.

We have entered into agreements to finance the six 737-800 aircraft delivered in the second half of 2006 and the two 777-200ER aircraft to be delivered in 2007. By virtue of these agreements, we have financing available for all Boeing aircraft scheduled to be delivered through 2007. In addition, we have backstop financing for 24 of the remaining 60 Next-Generation 737 aircraft to be delivered in 2008 and 2009. However, we do not have backstop financing or any other financing currently in place for the remaining aircraft on order. Further financing will be needed to satisfy our capital commitments for our firm aircraft and other related capital expenditures. We can provide no assurance that sufficient financing will be available for the aircraft on order or other related capital expenditures, or for our capital expenditures in general.

At September 30, 2006, our senior unsecured debt ratings were Caa1 by Moody s and CCC+ by Standard & Poor s. Reductions in our credit ratings may increase the cost and reduce the availability of financing to us in the future. We do not have any debt obligations that would be accelerated as a result of a credit rating downgrade. However, we would have to post additional collateral of approximately $108 million under our bank-issued credit card processing agreement if our senior unsecured debt rating falls below Caa3 as rated by Moody s or CCC- as rated by Standard & Poor s. We would also be required to post additional collateral of up to $24 million under our worker s compensation program if our senior unsecured debt rating falls below Caa2 as rated by Moody s or CCC+ as rated by Standard & Poor s.

Our bank-issued credit card processing agreement also contains financial covenants which require, among other things, that we maintain a minimum EBITDAR (generally, earnings before interest, taxes, depreciation, amortization, aircraft rentals and income from affiliates, adjusted for special items) to fixed charges (interest and aircraft rentals) ratio for the preceding 12 months of 1.1 to 1.0. The liquidity covenant requires us to maintain a minimum level of $1.0 billion of unrestricted cash and short-term investments and a minimum ratio of unrestricted cash and short-term investments to current liabilities at each month end of .29 to 1.0. Although we are currently in compliance with all of the covenants, failure to maintain compliance would result in our being required to post up to an additional $535 million of cash collateral, which would adversely affect our liquidity. Depending on our unrestricted cash and short-term investments balance at the time, the posting of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the $1.0 billion minimum balance required under our $350 million loan facility secured

by certain of our U.S.-Asia routes and related assets, as well as all of the outstanding common stock and substantially all the assets of our subsidiaries Air Micronesia, Inc. (AMI) and CMI, resulting in a default under such facility.

We have noncontributory defined benefit pension plans in which substantially all of our U.S. employees participate, other than employees of Chelsea Food Services and CMI. We have significant ongoing funding obligations under these plans. For example, during the first nine months of 2006, we contributed $176 million to our defined benefit pension plans. In October 2006, we contributed an additional $70 million, resulting in total contributions to our defined benefit pension plans in 2006 of $246 million through November 1, 2006, which exceeds the minimum contributions required to be made prior to December 31, 2006, after giving effect to the recently enacted Pension Protection Act of 2006. We estimate that contributions to our defined benefit pension plans will total approximately $200 million during 2007, after giving effect to the Pension Protection Act.

Our labor costs may not be competitive and could threaten our future liquidity.

Labor costs constitute a significant percentage of our total operating costs. Labor costs (including employee incentives) constituted 23.6% and 22.7% of our total operating expenses for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. All of the major hub-and-spoke carriers with whom we compete have achieved significant labor cost reductions, whether in or out of bankruptcy. Even given the effect of pay and benefit cost reductions we implemented beginning in April 2005, we believe that our wages, salaries and benefits cost per available seat mile, measured on a stage length adjusted basis (labor CASM), will continue to be higher than that of many of our competitors. Although we enjoy generally good relations with our employees, we can provide no assurance that we will not experience labor disruptions in the future. Any disruptions which result in a prolonged significant reduction in flights would have a material adverse effect on our results of operations or financial condition.

A significant failure or disruption of the computer systems on which we rely could adversely affect our business.

We depend heavily on computer systems and technology to operate our business, such as flight operations systems, communications systems, airport systems and reservations systems (including continental.com and third party global distribution systems). These systems could suffer substantial or repeated disruptions due to events beyond our control, including natural disasters, power failures, terrorist attacks, equipment or software failures and computer viruses and hackers. Any such disruptions could materially impair our flight and airport operations and our ability to market our services, and could result in increased costs, lost revenue and the loss or compromise of important data. Although we have taken measures in an effort to reduce the adverse effects of certain potential failures or disruptions, if these steps are not adequate to prevent or remedy the risks, our business may be materially adversely affected.

In addition, a significant portion of our revenue, including a significant portion of our higher yield traffic, is derived from bookings made through third party global distribution systems (GDSs) used by many travel agents and travel purchasers. Over the past several years we have focused on reducing our distribution costs, including GDS fees. We recently entered into new long-term content agreements with the operators of three of the four major GDSs, and our current agreement with the operator of the fourth major GDS was recently extended and now expires in December 2006. We are currently in negotiations with the operator of the fourth major GDS, and we have not yet been able to reach a long-term content agreement on terms that are acceptable to us. If we are unable to reach a long-term agreement with the operator of the fourth GDS, it is possible that our flights would not be available for sale through that GDS upon expiration of the extension. The lack of a content agreement would make our fares, seat availability, schedules and inventories unavailable for display through the GDS, which could damage our relationships with any travel agents or travel purchasers reliant on that GDS, and could also result in a decline in our sales, which decline could be sufficient to result in a material adverse effect on us.

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Risk Factors Relating to the Airline Industry

Additional terrorist attacks or international hostilities may further adversely affect our financial condition, results of operations and liquidity.

As described in greater detail in our filings with the Securities and Exchange Commission, the terrorist attacks of September 11, 2001 involving commercial aircraft severely and adversely affected our financial condition, results of operations and liquidity and the airline industry generally. Additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights due to terrorist threats, such as the August 2006 terrorist plot targeting multiple airlines, including us), could negatively affect us and the airline industry. The potential negative effects include increased security, insurance and other costs for us, higher ticket refunds and decreased ticket sales. The war in Iraq further decreased demand for air travel during the first half of 2003, especially in transatlantic markets, and additional international hostilities could potentially have a material adverse impact on our financial condition, results of operations or liquidity. Our financial resources might not be sufficient to absorb the adverse effects of any further terrorist attacks or other international hostilities.

The airline industry is highly competitive and susceptible to price discounting.

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

In addition to price competition, airlines also compete for market share by increasing the size of their route system and the number of markets they serve. Several of our domestic competitors have announced and begun to implement aggressive plans to expand into international markets, including some destinations that we currently serve. The increased competition is reducing yields or load factors in these international markets and, particularly to the extent our competitors continue this expansion and engage in price discounting or offer large commissions to travel agents or other distributors, may have a material adverse effect on our results of operations, financial condition or liquidity.

Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand is influenced by, among other things, the state of the global economy and domestic and international events such as terrorism, hostilities involving the United States or concerns about exposure to contagious diseases (such as SARS or avian flu). The September 11, 2001 terrorist attacks, the weak economy prior to 2004, turbulent international events (including the war in Iraq and the SARS outbreak), high fuel prices and extensive price discounting by carriers have resulted in dramatic losses for us and the airline industry generally. To the extent that future events of this nature negatively impact passenger travel behavior and/or fare levels, such events may have a material adverse effect on our results of operations, financial condition or liquidity.

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

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

Additional security requirements may increase our costs and decrease our traffic.

Since September 11, 2001, the Department of Homeland Security (DHS) and the Transportation Security Administration (TSA) have implemented numerous security measures that affect airline operations and costs, and are likely to implement additional measures in the future. DHS has implemented the US-VISIT program (a program of fingerprinting and photographing foreign visa holders), announced that it will implement greater use of passenger data for evaluating security measures to be taken with respect to individual passengers, expanded the use of federal air marshals on our flights (thus displacing revenue passengers and causing increased customer complaints from displaced passengers), been considering a requirement to install aircraft security systems (such as active devices on commercial aircraft as countermeasures against portable surface to air missiles) and expanded cargo and baggage screening. DHS has also required certain flights to be cancelled on short notice for security reasons, and has required certain airports to remain at higher security levels than other locations. In addition, foreign governments also have begun to institute additional security measures at foreign airports we serve, out of their own security concerns or in response to security measures imposed by the U.S.

Most recently, the TSA has imposed additional measures affecting the contents of baggage that may be carried on an aircraft, and officials in the United Kingdom temporarily banned all carry-on baggage on flights originating in the U.K., each in response to the discovery in August 2006 of a terrorist plot targeting several airlines, including us. The TSA and other security regulators may be expected to impose other measures as necessary to respond to future threats.

A large part of the costs of these security measures is borne by the airlines and their passengers, and we believe that these and other security measures have the effect of decreasing the demand for air travel and the attractiveness of air transportation as compared to other modes of transportation in general. Security measures imposed by the U.S. and foreign governments after September 11, 2001 have increased our costs and therefore adversely affected our financial results, and additional measures taken in the future may result in similar adverse effects.

Expanded government regulation could further increase our operating costs and restrict our ability to conduct our business.

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

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

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

Our results of operations fluctuate due to seasonality and other factors associated with the airline industry.

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

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, 2006, after giving effect to the offering of the notes, we and our subsidiaries had $5.7 billion (including current maturities) of long-term debt and capital lease obligations outstanding, of which $4.8 billion was secured by certain of our routes and substantially all of our other property and equipment, spare parts inventory and the outstanding common stock and substantially all of the assets of our wholly-owned subsidiaries, AMI and CMI. As of September 30, 2006, $379 million of our long-term debt and capital lease obligations consisted of long-term debt and capital lease obligations of our subsidiaries to which the notes are structurally subordinate. In addition, we have entered into guarantees for approximately $1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and related interest, excluding our contingent liability for US Airways obligations under a lease agreement between US Airways and the Port Authority of New York and New Jersey related to the East End Terminal at LaGuardia airport. These 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.

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The notes lack a cross-default provision and some covenants typically found in other comparably rated public debt securities, including some of our debt securities.

Although the notes are rated below investment grade by both Standard & Poor s and Moody s Investors Service, they lack the protection of a cross-default provision and several financial and other restrictive covenants typically associated with comparably rated public debt securities, including:

- incurrence of additional indebtedness;
- payment of dividends and other restricted payments;
- sale of assets and the use of proceeds therefrom;
- sale-leaseback transactions;
- transactions with affiliates; and
- dividend and other payment restrictions affecting subsidiaries.

In addition, the notes do not contain certain provisions that would give holders of the notes the right to require us to repurchase their notes in the event of a change of control or similar event. However, creditors holding approximately $375 million of our outstanding convertible debt securities would be entitled to require us to repurchase those securities in certain circumstances constituting a change of control.

There is no public market for the notes, and you cannot be sure that an active trading market will develop for the notes.

There is no established trading market for the notes. We have no plans to list the notes on a securities exchange. Although the underwriters have advised us that they currently intend to make a market in the notes after the completion of the offering, the underwriters are not obligated to do so, and such market making activities may be discontinued at any time without notice. We cannot assure you that any market for the notes will develop, or that such a market will provide liquidity for holders of the notes. The liquidity of any market for the notes will depend upon the number of holders of the notes, our results of operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the notes and other factors. An active or liquid trading market may not develop for the notes.

USE OF PROCEEDS

Assuming the notes are sold at 100% of their par value, we expect to receive approximately $196.5 million of net proceeds after deducting estimated offering expenses from this offering. We intend to use these net proceeds for general corporate purposes.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of our earnings to our fixed charges for the year 2003 was 1.14 and for the nine months ended September 30, 2006 was 1.37. For the years 2001, 2002, 2004 and 2005, earnings were inadequate to cover fixed charges by $161 million in 2001, $658 million in 2002, $490 million in 2004 and $102 million in 2005.

The ratio of earnings to fixed charges is based on continuing operations. For purposes of the ratio, 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 expense we record on borrowed funds;

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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 the interest expense.

DESCRIPTION OF NOTES

We will issue the notes under a senior debt indenture, dated as of July 15, 1997, between us, as issuer, and The Bank of New York (as successor to J.P. Morgan Trust Company, National Association, as successor to Bank One, N.A.), as trustee, as supplemented by a supplemental indenture dated as of the date of issuance of the notes. The following summarizes the material provisions of the notes. We refer to the indenture, as supplemented by the supplemental indenture applicable to the notes, 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 will be initially limited to $200,000,000 aggregate principal amount, will mature on December 1, 2011 and will be our unsecured, unsubordinated obligations.

The notes bear interest at the rate of % per year on the principal amount from , 2006 or from the most recent date to which interest has been paid or provided for. Interest is payable semiannually in arrears on June 1 and December 1, commencing on June 1, 2007, to holders of record at the close of business on the May 15 and November 15 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 redemption 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. Interest is calculated using a 360-day year composed of twelve 30-day months.

Maturity 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 redeemed or otherwise cancelled, except for registration of transfer, exchange or replacement of such note.

The indenture does not limit the aggregate principal amount of debt securities that may be issued thereunder and provides that debt securities may be issued thereunder from time to time in one or more additional series. 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 Merger and Sales of Assets by the Company.

The notes will be issued in the form of a global security held in book-entry form and will be issued in minimum denominations of $2,000 and $1,000 multiples thereof. The notes will not be listed on any national securities exchange.

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.

Further Issuances

We may, from time to time, without notice to or the consent of the holders of the notes, increase the principal amount of this series of notes under the indenture and issue such increased principal amount (or any portion thereof), in which case any additional notes so issued will have the same form and terms (other than the date of issuance and, under certain circumstances, the date from which interest thereon will begin to accrue), and will carry the same right to receive accrued and unpaid interest, as the notes previously issued, and such additional notes will form a single series with the notes.

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 will act 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 will 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 will be 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, 2006, we and our subsidiaries had:

- approximately $5.5 billion (including current maturities) of long-term debt and capital lease obligations ($379 million of which consisted of long-term debt and capital lease obligations of our subsidiaries to which the notes will be structurally subordinate) and $704 million of stockholders equity;

- entered into guarantees for $1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and related interest, excluding our contingent liability for US Airways obligations under a lease agreement between US Airways and the Port Authority of New York and New Jersey related to the East End Terminal at LaGuardia airport; and

- outstanding secured debt of approximately $4.8 billion that would have been effectively senior to the notes.

Holders of the notes will be 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.

Sinking Fund

The notes will not be entitled to the benefit of any sinking fund.

Redemption Of Notes At Our Option

We will have the right to redeem the notes, in whole or in part at any time, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on such notes (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus basis points, plus, in either case, accrued and unpaid interest on the principal amount being redeemed to such redemption date.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable Treasury Price means with respect to any redemption date for notes, the average of two Reference Treasury Dealer Quotations for such redemption date.

Quotation Agent means the Reference Treasury Dealer appointed by us.

Reference Treasury Dealer means each of Morgan Stanley & Co. Incorporated and Credit Suisse Securities (USA) LLC, and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary United States Government securities dealer in New York City (a Primary Treasury Dealer), we will substitute therefor another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

Treasury Rate means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.l5 (519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the maturity date of the notes to be redeemed, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined, and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third business day preceding the redemption date.

Redemption Procedures

We will provide not less than 30 nor more than 60 days notice mailed to each registered holder of the notes to be redeemed. If the redemption notice is given and funds deposited as required, then interest will cease to accrue on and after the redemption date on the notes or portions of such notes called for redemption. In the event that any redemption date is not a business day, we will pay the redemption price on the next business day without any interest or other payment due to the delay.

If less than all of the outstanding notes are to be redeemed, the trustee will select the notes to be redeemed in principal amounts of $1,000 or integral multiples thereof. In this case, the trustee may select the notes by lot, pro rata or by any other method the trustee considers fair and appropriate.

Merger And Sales Of Assets By The Company

The indenture provides that we will not consolidate with or merge into any other entity or sell, convey, transfer, lease or otherwise dispose of all or substantially all our properties and assets unless:

- the entity formed by such consolidation or into which we are merged or the entity which acquires or which leases our property and assets substantially or as an entirety is a corporation organized and existing under the laws of the United States of America or any state thereof or the District of Columbia, and expressly assumes by supplemental indenture, all our obligations under the notes, and our obligations under the indenture;
- immediately after giving effect to such transactions, no Event of Default (as defined below) or Default (as defined below) shall have occurred and be continuing; and
- certain other conditions are met.

If a successor corporation assumes our obligations, the successor will succeed to and be substituted for us under the indenture and the notes. Consequently, all of our obligations will terminate. If any such permitted consolidation, merger, sale, conveyance, disposition or other change of control transaction occurs, the holders of the notes will not have the right to require redemption of their securities or similar rights.

Events Of Default

An Event of Default occurs with respect to the notes if any of the following occurs:

- we fail to pay interest on the notes or any other amount applicable to the notes within 30 days of the due date;
- we fail to pay principal on any notes on its due date;
- we default for 60 days after notice to us by the trustee, or by the holders of 25% in aggregate principal amount of the notes then outstanding, in the performance of any other agreement applicable to the notes; or
- certain events of bankruptcy, insolvency or reorganization occur.

If an Event of Default shall have happened and be continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the notes then outstanding may, by written notice to us (and to the trustee, if notice is given by the holders of the notes), declare the principal amount of the notes accrued through the date of such declaration, and any accrued and unpaid interest through the date of such declaration, to be immediately due and payable.

The indenture provides that the trustee will give to the holders of the notes notice of all uncured Defaults (as defined below) within 90 days after the occurrence of Default. However, notice will not be given until 60 days after the occurrence of a Default with respect to the notes involving a failure to perform a covenant other than the obligation to pay principal and interest. Further, in the case of default in payment on the notes, the trustee may withhold the notice if and so long as a committee comprised of certain officers of the trustee determines in good faith that withholding such notice is in the interest of the holders of the notes. Default means any event which is, or after the passage of time or both, would be, an Event of Default.

An Event of Default with respect to the notes will not necessarily be an event of default with respect to any other debt securities issued under the indenture, and an event of default with respect to another series of debt securities issued under the indenture will not necessarily be an Event of Default with respect to the notes.

Under the indenture, the trustee is under no obligation to exercise any of its rights or powers at the request of any of the holders, unless such holders have offered to the trustee reasonable indemnity. Subject to provisions for indemnification, the indenture provides that the holders of not less than a majority in aggregate principal amount of the notes may direct the time, method and place of conducting any proceeding for any remedy available to the trustee for the notes, or exercising any trust or power conferred on the trustee. We are required to file annually with the trustee a certificate as to our compliance with all conditions and covenants

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under the indenture, except an Event of Default based on the payment of the principal or interest on the notes and certain other defaults.

By notice to the trustee, the holders of not less than the majority in total principal amount of the notes may waive any past Default or Event of Default with respect to that series and its consequences. Further, a majority of the holders may rescind and annul a declaration of acceleration with respect to that series (unless a judgment or decree based on such acceleration has been obtained and entered), except an acceleration based on an Event of Default in the payment of the principal of, or interest, if any, on the notes (and any resulting acceleration) and certain other defaults.

Modification Of Indenture

Without Holder Consent. Without the consent of any holders of notes, we and the trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to our company and the assumption of our covenants by a successor; or
- to add one or more covenants for the benefit of the holders of the notes, or
- to surrender any right or power conferred upon us; or
- to add any additional Events of Default for the notes; or
- to add or change any provisions to such extent as necessary to permit or facilitate the issuance of the notes in bearer or in global form; or
- to provide security for the notes; or
- to establish the form or terms of other debt securities issued under the indenture; or
- to provide for payment on bearer securities; or
- to evidence and provide for the acceptance of appointment of a separate or successor trustee; or
- under certain circumstances to add to, change or eliminate any provision affecting notes not yet issued; or
- to cure any ambiguity or defect, to correct any mistake, to correct or supplement any inconsistent provision, to permit or facilitate defeasance and discharge, or to make any other provisions with respect to matters or questions arising under the indenture that do not adversely affect the interests of the holders of notes issued under the indenture in any material respect.

If the Trust Indenture Act is amended after the date of the indenture so as to require changes to the indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the indenture, the indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and we and the trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

With Holder Consent. Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the notes is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the notes pursuant to a supplemental indenture. However, no amendment or modification may, without the consent of the holder of each outstanding notes directly affected thereby:

- change the stated maturity of the principal or interest on the notes; or reduce the principal amount, interest or premium payable or change the currency in which the notes are payable; or

impair the right to bring suit to enforce any payment; or

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reduce the percentages in principal amount of notes, the consent of whose holders is required to modify or amend the indenture, to waive compliance with certain provisions of the indentures or to waive certain defaults and their consequences; or

change our obligation to maintain an office or agency in the places and for the purposes specified in the indenture; or

modify any of the foregoing provisions.

Defeasance And Discharge Of The Indenture

The notes will be subject to the provisions relating to defeasance and covenant defeasance, and satisfaction and discharge, all as described under Description of Debt Securities Defeasance; Satisfaction and Discharge in the base prospectus.

Governing Law

The indenture is, and the notes will be, governed by, and construed in accordance with, the laws of the State of New York.

Book-Entry System

The notes will be issued in the form of a global security held in book-entry form. DTC or its nominee will be the sole registered holder of the notes for all purposes under the indenture. Owners of beneficial interests in the notes represented by the global security will hold their interests pursuant to the procedures and practices of DTC.

As a result, beneficial interests in any such securities will be shown on, and may only be transferred through, records maintained by DTC and its direct and indirect participants, and any such interest may not be exchanged for certificated securities, except in limited circumstances. Owners of beneficial interests must exercise any rights in respect of their interests in accordance with the procedures and practices of DTC. Beneficial owners will not be holders and will not be entitled to any rights under the global security or the indenture. We and the trustee, and any of our or their respective agents, may treat DTC as the sole holder and registered owner of the global security.

Exchange Of Global Security

Notes represented by the global security will be exchangeable for certificated securities with the same terms only if:

DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under the Exchange Act and a successor depositary is not appointed by us within 90 days; or

we decide to discontinue use of the system of book-entry transfer through DTC (or any successor depositary).

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC facilitates the settlement of transactions among its participants through electronic computerized book-entry changes in participants accounts, eliminating the need for physical movement of securities certificates. DTC s participants include securities brokers and dealers, including the initial purchasers, banks, trust companies, clearing corporations and other organizations, some of whom and/or their representatives, own DTC. Access to DTC s book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following summary discusses the material U.S. federal income tax considerations, and in the case of non-U.S. holders (as defined below) certain estate tax considerations, relating to the purchase, ownership and disposition of the notes. Except where noted, this summary deals only with notes held as capital assets and is applicable only to initial purchasers of notes who purchased the notes at their initial offering price. Additionally, this summary does not deal with special situations. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, financial institutions, insurance companies, tax-exempt entities, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings or insurance companies;
- tax consequences to persons holding notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to U.S. holders (as defined below) of notes whose functional currency is not the U.S. dollar;
- alternative minimum tax consequences, if any; or
- any state, local or foreign tax consequences.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.