

CONTINENTAL AIRLINES INC /DE/

Form DEF 14A

April 10, 2006

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OMB APPROVAL

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

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

- Filed by the Registrant
- Filed by a Party other than the Registrant
- Check the appropriate box:
- Preliminary Proxy Statement
  - Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
  - Definitive Proxy Statement
  - Definitive Additional Materials
  - Soliciting Material Pursuant to §240.14a-12

**Continental Airlines, Inc.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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

2) Aggregate number of securities to which transaction applies:

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

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

**Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1913 (04-05)

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April 10, 2006

To Our Stockholders:

On behalf of the Board of Directors, we are pleased to invite you to attend the Continental Airlines, Inc. 2006 Annual Meeting of Stockholders. As indicated in the attached notice, the meeting will be held at The Hyatt Regency, 1200 Louisiana Street, Houston, Texas on Tuesday, June 6, 2006, at 10:00 a.m., local time. At the meeting, we will act on the matters described in the attached proxy statement and there will be an opportunity to discuss other matters of interest to you as a stockholder.

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

Cordially,

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

Jeff Smisek  
*President*

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

**NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS  
To Be Held June 6, 2006**

The 2006 annual meeting of stockholders of Continental Airlines, Inc. will be held at The Hyatt Regency, 1200 Louisiana Street, Houston, Texas on Tuesday, June 6, 2006, at 10:00 a.m., local time, for the following purposes:

1. To elect eleven directors to serve until the next annual meeting of stockholders;
2. To consider and act upon a proposal to amend the company's Amended and Restated Certificate of Incorporation to increase the authorized Class B common stock from 200 million shares to 400 million shares;
3. To consider and act upon a proposal to amend the company's Incentive Plan 2000 to increase the number of shares of common stock issuable under the plan from 3 million shares to 4.5 million shares. The Human Resources Committee has determined that none of the additional 1.5 million shares will be issued to any of the company's current officers;
4. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent auditors of the company and its subsidiaries for 2006;
5. To consider and act upon a proposal submitted by a stockholder related to political activities; and
6. To consider and act upon any other matters that may properly come before the annual meeting or any postponement or adjournment thereof.

The holders of record of the company's common stock at the close of business on April 7, 2006 are entitled to notice of and to vote at the meeting. A list of the stockholders entitled to vote at the meeting will be available for examination, during ordinary business hours, for ten days before the meeting at our principal place of business, 1600 Smith Street, Houston, Texas.

Jennifer L. Vogel  
*Secretary*

Houston, Texas  
April 10, 2006

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

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

**PROXY STATEMENT**

**2006 ANNUAL MEETING OF STOCKHOLDERS  
To Be Held June 6, 2006**

**THE MEETING**

**Purpose, Place, Date and Time**

We are providing this proxy statement to you in connection with the solicitation on behalf of Continental's board of directors, which we refer to as the board, of proxies to be voted at the company's 2006 annual stockholders meeting or any postponement or adjournment of that meeting. The meeting will be held at The Hyatt Regency, 1200 Louisiana Street, Houston, Texas on Tuesday, June 6, 2006, at 10:00 a.m., local time, for the purposes set forth in the accompanying Notice of 2006 Annual Meeting of Stockholders. This proxy statement and the accompanying proxy, which are accompanied by a copy of our 2005 Annual Report, are being first mailed or otherwise delivered to stockholders on or about April 13, 2006.

**Record Date; Stockholders Entitled to Vote**

Stockholders of record at the close of business on April 7, 2006, the record date, are entitled to notice of and to vote at the meeting and at any postponement or adjournment of the meeting. At the close of business on the record date, Continental had outstanding 87,646,518 shares of Class B common stock, which we refer to as common stock, and one share of Series B Preferred Stock, held by Northwest Airlines, Inc., which we refer to as Northwest. Subject to certain limitations on voting by non-U.S. citizens, as described below, each share of our common stock is entitled to one vote. The share of Series B Preferred Stock held by Northwest is not entitled to vote with respect to the matters set forth in the accompanying Notice.

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

an individual who is a citizen of the United States;

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

a corporation or association organized under the laws of the United States or a state, the District of Columbia, or a territory or possession of the United States, of which the president and at least two-thirds of the board of

directors and other managing officers are citizens of the United States, which is under the actual control of citizens of the United States, and in which at least 75% of the voting interest is owned or controlled by persons who are citizens of the United States.

The U.S. Department of Transportation determines, on a case-by-case basis, whether an air carrier is effectively owned and controlled by citizens of the United States.

In order to comply with these rules, our Amended and Restated Certificate of Incorporation provides that persons who are not U.S. citizens may not vote shares of our capital stock unless the shares are registered on a separate stock record maintained by us. A foreign holder wishing to register on this separate stock record should send us a written request for registration identifying the full name and address of the holder, the holder's citizenship, the total number of shares held and the nature of such ownership (*i.e.*, record or beneficial). Such requests should be addressed to our Secretary at Continental Airlines, Inc., P.O. Box 4607,

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Houston, Texas 77210-4607. We will not register shares on this record if the amount registered would cause us to violate the foreign ownership rules or adversely affect our operating certificates or authorities. Registration on this record is made in chronological order based on the date we receive a written request for registration. As of the record date, shares registered on this record comprised less than 25% of our voting stock.

**Quorum**

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

Abstentions will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum, as will broker non-votes. A broker non-vote occurs under stock exchange rules when a broker is not permitted to vote on a matter without instructions from the beneficial owner of the shares and no instruction is given. The rules of the New York Stock Exchange, or NYSE, prohibit brokers from voting on the amendment of the Incentive Plan 2000 (Proposal 3), and the proposal of stockholder (Proposal 5), unless instructions have been received from the beneficial owner of the voting shares. However, brokers may vote in their discretion in the absence of timely instructions from beneficial owners with respect to the election of directors (Proposal 1), the amendment of the Amended and Restated Certificate of Incorporation (Proposal 2), and the proposal to ratify the appointment of the independent auditors (Proposal 4).

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

Directors will be elected by a plurality of the votes cast for directors by the holders of common stock entitled to vote thereon.

In the vote to elect directors, stockholders may:

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

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

**Vote Required for Proposal 2: Amendment of the Amended and Restated Certificate of Incorporation**

The proposal to amend the company's Amended and Restated Certificate of Incorporation, which we refer to as our Certificate of Incorporation, will require approval by the affirmative votes of the holders of a majority of the outstanding shares of common stock entitled to vote thereon. Abstentions will have the same effect as votes against the proposal.

In the vote on the proposal to amend our Certificate of Incorporation, stockholders may:

- (a) vote in favor of the proposal;
- (b) vote against the proposal; or

(c) abstain from voting on the proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO AMEND OUR CERTIFICATE OF INCORPORATION.**

**Vote Required for Proposal 3: Amendment of the Incentive Plan 2000**

The proposal to amend the company's Incentive Plan 2000 will require approval by a majority of the votes cast at the meeting on Proposal 3 by the holders of common stock entitled to vote thereon. Neither

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abstentions nor broker non-votes are treated as votes cast and thus neither will affect the outcome of the proposal.

In the vote on the proposal to amend the Incentive Plan 2000, stockholders may:

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

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO AMEND THE COMPANY S INCENTIVE PLAN 2000.**

**Vote Required for Proposal 4: Ratification of Appointment of Independent Auditors**

The proposal to ratify the appointment of Ernst & Young LLP as our independent auditors will require approval by a majority of the votes cast at the meeting on Proposal 4 by the holders of common stock entitled to vote thereon. Abstentions are not treated as votes cast and thus will not affect the outcome of the proposal.

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

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

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

**Vote Required for Proposal 5: Proposal of Stockholder**

The proposal of stockholder scheduled to be presented at the meeting will require approval by a majority of the votes cast at the meeting on Proposal 5 by the holders of common stock entitled to vote thereon. Neither abstentions nor broker non-votes are treated as votes cast and thus neither will affect the outcome of the proposal.

In the vote on the proposal of stockholder, stockholders may:

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

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THE PROPOSAL OF STOCKHOLDER.**

**Voting of Proxies**

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

*Shares Held of Record.* Stockholders with shares registered in their names with Mellon Investor Services LLC, Continental's transfer agent and registrar, may authorize a proxy by internet at the following internet address: [www.proxyvote.com](http://www.proxyvote.com) or telephonically by calling Automatic Data Processing, Inc., which we refer to as ADP, at 1-800-690-6903. Proxies submitted through ADP by internet or telephone must be received by

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11:59 p.m. eastern time on June 5, 2006. The giving of such proxy will not affect your right to vote in person if you decide to attend the meeting.

*Shares Held in a Bank or Brokerage Account.* A number of banks and brokerage firms participate in a program, separate from that offered by ADP, that also permits stockholders to direct their vote by internet or telephone. If your shares are held in an account at such a bank or brokerage firm, you may direct the voting of those shares by internet or telephone by following the instructions on their enclosed voting form. Votes directed by internet or telephone through such a program must be received by 11:59 p.m. eastern time on June 5, 2006. Directing the voting of your shares will not affect your right to vote in person if you decide to attend the meeting; however, you must first request a valid proxy either on the internet or the voting form that accompanies this proxy statement. Requesting a valid proxy prior to the deadlines described above will automatically cancel any voting directions you have previously given by internet or by telephone with respect to your shares.

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

## **Revocation of Proxies**

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

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

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

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

## **Expenses of Solicitation**

Continental will bear the costs of the solicitation of proxies. In addition to the solicitation of proxies by mail, proxies may also be solicited by internet, telephone, telegram, fax or in person by regular employees and directors of Continental, none of whom will receive additional compensation for that solicitation. In addition, we have retained Mellon Investor Services LLC to assist in the solicitation of proxies for a fee estimated not to exceed \$8,500 plus reasonable out-of-pocket expenses. Arrangements will be made with brokerage houses and with other custodians, nominees and fiduciaries to forward proxy soliciting materials to beneficial owners, and we will reimburse them for their reasonable out-of-pocket expenses incurred in doing so.

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

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

If you received a householded mailing this year and you would like to have additional copies of our proxy statement mailed to you or you would like to opt out of this practice for future mailings, please submit your request to our

Secretary in writing at Continental Airlines, Inc., P.O. Box 4607, Houston, Texas 77210-4607. You may also contact us if you received multiple copies of the annual meeting materials and would prefer to receive a single copy in the future.

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

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



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

We have one class of securities outstanding that is entitled to vote on the matters to be considered at the meeting, Class B common stock, which is entitled to one vote per share, subject to the limitations on voting by non-U.S. citizens described above. The following table sets forth, as of March 31, 2006 (unless otherwise indicated below), information with respect to persons owning beneficially (to our knowledge) more than five percent of any class of our voting securities.

<b>Name and Address of Beneficial Holder</b>	<b>Beneficial Ownership of Class B Common Stock</b>	<b>Percent of Class</b>
OppenheimerFunds, Inc. Two World Financial Center 225 Liberty Street, 11th Floor New York, NY 10018	9,839,350(1)	11.5%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	9,298,080(2)	10.9%
Vanguard Windsor Funds-Vanguard Windsor Fund 100 Vanguard Blvd. Malvern, PA 19355	7,731,500(3)	9.1%
Mellon Financial Corporation One Mellon Center Pittsburgh, PA 15258	4,533,178(4)	5.3%

- (1) According to an amendment to Schedule 13G filed with the SEC on February 7, 2006, OppenheimerFunds, Inc. ( OFI ), an investment adviser, may be deemed to beneficially own all of the shares reflected in the table. The aggregate number of shares reported in the table includes 8,105,700 shares (or 9.53% of the class), which may be deemed to be beneficially owned by Oppenheimer Global Opportunities Fund, a registered investment company managed by OFI. The shares reported reflect the conversion of debentures into shares of common stock. Each entity has shared voting and dispositive power with respect to all shares beneficially owned, and OFI has disclaimed beneficial ownership as described in the Schedule 13G/A.
- (2) According to an amendment to Schedule 13G filed with the SEC on February 14, 2006, Wellington Management Company, LLP, an investment adviser, may be deemed to beneficially own all of the shares reflected in the table. It reported that it has shared voting power with respect to 907,320 of those shares and shared dispositive power with respect to 9,298,080 of those shares, and that no shares are subject to sole voting or dispositive power. It also reported that all of the shares of common stock are owned of record by its clients and that none of its clients, other than Vanguard Windsor Funds-Vanguard Windsor Fund ( VWF ), was known by it to own more than five percent of the common stock. The shares reported in the table as held by Wellington Management Company, LLP include the shares reported in the table as held by VWF.
- (3) According to an amendment to Schedule 13G filed with the SEC on February 13, 2006, VWF, an investment company, may be deemed to beneficially own all of the shares reflected in the table. It reported that it has sole

power to vote all of those shares and that no shares are subject to shared voting power or sole or shared dispositive power. The shares reported in the table as held by Wellington Management Company, LLP include the shares reported in the table as held by VWF.

- (4) According to an amendment to Schedule 13G filed with the SEC on February 15, 2006, Mellon Financial Corporation ( Mellon ) may be deemed to beneficially own, through its direct and indirect subsidiaries, up to 4,533,178 shares of our common stock. Of such shares, Mellon reported sole voting power with respect to 2,996,679 shares, sole dispositive power with respect to 2,999,813 shares, and shared voting and dispositive power with respect to 1,410,000 shares.

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

The following table shows, as of March 31, 2006 (unless otherwise indicated below), the number of shares of common stock beneficially owned by our current directors, the executive officers named below in the Summary Compensation Table, and all executive officers and directors as a group.

Name of Beneficial Owners	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Thomas J. Barrack, Jr.	45,000(2)	*
Kirbyjon H. Caldwell	30,288(3)	*
James Compton	40,465(4)	*
Lawrence W. Kellner	399,712(5)	*
Douglas H. McCorkindale	60,000(6)	*
Henry L. Meyer III	15,000(7)	*
Jeffrey J. Misner	62,262(8)	*
Mark J. Moran	46,525(9)	*
Oscar Munoz	5,000(2)	*
George G. C. Parker	46,400(6)	*
Jeffery A. Smisek	328,265(10)	*
Karen Hastie Williams	46,000(6)	*
Ronald B. Woodard	10,000(2)	*
Charles A. Yamarone	53,000(6)	*
All executive officers and directors as a group (15 persons)	1,248,949(11)	1.4%

\* Less than 1%

- (1) The persons listed have the sole power to vote and dispose of the shares beneficially owned by them except as otherwise indicated.
- (2) Represents shares subject to stock options that are exercisable within sixty days of March 31, 2006 ( Exercisable Options ).
- (3) Includes 30,000 Exercisable Options.
- (4) Includes 921 restricted shares which vest on April 9, 2006 and 36,258 Exercisable Options.
- (5) Includes 9,375 restricted shares which vest on April 9, 2006 and 329,687 Exercisable Options. Also includes 200 shares owned by a relative of Mr. Kellner, as to which shares Mr. Kellner shares dispositive power but disclaims beneficial ownership.
- (6) Includes 45,000 Exercisable Options.

- (7) Includes 10,000 Exercisable Options.
- (8) Includes 2,000 restricted shares which vest on April 9, 2006 and 53,062 Exercisable Options.
- (9) Includes 700 restricted shares which vest on April 9, 2006 and 43,375 Exercisable Options.
- (10) Includes 8,000 restricted shares which vest on April 9, 2006 and 266,500 Exercisable Options.
- (11) Includes 21,871 restricted shares which vest on April 9, 2006 and 1,062,632 Exercisable Options.

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**INFORMATION ABOUT OUR BOARD**

**Corporate Governance**

Our board has adopted Corporate Governance Guidelines developed and recommended by the Corporate Governance Committee of the board. The Corporate Governance Guidelines, together with the charters of each of our board committees, the company's Principles of Conduct for employees and directors and the Directors' Code of Ethics, provide the framework for the governance of Continental. A complete copy of these documents can be found under Corporate Governance at [www.continental.com/company/investor](http://www.continental.com/company/investor), and we will furnish print copies of these documents to interested security holders without charge, upon request. Written requests for such copies should be addressed to our Secretary at Continental Airlines, Inc., P.O. Box 4607, Houston, Texas 77210-4607.

In February 2006, upon the recommendation of the Corporate Governance Committee, our board adopted amendments to our Corporate Governance Guidelines to enhance our corporate governance practices as described below.

The first governance enhancement limits the total number of boards of directors on which any of our directors may serve. Following the transition period which expires in February 2008, none of our directors will be permitted under our Corporate Governance Guidelines to serve on the board of directors of more than two other public companies if the director is employed on a full-time basis, or four other public companies if the director is employed on less than a full-time basis. For determining the number of boards of directors on which a director serves, the guidelines exclude service on the board of directors of a charitable, philanthropic or non-profit organization, as well as service on the board of the director's principal employer. Further, if a director serves on the board of directors of two or more affiliated companies that hold joint or concurrent board meetings, that will be considered service on only one other board.

The second governance enhancement requires that our directors offer to resign upon a qualifying job change. If a director experiences either a termination of his or her principal employment or position, or a material decrease in responsibilities with respect to that employment or position, the director is required to submit his or her offer to resign to the chair of the Corporate Governance Committee. The committee will then review the circumstances surrounding the employment change and such other matters as it deems appropriate and make a recommendation to our board concerning acceptance or rejection of the director's offer to resign. Our board will then make the final determination concerning whether to accept or reject the director's offer to resign.

The third governance enhancement establishes minimum stock ownership requirements for our directors, chief executive officer, or CEO, president and executive vice presidents. Subject to a one year transition period for newly-elected directors, each of our directors is required by our Corporate Governance Guidelines to beneficially own at least 1,000 shares of our common stock, our CEO and our president are each required to beneficially own at least 5,000 shares, and our executive vice presidents are each required to beneficially own at least 2,000 shares. A director's or officer's holdings of restricted stock or stock options exercisable within 60 days are included when determining whether the individual beneficially owns a sufficient number of shares.

The board has the authority to amend and/or restate the Corporate Governance Guidelines, including any or all of these governance enhancements, from time to time in its sole discretion without stockholder approval.

**Board of Directors Meetings**

Regular meetings of our board are generally held four times per year, and special meetings are scheduled when required. The board held five meetings in 2005. During 2005, each director attended at least 75% of the sum of the total number of meetings of the board and each committee of which he or she was a member. Last year, all eleven of our directors attended the annual meeting of stockholders.

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The following table lists our five board committees, the directors who currently serve on them and the number of committee meetings held in 2005.

**Membership on Board Committees**

<b>Name</b>	<b>Audit</b>	<b>Human Resources</b>	<b>Corporate Governance</b>	<b>Finance</b>	<b>Executive</b>
Mr. Barrack		X	C		C
Mr. Caldwell		X	X		
Mr. Kellner				X	X
Mr. McCorkindale					X
Mr. Meyer	X				X
Mr. Munoz	X				
Mr. Parker	C				