

CONTINENTAL AIRLINES INC /DE/
Form 10-Q
July 19, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 1-10323

CONTINENTAL AIRLINES, INC.

(Exact name of registrant as specified in its charter)

Delaware

74-2099724

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

1600 Smith Street, Dept. HQSEO

Houston, Texas 77002

(Address of principal executive offices)

(Zip Code)

713-324-2950

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 13, 2007, 97,833,713 shares of Class B common stock of the registrant were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CONTINENTAL AIRLINES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data) (Unaudited)

Three Months
Ended June 30,

Six Months
Ended June 30,

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	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Operating Revenue:				
Passenger (excluding fees and taxes of \$391, \$364, \$737, and \$679, respectively)	\$3,396	\$3,227	\$6,291	\$5,911
Cargo	109	112	216	218
Other	<u>205</u>	<u>168</u>	<u>382</u>	<u>324</u>
	<u>3,710</u>	<u>3,507</u>	<u>6,889</u>	<u>6,453</u>
Operating Expenses:				
Wages, salaries and related costs	842	744	1,568	1,416
Aircraft fuel and related taxes	821	791	1,505	1,452
Regional capacity purchase, net	444	454	873	869
Aircraft rentals	248	248	496	493
Landing fees and other rentals	190	198	384	383
Distribution costs	176	178	337	338
Maintenance, materials and repairs	169	140	313	267
Depreciation and amortization	101	97	200	193
Passenger services	99	90	189	171
Special charges	7	10	18	3

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Other	<u>350</u>	<u>313</u>	<u>679</u>	<u>613</u>
	<u>3,447</u>	<u>3,263</u>	<u>6,562</u>	<u>6,198</u>
Operating Income	<u>263</u>	<u>244</u>	<u>327</u>	<u>255</u>
Nonoperating Income (Expense):				
Interest expense	(97)	(100)	(193)	(201)
Interest capitalized	6	5	11	9
Interest income	41	31	77	55
Income from other companies	5	17	10	34
Gain on disposition of ExpressJet Holdings shares	-	-	7	-
Other, net	<u>14</u>	<u>1</u>	<u>15</u>	<u>6</u>
	<u>(31</u>	<u>(46</u>	<u>(73</u>	<u>(97</u>
))))
Income before Income Taxes and Cumulative Effect of Change in Accounting Principle	232	198	254	158
Income Taxes	<u>(4</u>	<u>-</u>	<u>(4</u>	<u>-</u>

))	
Income before Cumulative Effect of Change in Accounting Principle	228	198	250	158
Cumulative Effect of Change in Accounting Principle	<u>—</u>	<u>—</u>	<u>—</u>	<u>(26)</u>
Net Income	<u>\$ 228</u>	<u>\$ 198</u>	<u>\$ 250</u>	<u>\$ 132</u>

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CONTINENTAL AIRLINES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data) (Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Earnings per Share:				
Basic:				
Income before Cumulative Effect of Change in Accounting Principle	\$ 2.35	\$ 2.24	\$ 2.60	\$ 1.82
Cumulative Effect of Change in Accounting Principle	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.30)</u>
Net Income	<u>\$ 2.35</u>	<u>\$ 2.24</u>	<u>\$ 2.60</u>	<u>\$ 1.52</u>

Diluted:

Income before Cumulative Effect of Change in Accounting Principle	\$ 2.03	\$ 1.84	\$ 2.26	\$ 1.55
Cumulative Effect of Change in Accounting Principle	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.24)</u>
Net Income	\$ <u>2.03</u>	\$ <u>1.84</u>	\$ <u>2.26</u>	\$ <u>1.31</u>

Shares Used for
Computation:

Basic	97	89	96	88
Diluted	115	111	115	110

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

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

ASSETS	June 30, <u>2007</u>	December 31, <u>2006</u>	June 30, <u>2006</u>
	(Unaudited)		(Unaudited)
Current Assets:			
Cash and cash equivalents	\$ 2,745	\$ 2,123	\$ 2,202
Short-term investments	<u>431</u>	<u>361</u>	<u>270</u>
Total unrestricted cash, cash equivalents and short-term investments	3,176	2,484	2,472
Restricted cash	202	265	248

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Accounts receivable, net	758	582	687
Spare parts and supplies, net	256	217	208
Deferred income taxes	187	165	171
Prepayments and other	<u>499</u>	<u>416</u>	<u>461</u>
Total current assets	<u>5,078</u>	<u>4,129</u>	<u>4,247</u>
Property and Equipment:			
Owned property and equipment:			
Flight equipment	7,169	6,973	6,786
Other	<u>1,489</u>	<u>1,430</u>	<u>1,376</u>
	8,658	8,403	8,162
Less: Accumulated depreciation	<u>2,655</u>	<u>2,539</u>	<u>2,441</u>
	<u>6,003</u>	<u>5,864</u>	<u>5,721</u>
Purchase deposits for flight equipment	<u>246</u>	<u>183</u>	<u>234</u>
Capital leases	298	303	335
Less: Accumulated amortization	<u>87</u>	<u>87</u>	<u>112</u>
	<u>211</u>	<u>216</u>	<u>223</u>
Total property and equipment, net	<u>6,460</u>	<u>6,263</u>	<u>6,178</u>
Routes	484	484	484
Airport operating rights, net	113	120	127
Investment in other companies	62	81	131
Intangible pension asset	-	-	NO
Other assets, net	<u>246</u>	<u>231</u>	<u>219</u>

Total Assets	\$ <u>12,443</u>	\$ <u>11,308</u>	\$ <u>11,446</u>
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CONTINENTAL AIRLINES, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except for share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, <u>2007</u>	December 31, <u>2006</u>	June 30, <u>2006</u>
	(Unaudited)		(Unaudited)
Current Liabilities:			
Current maturities of long-term debt and capital leases	\$ 483	\$ 574	\$ 766
Accounts payable	1,204	1,076	1,084
Air traffic and frequent flyer liability	2,421	1,712	2,104
Accrued payroll	245	233	225
Accrued other liabilities	<u>317</u>	<u>360</u>	<u>308</u>
Total current liabilities	<u>4,670</u>	<u>3,955</u>	<u>4,487</u>
Long-Term Debt and Capital Leases	<u>4,767</u>	<u>4,859</u>	<u>4,626</u>
Deferred Income Taxes	<u>187</u>	<u>165</u>	<u>171</u>
Accrued Pension Liability	<u>985</u>	<u>1,149</u>	<u>927</u>
Accrued Retiree Medical Benefits	<u>221</u>	<u>203</u>	<u>41</u>

Other	<u>663</u>	<u>630</u>	<u>610</u>
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Commitments and Contingencies

Stockholders' Equity:

Preferred Stock - \$.01 par, 10,000,000 shares authorized; one share of Series B issued and outstanding, stated at par value	-	-	-
Class B common stock - \$.01 par, 400,000,000 shares authorized; 97,683,412, 91,816,121 and 114,685,100 issued	1	1	1
Additional paid-in capital	1,580	1,370	1,693
Retained earnings (accumulated deficit)	239	(11)	538
Accumulated other comprehensive loss	(870)	(1,013)	(507)
Treasury stock - 0, 0 and 25,489,506 shares, at cost	<u>-</u>	<u>-</u>	<u>(1,141)</u>
Total stockholders' equity	<u>950</u>	<u>347</u>	<u>584</u>
Total Liabilities and Stockholders' Equity	<u>\$ 12,443</u>	<u>\$ 11,308</u>	<u>\$ 11,446</u>

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

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

	<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Net Cash Provided by Operations	\$ <u>968</u>	\$ <u>978</u>
Cash Flows from Investing Activities:		
Capital expenditures	(155)	(163)

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Sale (purchase) of short-term investments, net	(70)	(36)
Purchase deposits paid in connection with future aircraft deliveries, net	(62)	(128)
Decrease (increase) in restricted cash, net	63	(7)
Proceeds from sale of ExpressJet Holdings shares, net	35	-
Proceeds from dispositions of property and equipment	<u>7</u>	<u>11</u>
 Net cash used in investing activities	 <u>(182)</u>	 <u>(323)</u>
))
 Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations	(213)	(556)
Proceeds from issuance of long-term debt	25	336
Proceeds from issuance of common stock pursuant to stock plans	24	43
Other	<u>-</u>	<u>1</u>
 Net cash used in financing activities	 <u>(164)</u>	 <u>(176)</u>
))
 Net Increase in Cash and Cash Equivalents	 622	 479
 Cash and Cash Equivalents - Beginning of Period	 <u>2,123</u>	 <u>1,723</u>
 Cash and Cash Equivalents - End of Period	 <u>\$2,745</u>	 <u>\$2,202</u>
 Investing and Financing Activities Not Affecting Cash:		
Common stock issued upon conversion of 4.5% Convertible Notes	\$ 170	\$ -
Property and equipment acquired through the issuance of debt	\$ 190	\$ -

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

CONTINENTAL AIRLINES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In our opinion, the unaudited consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the periods indicated. Such adjustments, other than nonrecurring adjustments that have been separately disclosed, are of a normal, recurring nature.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2006 (the "2006 Form 10-K"). Due to seasonal fluctuations common to the airline industry, our results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year. As used in these Notes to Consolidated Financial Statements, the terms "Continental," "we," "us," "our" and similar terms refer to Continental Airlines, Inc. and, unless the context indicates otherwise, its consolidated subsidiaries.

Certain reclassifications have been made in the prior period's financial statements to conform to the current year presentation.

NOTE 1 - RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

We adopted the Financial Accounting Standards Board's Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"), effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The adoption of FIN 48 did not have a material effect on our consolidated financial position or results of operations.

NOTE 2 - EARNINGS PER SHARE

The following table sets forth the components of basic and diluted earnings per share (in millions):

	Three Months		Six Months	
	<u>Ended June 30,</u>		<u>Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Numerator:				
Numerator for basic earnings per share - net income	\$228	\$198	\$250	\$132
Effect of dilutive securities - interest expense on:				
5% Convertible Notes	2	2	3	3
6% Convertible Junior Subordinated Debentures Held by Subsidiary Trust	3	2	5	5

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4.5% Convertible Notes	<u>-</u>	<u>2</u>	<u>1</u>	<u>-</u>
			<u>3</u>	
Numerator for diluted earnings per share - net income after assumed conversions	<u>\$ 233</u>	<u>\$ 204</u>	<u>\$ 259</u>	<u>\$ 143</u>
Denominator:				
Denominator for basic earnings per share - weighted-average shares	<u>97</u>	<u>89</u>	<u>96</u>	<u>88</u>
Effect of dilutive securities:				
5% Convertible Notes	9	9	9	9
6% Convertible Junior Subordinated Debentures Held by Subsidiary Trust	4	4	4	4
4.5% Convertible Notes	-	5	1	5
Employee stock options	-	-	-	-
	<u>5</u>	<u>4</u>	<u>5</u>	<u>4</u>