UNIVERSIDAD IBEROAMERICANA

EL RETORNO DE CONTINENTAL AIRLINES

ESTUDIO DE CASO

Que para obtener el grado de

Maestra en Administración

P r e s e n t a

Adriana Angelina López Barrera

Director de Estudio de Caso: Mtra. Lourdes Linares Castro

Lector: Mtro. Jorge Smeke Zwaiman

Lector: Mtra. Rocío Gutiérrez Fernández

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I. Índice

II. Justificación

La Administración es la habilidad de unir todas las áreas para el óptimo funcionamiento de una empresa, y es la experiencia la vía para lograr este perfeccionamiento de la dirección de la empresa, sabiendo que se requiere de apertura de mente, firmeza de criterio y capacidad de emitir juicios de valor en forma equilibrada. Actualmente los administradores requieren adquirir y manejar la información para una óptima toma de decisiones, para comprender la diversidad y la globalidad de los negocios, para elaborar y predecir los posibles escenarios y confrontar los resultados.

La metodología del estudio de caso, nos otorga la posibilidad de realizar posibles escenarios para la toma de decisiones y el trabajo en equipo, de dirigir y transmitir conocimientos generales. Es importante poder distinguir entre hechos reales y suposiciones con la finalidad de de hacer un buen diagnóstico de los problemas del negocio.

El presente trabajo, toma como base la metodología del estudio de caso practicado en clase y se elabora con la finalidad de obtener el título de Maestro en Administración.

III. Análisis de los Hechos y definición del problema.

El retorno de
Continental Airlines

Cuando Gordon Bethune aceptó trabajar para Continental Airlines en febrero del año 1994, la empresa luchaba por sobrevivir, tras la protección de quiebra a la que había entrado del "Chapter II"[1] en 1983. Bethune aceptó el puesto de presidente y director general de operaciones.

Continental tenía graves problemas de operación y se establecía dentro los últimos lugares de las 10 principales aerolíneas comerciales de EU en desempeño operativo y satisfacción al cliente. Contaba con reportes de equipaje mal manejado en forma importante y con el índice más alto en quejas. Estaba clasificada como de las peores aerolíneas comerciales en EU.

Continental había tenido 10 directores generales a lo largo de 10 años. Los empleados habían pasado por múltiples reorganizaciones, planes de implementación para el retorno al buen funcionamiento, cambios de estrategias, disminuciones de costos, etc. Durante 1993, los empleados vieron sus honorarios y salarios reducidos. La rotación y el uso de incapacidades eran muy altos.

Bethune definía a Continental de la siguiente forma: "*una compañía con pésimo producto, empleados a disgusto, bajos salarios y un historial de dirección deficiente*". La organización según Bethune no funcionaba porque no había comunicación interdepartamental, ni trabajo en equipo y se trabajaba en un ambiente en el que nadie cumplía con su trabajo, debido a los cambios sin dirección de las estrategias corporativas de la organización y sus directivos.

[1] *Chapter II. La FAA "Federal Aviation Administration", instituyó en 1983, un Plan de Control de Tráfico Aéreo para las aerolíneas. El Chapter II hace referencia al Plan de Costos y Beneficios.*

En junio de 1994, Bethune recibió una oferta para trabajar con United Airlines y Continental contraatacó con una importante oferta. Bethune aceptaría la oferta de Continental si el director ejecutivo y la junta de directores le daban autoridad total sobre el marketing, la programación y asignación de precios de tarifas y otras áreas claves. El director y la junta aceptaron sus condiciones. En octubre de 1994, la junta determinó que le daría al director ejecutivo actual un permiso de ausencia de 6 meses, esperando que no regresara. Bethune dirigiría la firma desde su puesto actual.

El Plan GO FORWARD

Bethune como primera acción posterior a su nombramiento, cambió las puertas de sus oficinas con la finalidad de que la gente entrara libremente. Bethune contrató como asesor a Greg Brenneman, especialista en revertir la marcha declinante de las empresas. Ambos acordaron que la empresa necesitaba una nueva dirección y un plan completo que cambiara a la empresa completamente. De tal modo le dieron forma al Plan GO FORWARD, consistente de 4 partes:

a) Plan de Mercado, para volar por rutas más redituables.
b) Plan Financiero, para poner a la empresa en números negros.
c) Plan de Producto, para mejorar la oferta de Continental a los clientes.
d) Plan de Gente, para transformar la cultura de la empresa.

Plan de Mercado. Volar para ganar

Continental dejaría de hacer las cosas en las que estaba perdiendo dinero ó haciendo que la empresa perdiera, y se concentraría en las fortalezas del mercado de la aerolínea.

Como ejemplo, Continental Lite, operación de tarifa baja donde se trataba de competir con Southwest Airlines, representaba una importante pérdida de dinero. Los costos de Continental Lite eran muy elevados con relación a los ingresos por tarifa baja; alrededor de un tercio de las rutas de Continental Lite eran la causa del 70% de las pérdidas de Continental.

El Plan de Mercado, significaba hacer una revisión de fondo del programa de rutas de Continental para concentrarse en las operaciones de centro y ramal, en lugar de rutas punto a punto. También consistía en cerrar centros operativos como el de Greensboro, Carolina del Norte, que perdían dinero y enfocar atención a centros operativos en Newark, Cleveland y Houston. El equipo de Bethune detectó oportunidades de subir las tarifas en algunas rutas y justificó agregar vuelos de Newark a los centros operativos de Houston y Cleveland.

Adicionalmente las reducciones de vuelos y destinos significaban que habría que recortar el tamaño de la flota. En ese momento, Continental contaba con 10 diferentes tipos de naves. Se proponía deshacerse de todos los aviones A300, que eran aviones Airbus muy grandes, que apenas llevaban 50 a 60% de su capacidad en vuelo, eliminando con ello la necesidad de un inventario de partes especiales, instalaciones, personal y procedimiento a su vez especiales.

Bethune y Brenneman contemplaban que requerían de una campaña de marketing fuerte para recuperar a los clientes que se habían perdido. Bethune se reunió con importantes representantes de las agencias, ofreciendo disculpas y prometiendo que los niveles de desempeño mejorarían; se restablecerían las comisiones altas y se les daría paquetes de incentivos para inducir a sus clientes importantes que reservaran en vuelos con Continental. Finalmente Bethune planeaba restaurar el programa "*One Pass*" de viajero frecuente que se había cancelado anteriormente por la última dirección.

El Plan Financiero. Reunir fondos para el futuro

Dentro del programa que contemplaba el Plan Financiero de Bethune se encontraba, la renegociación de los pagos de alquiler de las aeronaves, refinanciar parte de la deuda de Continental a tasas de interés más bajas, la postergación de algunas amortizaciones de deuda y el incremento de las tarifas a ciertas rutas. Con esto Bethune esperaba contar con utilidades por $45 millones de USD para el siguiente año.

El Plan de Producto. Hacer de la confiabilidad una realidad

Dentro del programa que contemplaba el Plan de Producto de Bethune apuntaba a mejoras importantes en el desempeño de la puntualidad, haciendo cosas que agradaban a los clientes para que nuevamente se inclinaran a volar por Continental. La estrategia de Bethune estaba enfocada a los empleados, inicialmente recompensándolos con un bono de $65 USD cada mes que Continental apareciera en la lista de las 5 aerolíneas en porcentaje de vuelos de arribo puntual, reportado por el Departamento de Transporte de EU.

El Plan de la Gente. Trabajar juntos

Bethune creía en la gente y en el trabajo en equipo. Por lo que su meta corporativa era cambiar la forma en que las personas se trataban unas a otras; encontrar formas de medir y recompensar la cooperación, en lugar de luchar internamente, para alentar y recompensar la confianza.

Bethune y Brenneman dieron a conocer su plan a la junta directiva. Inicialmente la junta no quería nombrar a Bethune como director ejecutivo. Bethune no estuvo de acuerdo. Finalmente la junta decidió nombrarlo director ejecutivo tras una última reunión. Bethune no estuvo muy conforme por el poco entusiasmo con el que la junta aceptó su plan, pero estaba dispuesto a llevarlo a cabo con éxito.

Ejecución de GO FORWARD PLAN. 1995-2000.

Bethune estaba convencido que lo primero que necesitaba era ganarse la confianza de la gente. Brenneman siguió trabajando en forma conjunta como asesor cercano a Bethune.

Dentro de los primeros cambios que hizo Bethune con la empresa como ejemplo fue: la institución de los viernes con vestimenta casual, se impuso la prohibición de fumar en las instalaciones de la compañía y en algunos vuelos.

La oficina matriz estaba en Houston, pero no se tenía la intención de ejercer un mando dictatorial absoluto. Como parte de la idea de cambiar la imagen de la empresa, Bethune ordenó que cada uno de los aviones se le diera un tratamiento de pintura fresca.

Bethune y su equipo se encargaron de dar a conocer el personal que el GO FORWARD PLAN, era un plan de acción detallado de la dirección. Había junta con los empleados, para explicar y presentar el plan. Las juntas no siempre eran fluidas, porque el personal mostraba desconfianza y escepticismo. En varias ocasiones Bethune llegó a confrontar a empleados bastante reacios en el cambio y en implementar el plan, pero se mostró firme y comentó que no toleraría contar con empleados que no estuvieran de acuerdo en lograr el plan con éxito.

Bethune tenía en mente en dejar trabajar a los empleados y confiaba en que si se les daba la confianza ellos actuarían en pro de la empresa. Bethune tenía la idea de darles "empowerment"[2] a los empleados y lograr con ello que fueran creativos y lograr un lazo fuerte con la empresa.

Ejecución del PLAN DE MERCADO

Continental empezó a trabajar con las agencias de viajes como socias y colaborar estrechamente con ellas. Se idearon programas de ascenso a primera clase y descuentos por volúmenes de viaje. En algunos casos se agregaron nuevos destinos como retroalimentación de las agencias de viaje.

Para lograr un crecimiento durante 1995-2000, Continental agregó más destinos desde sus centros operativos y añadió más vuelos a los existentes.

En 2000, Continental tenía más de 2,000 vuelos que iban a casi 90 destinos internacionales y 130 destinos a EU.

[2] *Empowerment. Potenciación o empoderamiento que es el hecho de delegar poder y autoridad a los subordinados y de conferirles el sentimiento de que son dueños de su propio trabajo.*

Guam se convirtió el centro operativo de Asia-Pacífico; Newark era el centro para destinos de Europa y Medio Oriente; Houston era el centro operativo para los vuelos a México, Centroamérica y Sudamérica, y Cleveland tenía los vuelos internacionales a Montreal, Toronto, Londres, San Juan y Cancún.

El sitio web de la empresa se empleaba como una canal de distribución importante para el marketing de boletos para personas y empresas. En 2000 Continental amplió su boletaje electrónico a cerca del 95% de sus destinos.

En 1996 se creó una operación alimentadora para sus centros operativos llamada Continental Express. La administración creía que los vuelos de Continental Express permitían un servicio más frecuente a las ciudades pequeñas que el que podría brindarse económicamente en jets convencionales mayores.

Bethune creía en razones de costo-beneficio y en la creación de valor para los clientes. Cuando el personal hacía una propuesta para gastar dinero en aumento de tecnología o para realizar cambio operativos, insistía en aplicar la prueba de la 5ta fila, esto es, que era preguntar si un hipotético pasajero sentado en la 5ta fila de un avión de Continental estaba dispuesto a pagar un precio más alto por disfrutar del beneficio propuesto. Se buscaba otorgar un servicio limpio, seguro, confiable, de centros operativos bien administrados.

Ejecución del PLAN FINANCIERO

La empresa requería un plan financiero en forma urgente antes de caer en una nueva crisis. Por ello, el plan de "Reunir fondos para el futuro" constaba de puntos como renegociar los pagos de la renta de los aviones, refinanciar parte de la deuda de la aerolínea a tasas de interés bajas, alargar los plazos de amortizaciones de los préstamos y subir las tarifas en rutas selectivas y esto alivió en gran medida en potencial corto plazo la crisis financiera.

Continental había pagado un depósito de $70 millones de USD, por un pedido de nuevos aviones, pero no podría afrontarlo y decidió cancelar el pedido. El problema era que este depósito no era reembolsable. Bethune tuvo que hablar con el director de

Boeing, para pedirle la devolución como una excepción. Boeing accedió a regresarle un reembolso parcial de $29 millones de USD.

Los flujos de efectivo mejoraron. También se trabajó en vender inventarios de partes excedentes y renegociar contratos de mantenimiento.

Adicionalmente se acordaron con varias aerolíneas vuelos en códigos compartidos, conforme a los cuales se combinaban las fuerzas para lograr economías en operaciones conjuntas. Por ejemplo en vuelos a Phoenix y Las Vegas la firma se asoció con America West, Nothwest, Air Canada, American Tagle y también con aerolíneas internacionales como AIitalia, Air France, Virgin Airways y Air China.

Se instalaron sistemas financieros mucho más fuertes y con enfoque al control. Se incorporó Larry Kellner como nuevo CFO. La empresa requería de información confiable y en tiempo real para la toma de decisiones. Todos los días los ejecutivos se reunían con los reportes financieros generados el día anterior con detalle de conceptos como: costos de mantenimiento, costos de combustible, ingresos, costos y utilidades en razón de milla de asiento disponible, etc. Las mediciones se hacían cada vez más precisas. Kellner presentó también una propuesta para proteger las compras de combustible y darle a la compañía una póliza de seguro contra aumentos inesperados de costos de combustible.

Entre los años 1996 a 1998, Continental implementó un plan para reducir costos de capacitación y mantenimiento mediante la disminución de los diferentes tipos de aviones que componían su flota. La meta era contar sólo con 5 tipos de aviones en comparación con 9 que se traían antes.

Continental emprendió un programa de 3 años para subir los honorarios y salarios del empleado a nivel de los estándares de la industria.

La firma no había pagado dividendos hasta la fecha y a partir de 1998, la empresa inició con un programa de recompra de acciones. En el mismo año Northwest Airlines compró un bloque de 8.7 millones de acciones comunes de Continental, suficiente para darle el control de la votación de la firma. La alianza global entre las empresas permitió

vuelos de código compartido, marketing en forma conjunta y a la vez, preservaba las identidades separadas de ambas firmas. Sin embargo dicha alianza llamó la atención de la Secretaría de Justicia de EU; se demandaba que la posesión accionaria de Northwest tenía el efecto de aminorar la competencia real y potencial en diversas formas y en varios mercados geográficos.

Ejecución del PLAN DE PRODUCTO

Con relación al impulso al desempeño puntual que Bethune le dio a la empresa, se usó un porcentaje de puntualidad como indicador principal de qué tan bien se desempañaba Continental. Se pagaba a los empleados un bono de $65 USD por los resultados positivos obtenidos en la empresa por desempeño puntual. Durante los meses de marzo y abril de 1995, Continental figuró como el primer lugar en desempeño puntual entre las aerolíneas de EU.

Para 1996, el procedimiento para otorgar el bono cambió, Continental tenía que quedar en los primeros 3 lugares para que los empleados recibieran el bono, pero éste aumentó a $100 USD. Para 1997, la dirección de Continental empezó a notar que aún cuando los porcentajes mensuales de puntualidad estaban en niveles altos, en varios meses, la empresa no figuraba en tercer lugar o superior, debido a que las otras aerolíneas había decidido también emprender campañas similares a la de Continental con sus empleados.

Dentro del plan de producto también se realizó una mejora en el manejo de equipaje. Ser puntual, estar a tiempo, significaba que el sistema entero estaba trabajando a tiempo, no sólo una parte. Esto se les explicó a los empleados y el equipaje empezó a llegar a bordo de los aviones sin contratiempos.

Dentro de otras mejoras que se hicieron al producto, Continental aumentó la capacidad de atención telefónica agregando más agentes y mejorando su software de sistemas de reservación. También se realizaron encuestas al consumidor con la finalidad de obtener retroalimentación. A los pasajeros de primera clase se les dio trato preferencial a su equipaje, y se instalaron teléfonos de uso en vuelo.

Ejecución del PLAN DE LA GENTE

Bethune quería que su personal usara su juicio en algunas decisiones que se deberían tomar. Para el mejor entendimiento y seguimiento de las actividades del personal, se realizaron listas de verificación para los pilotos en despegues y aterrizajes, para los técnicos de mantenimiento, para las tripulaciones en vuelo, etc. Si las labores eran divididas en ciertos pasos el entendimiento sería mejor.

Se instaló un número 800 directo a la oficina de Bethune, para tener contacto en algún momento determinado con el director ejecutivo. Se instaló otra línea 800 solamente para problemas de operaciones técnicas, atendido por un equipo de respuesta de operación. También había una línea para atención a llamadas relacionadas con salarios, prestaciones y recursos humanos en general. También había comunicado vía intranet y correos electrónicos. Cualquier mensaje que Bethune quería hacerles llegar a los empleados usaba estos medios.

Había juntas en forma recurrente sobre las dudas que tenían los empleados con relación al PLAN GO FORWARD. Dentro del plan de la gente hubo una rotación importante de ejecutivos a alto nivel. Bethune llamó a personal fuera de la empresa para ocupar estos lugares y para retener a sus ejecutivos clave, se manejó un plan muy atractivo de salario y bono.

Era importante que los departamentos trabajaran en forma cooperativa, específicamente las áreas de programación, operaciones de vuelo y mantenimiento de aeronaves. En años pasados la descoordinación entre estas áreas ocasionaban serios problemas.

En 1996 Continental inició un programa para empleados con Asistencia Perfecta. A los empleados con asistencia perfecta durante 6 meses, se les premiaba con un certificado de obsequio de $50 USD y eran candidatos de la rifa de una camioneta. Los jefes de recursos humanos estimaron que el programa le había ahorrado a la empresa cerca de $20 millones de USD por las disminuciones en el índice de ausentismo.

Las tasas de rotación disminuyeron en forma importante de 1998 al año 2000.

CONTINENTAL EN 2001

En enero de 2001, Continental fue nombrada la aerolínea del año por "*Air Transport World*", una revista importante en el ramo de la aviación; y por ser distinguida también con el mismo reconocimiento durante 1996, Continental fue la primera aerolínea designada con este nombramiento en 2 ocasiones en un lapso de 5 años.

Durante 2000 y 2001, la revista Fortune, nombró a Continental la segunda aerolínea más admirada de EU, detrás de Southwest Airlines durante estos 2 años.

En enero de 2001, Continental recompró casi el 80% de las acciones comunes que Northwest había comprado a fines de 1997 para activar su alianza global. Continental y Northwest acordaron extender hasta 2025 su convenio maestro de alianza que requería código compartido. Con esta recompra Continental quedó liberada del control que Northwest ejercía y puso fin al litigio de antimonopolio que se había iniciado en años anteriores.

En mayo de 2001, Brenneman decidió renunciar a su cargo de presidente para dedicarse a su compañía. Con esto Larry Kellner fue ascendido al puesto que Brenneman ocupaba.

En julio de 2001, Continental publicó la intención de vender un interés minoritario en Continental Express. Este movimiento tenía como objetivo reunir capital y estimular el precio de las acciones de la empresa.

La eficiencia de Continental Express, al ser una aerotransportadota regional, consistía en volar jets pequeños de unos 50 asientos a aeropuerto de destino de menor tamaño; y en muchas ocasiones estas aerolíneas enfrentaban una competencia más débil y gozaban de una rentabilidad más uniforme.

Desempeño de Continental durante 2001

Continental y Southwest Airlines fueron las 2 únicas aerolíneas que reportaron utilidades en los primeros 6 meses de 2001. La economía se sentía perezosa y existía un débil tráfico aéreo.

Para agosto de 2001, Continental informó un desempeño de puntualidad del 80.9%, aumentos de tráfico de pasajeros de 2.7% para Continental y del 22.9% para Continental Express. Durante los años de 1999, 2000 y 2001, *Fortune* ubicó a Continental entre las 100 mejores empresas para trabajar en EU, ocupando los lugares 40, 23 y 18, respectivamente. (ver Anexo 1)

El impacto de los ataques terroristas de Septiembre 11 de 2001 en EU

Tan sólo 4 días después de los secuestros de los aviones y ataques terroristas en 9/11, Bethune anunció que Continental reduciría inmediatamente su programa de vuelos en un 20%. Y que pondría en suspensión temporal a alrededor de 12,000 de sus empleados actuales de acuerdo con las reducciones de sus vuelos.

Bethune creía que el Congreso debería tomar acciones inmediatas para que el sistema aéreo del país no se colapsara.

Para el 17 de septiembre de 2001, Continental anunció que no haría los pagos de $70 millones de USD de su adeudo que vencían ese día, sino que los haría dentro de un periodo de gracia de 10 días para evitar caer en incumplimiento. Los ejecutivos de Continental junto con Bethune estaban tomando como una de las opciones la solicitud de un estado de quiebra para enfrentar la crisis de caja. Continental incurriría en pérdidas de alrededor de $200 millones de USD al mes si el mercado se seguía comportando de esa forma.

Bethune promovió un paquete de ayuda para apoyar al ramo de las aerolíneas a lidiar con el súbito desplome del tráfico de pasajeros y de los costos agregados de las reglas de seguridad aeroportuarias exigidas por la FAA, relativas al manejo de equipaje, selección de pasajeros, cateo y limpieza. La empresa redujo programas de vuelo a 10

ciudades de EU y en el extranjero. Hubo recortes en general de las aerolíneas de aproximadamente 80,000 empleados y otros 40,000 afectados indirectamente.

El Congreso aprobó un rescate de dificultades financieras corporativas ideado para mantener a la industria aérea en flote en lo que el tráfico aéreo se recuperaba. Continental recibió $212.6 millones de USD en efectivo y se esperaba recibir una inyección adicional por la misma cantidad. No estaban claras las condiciones de los préstamos que otorgaba el Gobierno Federal pero si se requería de bienes de activo sin gravamen para garantizar los préstamos, Continental se vería en dificultades debido a que ya estaba fuertemente apalancada.

Aún y cuando se otorgaron préstamos, importantes aerolíneas reportaron pérdidas graves para el 3er trimestre de 2001, como American Airlines, Northwest, US Airways y United Airlines entre otras.

En septiembre de 2001, Continental tuvo una disminución de tráfico mundial del 31% en comparación con septiembre de 2000. El factor de carga disminuyó 11%. Continental Express tuvo una disminución de tráfico de 21% contra septiembre 2000 y una caída de 7 puntos en el factor de carga. Ambas empresas transportaron 32.2% menos pasajeros que en septiembre de 2000.

Para incentivar a la gente a que viajara, Continental emprendió un programa para premiar con dobles millas a sus viajeros aéreos frecuentes por viajar entre el 2 de octubre y el 15 de noviembre. Se inició también una promoción de pasaje reducido para destinos como México, Centroamérica, Sudamérica y Europa; y si reservaban en el sitio WEB los clientes podrían ahorrarse hasta un 10% en el precio del boleto.

Continental reportó una pérdida de $97 millones de USD. El flujo de caja seguía siendo negativo en forma diaria durante septiembre de 2001, por alrededor de $4-5 millones de USD.

Definición del problema

El problema de Continental Airlines se sitúa a partir de los ataques terroristas de Septiembre 11. El tráfico aéreo se desplomó, los factores de carga también tuvieron un impacto muy importante y el valor de las acciones cayeron en aproximadamente un 50%. Las pérdidas millonarias que afrontó Continental al igual que otras aerolíneas fueron de dimensiones inimaginables.

Pero el problema realmente se puede resumir en cómo lograr reorganizar, avanzar y seguir haciendo crecer a Continental Airlines dentro de un mercado tan lastimado por factores externos y poco predecibles. El mercado de las aerolíneas comerciales de un día para otro simplemente cambió, y el gran reto de ahora era cómo lograr mantenerse competitivo dentro del sector aún y cuando la empresa se enfrente a cualquier tipo de evento inesperado.

A raíz de Septiembre 11 cambiaron: las medidas de seguridad y los costos implícitos en ello, los seguros, el ambiente de los pasajeros y del personal al abordar un avión, etc. El negocio ahora es distinto.

IV. Planteamiento de soluciones plausibles

Dentro de las posibles soluciones que otorgaría serían:

l. **Afianzar y promover alianzas estratégicas.** Actualmente Continental pertenece al "SkyTeam Alliance" conformado por: Aeroflot Russian Airlines, Aeroméxico, Air France, Alitalia, CSA Czech, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air, Northwest Airlines y Continental Airlines. Este tipo de alianzas permite a los viajeros internacionales flexibilidad y mayores posibilidades de elección de sus viajes internacionales. Dentro de los beneficios que otorga SkyTeam se encuentran 10:

1. Más kilometraje. Te permite acumular Kilómetros hacia una categoría Elite y utilizarlos en cualquier aerolínea de SkyTeam.
2. Más salones VIP. Te permite acceder a más de 400 Salones VIP que las aerolíneas de SkyTeam tienen alrededor del mundo.
3. Reservaciones Garantizadas. Como Socio de SkyTeam Elite Plus se obtendrá una reservación garantizada con 24 horas de anticipación pagando la tarifa completa en Clase Turista sin restricciones.
4. Más vuelos. Se podrá elegir entre más de 14.615 vuelos a 728 lugares en el mundo.
5. Mejores tarifas. Se recibirá más y mejores opciones de tarifas para volar a un mayor número de destinos. Las aerolíneas de SkyTeam no solamente ofrecen diferentes clases de servicio, desde Turista hasta Primera Clase, sino que los Socios de SkyTeam también ofrecen una tarifa SkyTeam para viajar alrededor del mundo.
6. Mejores conexiones. Te permite hacer conexiones a través de la extensa red de centros de distribución aérea ("hubs") en todo el mundo.
7. Documentación rápida. Te permite ganar tiempo con los procedimientos de documentación que SkyTeam ha simplificado en los aeropuertos.
8. Documentación sólo una vez. Se tendrá la opción de documentarse una sola vez y simplificar con ello las conexiones en vuelos operados por las aerolíneas de SkyTeam.

9. Estándares de calidad. Se obtendrá un servicio de calidad que ofrecen todas las aerolíneas de SkyTeam.
10. Red de reservaciones. Se podrán hacer planes de viaje y obtener la información que se necesite en cualquiera de las 2,100 oficinas que tiene SkyTeam tiene para atender en todo el mundo.

Las aerolíneas requieren de atención y servicio para con el cliente, de esta forma, afianzando y participando en este tipo de alianzas, Continental, contará con el servicio, imagen y valor agregado que cuentan las aerolíneas participantes de la alianza.

II. **Análisis constante de rutas rentables.** Como lo realizó Bethune durante 1995 a 2001, es muy importante contar con un análisis de seguimiento de la rentabilidad de las rutas que maneja Continental. En general la participación de Continental se centra en EU, México, Centroamérica y Europa, desde sus centros operativos de Houston, Cleveland y Newark. Su centro operativo de Guam ha dejado de ser clave en general porque los viajes a Asia-Pacífico han disminuido. (ver Anexo 2 y 3)

III. **Inversión y apego a TI**. La Tecnología de la Información, nos permite contar con soluciones óptimas, medibles y oportunas. Los sistemas de información especializados son creados con el objetivo de anticipar posibles errores ó desviaciones y poder contar con la información, desagregarla, analizarla para poder tomar una decisión en tiempo y forma. Como lo muestra el extracto del "CrewSolver system" en el Anexo 4, se comenta de la importancia que tuvo este sistema y su implementación, para que Continental pudiera planear y anticiparse a las tormentas de nieve ocurridas en Dic-2000 y Mzo-2001, a la inundación en Houston durante Jun-2001 y el más dramático de todos los eventos a los ataques terroristas de Sep-2001.

Las alianzas con empresas dedicadas al desarrollo y control de este tipo de sistemas, también es una opción recomendada.

IV. **Recuperación de liquidez y manejo de deuda**. Debido a los préstamos otorgados por el Gobierno Federal, y también debido a deuda anteriormente

contratada, en el balance presentado al 30/09/2001, Continental muestra un incremento importante de deuda a largo plazo en un 36% aproximadamente entre el 31/12/2000 y el 30/09/2001. El nivel de endeudamiento de la empresa es casi de un 90% y la liquidez disminuyó 10 puntos entre estos periodos. Bajo este esquema, es recomendable tratar de recuperar la liquidez porque el manejo de la caja en el día a día es de vital importancia para la operación de la empresa.

Según se muestra en el Reporte del 2do trimestre de 2006 (ver Anexo 5) y el análisis de balance que se realizó junto con las razones financieras de liquidez y endeudamiento (ver Anexo 6), la empresa decidió seguirse apalancando pero contar con una mayor liquidez. Si los préstamos del Gobierno Federal nos son exigibles en el corto plazo y manejan tasas bajas, la estrategia es buena, pero si es importante iniciar a realizar pagos a la deuda en forma constante, en cuanto esto sea permitido por la operación.

V. **Combustible**. El precio de la turbocina incide fuertemente en el control de los costos operativos de las aerolíneas. Por ello, Continental deberá buscar una forma de asegurar estos precios en la medida de lo posible; esto es, si existe algún producto derivado que nos asegure un precio en determinado momento del tiempo deberá evaluarse la necesidad de adquirirlo, sobretodo en época de mayor operación como el verano y el fin de año.

V. Fundamentar las soluciones elegidas

Como fundamento a las soluciones recomendadas, se han demostrado los beneficios de las alianzas y los códigos compartidos ya que sin ellas, las aerolíneas tendrían que contar con una flota más numerosa y con representación en todo el mundo, esto conllevaría costos muy importantes. Con las alianzas, el servicio se otorga al cliente mediante el convenio con otras aerolíneas que si cuentan con representación en esos lugares a los que usualmente no se llega o no tenemos representación.

El análisis de las rutas rentables tiene más significado que cualquier otra solución. Si se descuida el producto, negocio o servicio que nos reditúa en mayor forma no podremos enfocar nuestros esfuerzos en hacer crecer ese producto, negocio o servicio y nos veremos desplazados por la competencia. Asimismo, es importante detectar en tiempo y forma los productos o servicios que no son rentables para desplazarlos en forma oportuna.

Dentro del Anexo 4, la implementación del CrewSolver system, muestra claramente el fundamento de la solución propuesta. Usando este sistema especializado, Continental pudo planear en forma eficiente sus vuelos y cancelaciones en el evento de septiembre 11, sin mayores contratiempos como las que tuvieron otras aerolíneas; esto le repercutió en que sus costos fueron menores y la operación fue más eficiente. Asimismo, sus atrasos en tiempos pudieron ser planeados en mejor forma gracias a este sistema; esto significó una percepción de mejor servicio para el cliente.
En el sector de las aerolíneas los sistemas cobran gran importancia debido a la logística y planeación que se requieren para el manejo de los recursos.

Finalmente la importancia del manejo de la deuda y recuperación de la liquidez se fundamenta en que la empresa podría ser absorbida o adquirida por cualquier otra firma, debido a los compromisos adquiridos y a que no se cuenta con capital de trabajo suficiente para el manejo de las operaciones diarias.

VI. Recomendaciones

Durante el caso se observó la necesidad de incentivar a los pasajeros a viajar, y esto aunado con la depresión del mercado se vuelve de suma importancia. Es por ello que Continental no deberá perder de vista a las agencias de viaje, y a la posibilidad de que en forma conjunta con hoteles, arrendadoras de autos, restaurantes, bares, etc. se realicen paquetes para promover los servicios.

Otra recomendación para Continental sería la de tratar de formar alianzas ó participación de las empresas fabricantes como Boeing. De esta forma las compras ó los arriendos de equipos que son la parte más importante del costo se vería disminuida y los plazos para pagos y entregas podrían ser negociadas.

Continental continúa con sus planes de crecimiento y ha realizado pedidos de aviones Boeing durante junio y agosto 2006. La recomendación es continuar bajo el mismo esquema, ya que las aerolíneas están destinadas a crecer o desaparecer, pero no quedarse en la línea bajo las condiciones actuales del mercado. Debido a la estacionalidad que manejan las aerolíneas, es importante prepararse para momentos que no se tengan resultados tan positivos como este, ya que el factor de carga para 2006 fluctúa en porcentajes del 80%, aproximadamente, esto es, 10 puntos por arriba del obtenido en septiembre 2001. La recuperación de la empresa ha sido exitosa pero siempre es necesario anticipar y prever futuros problemas; tal es el caso del los combustibles que han tenido un aumento muy importante en los últimos 2 años y esto impacta fuertemente en los costos operativos de la empresa.

También sería importante ver la forma de que los costos por las revisiones impuestas por el Gobierno, no sean absorbidos tan abruptamente por las aerolíneas. Después de septiembre 11 y el último intento de atentado detenido en Londres en agosto de 2006, Continental junto con el resto de las aerolíneas han tenido que subsanar ciertos costos por revisiones y seguridad que llevan a cabo los aeropuertos por estos eventos (ver Anexo 7), para salvaguardar la seguridad de los aeropuertos, los aviones, tripulación, empleados y pasajeros.

VII. BIbliografía

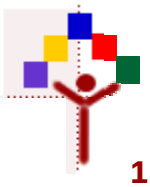
Páginas WEB:

www.continental.com

www.boeing.com

www.greatplacetowork.com.mx

www.tsa.gov



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2006
2005
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1998

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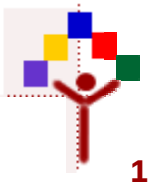
1	Synovus Financial
2	TDIndustries
3	SAS Institute
4	Southwest Airlines
5	Scitor
6	PeopleSoft
7	Goldman Sachs
8	Deloitte & Touche
9	MBNA
10	Hewlett-Packard
11	Edward Jones
12	Finova Group
13	AFLAC
14	First Tennessee Bank
15	Frank Russell
16	WRQ
17	Janus
18	A.G. Edwards & Sons
19	Acxiom
20	W.L. Gore & Associates
21	Kingston Technology
22	J.M. Smucker
23	J.M. Family Enterprises
24	Cisco Systems
25	UNUM

27	Microsoft
28	Merck
29	Plante & Moran
30	Great Plains Software
31	Guidant
32	Lucas Digital
33	Graniterock
34	Odetics
35	Autodesk
36	CDW Computer Centers
37	Valassis Communications
38	REI
39	Fenwick & West
40	Continental Airlines
41	Capital One Financial
42	Ohio National Financial Services
43	Wegmans Food Markets
44	Marriott International
45	J.D. Edwards
46	BMC Software
47	QUALCOMM
48	Whole Foods Market
49	Intel Corporation
50	Patagonia
51	Compuware
52	K2
53	Amgen
54	Bureau of National Affairs
55	Starbucks
56	Genentech
57	Erie Insurance Group
58	Enterprise Rent-A-Car
59	Computer Associates
60	BE&K
61	LensCrafters
62	Lucent Technologies
63	Sun Microsystems
64	Johnson & Johnson
65	USAA
66	Wal-Mart Stores
67	Medtronic
68	Ingram Micro
69	Baptist Health South Florida
70	Four Seasons Hotels
71	Merrill Lynch
72	Alagasco
73	Enron
74	Arrow Electronics
75	Ernst & Young
76	Lands' End
77	Harley-Davidson
78	Publix Super Markets

79	Federal Express
80	AlliedSignal
81	American Cast Iron Pipe Company
82	Quantum
83	W.W. Grainger
84	S.C. Johnson
85	Cerner
86	Alcon Laboratories
87	Herman Miller
88	Union Pacific Resources
89	Worthington Industries
90	Honda of America Manufacturing
91	Kinko's
92	Applied Materials
93	Quad/Graphics
94	3M
95	3COM
96	Interface
97	Baldor Electric
98	Nordstrom
99	Corning
100	L.L. Bean



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6	SAS Institute
7	Edward Jones
8	Charles Schwab
9	Goldman Sachs
10	MBNA
11	CDW Computer Centers
12	Scitor
13	Frank Russell
14	QUALCOMM
15	Great Plains Software
16	Finova Group
17	Plante & Moran
18	AFLAC
19	Graniterock
20	Pfizer
21	Microsoft
22	J.M. Smucker
23	Continental Airlines
24	Enron

26	Valassis Communications
27	Amgen
28	WRQ
29	Kingston Technology
30	Timberland
31	Deloitte & Touche
32	Genentech
33	David Weekley Homes
34	Alcon Laboratories
35	Janus
36	Alston & Bird
37	A.G. Edwards & Sons
38	Merck
39	First Tennessee Bank
40	American Century Investments
41	Fenwick & West
42	Adobe Systems
43	Hewlett-Packard
44	Lucent Technologies
45	Vision Service Plan
46	Third Federal Savings and Loan
47	Pella Corporation
48	Four Seasons Hotels
49	J.M. Family Enterprises
50	Wegmans Food Markets
51	America Online
52	VHA
53	J.D. Edwards
54	Griffin Hospital
55	Eli Lilly
56	BMC Software
57	Northern Trust
58	Microstrategy
59	Federal Express
60	Capital One Financial
61	Men's Wearhouse
62	Tellabs
63	SRA International
64	W.L. Gore & Associates
65	Intel Corporation
66	Lucas Digital
67	Rodale
68	Johnson & Johnson
69	REI
70	Marriott International
71	Ukrop's Super Markets
72	Whole Foods Market
73	Publix Super Markets
74	American Management Systems
75	Nokia
76	American Express
77	National Instruments

78	Guidant
79	American Cast Iron Pipe Company
80	Patagonia
81	Dell Computer
82	LensCrafters
83	Sun Microsystems
84	Cabela's
85	Orlando Regional Healthcare
86	Ernst & Young
87	Lands' End
88	Starbucks
89	Kinko's
90	General Mills
91	Bureau of National Affairs
92	Chubb & Son
93	Valero Energy
94	Nordstrom
95	MFS Investment Management
96	Odetics
97	Barton Protective Services
98	USAA
99	Quantum
100	Nortel Networks

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17	Graniterock
18	Continental Airlines

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21	Pella Corporation
22	Enron
23	J.M. Smucker
24	Alston & Bird
25	International Data Group
26	Valassis Communications
27	Republic Bancorp
28	MBNA
29	Beck Group
30	Adobe Systems
31	Third Federal Savings and Loan
32	Deloitte & Touche
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34	Alcon Laboratories
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76	Genentech
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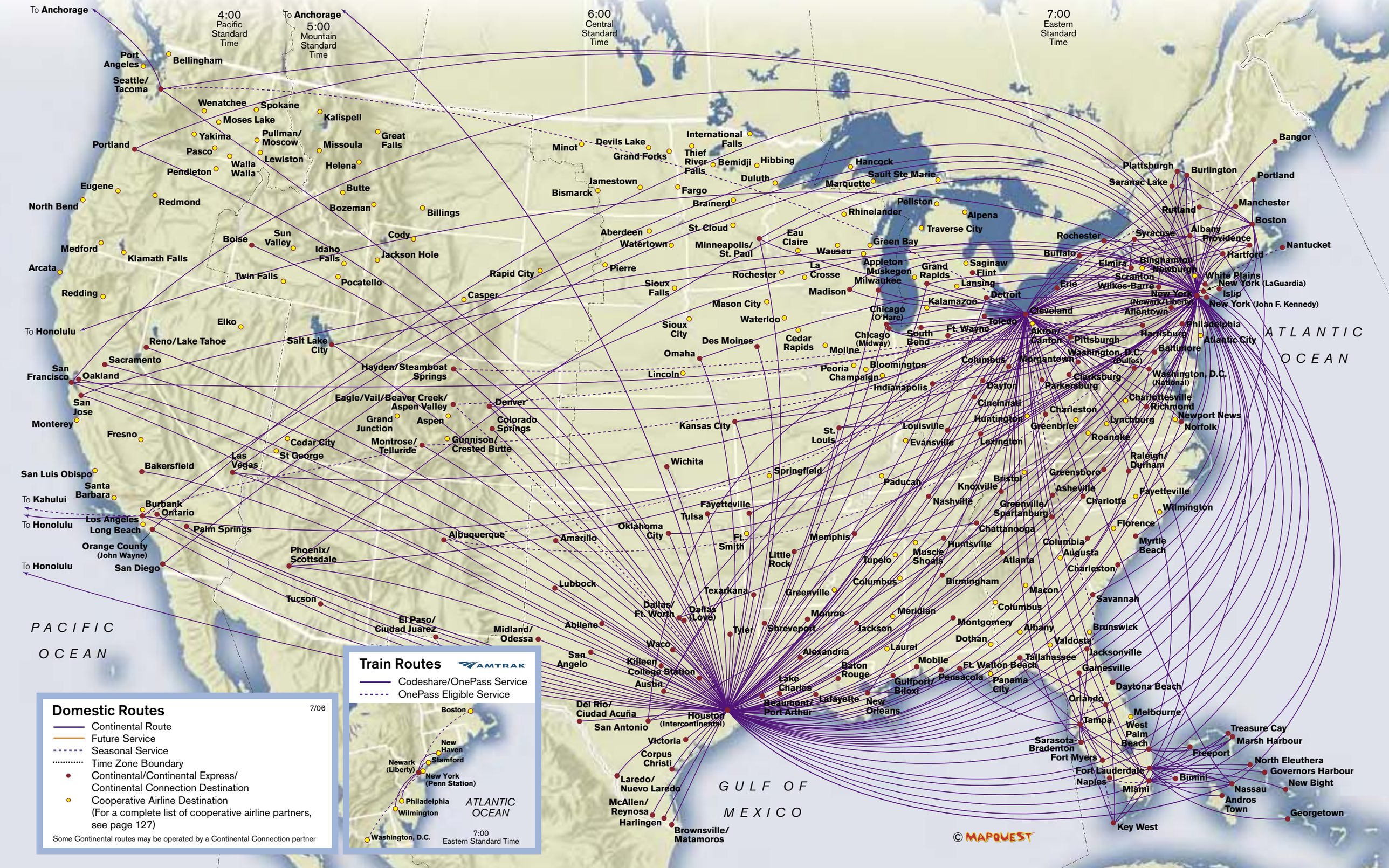
81	Tellabs
82	Valero Energy
83	Medtronic
84	Brobeck
85	Texas Instruments
86	Barton Protective Services
87	Federal Express
88	Applied Materials
89	National Instruments
90	Marriott International
91	EMC
92	Harley-Davidson
93	Fannie Mae
94	R.J. Reynolds Tobacco
95	Men's Wearhouse
96	Ukrop's Super Markets
97	McCutchen
98	Ernst & Young
99	Rodale
100	VHA

route maps

U.S. ROUTE SYSTEM



Domestic Routes

7/06

- Continental Route
- Future Service
- Seasonal Service
- Time Zone Boundary
- Continental/Continental Express/ Continental Connection Destination
- Cooperative Airline Destination

(For a complete list of cooperative airline partners, see page 127)

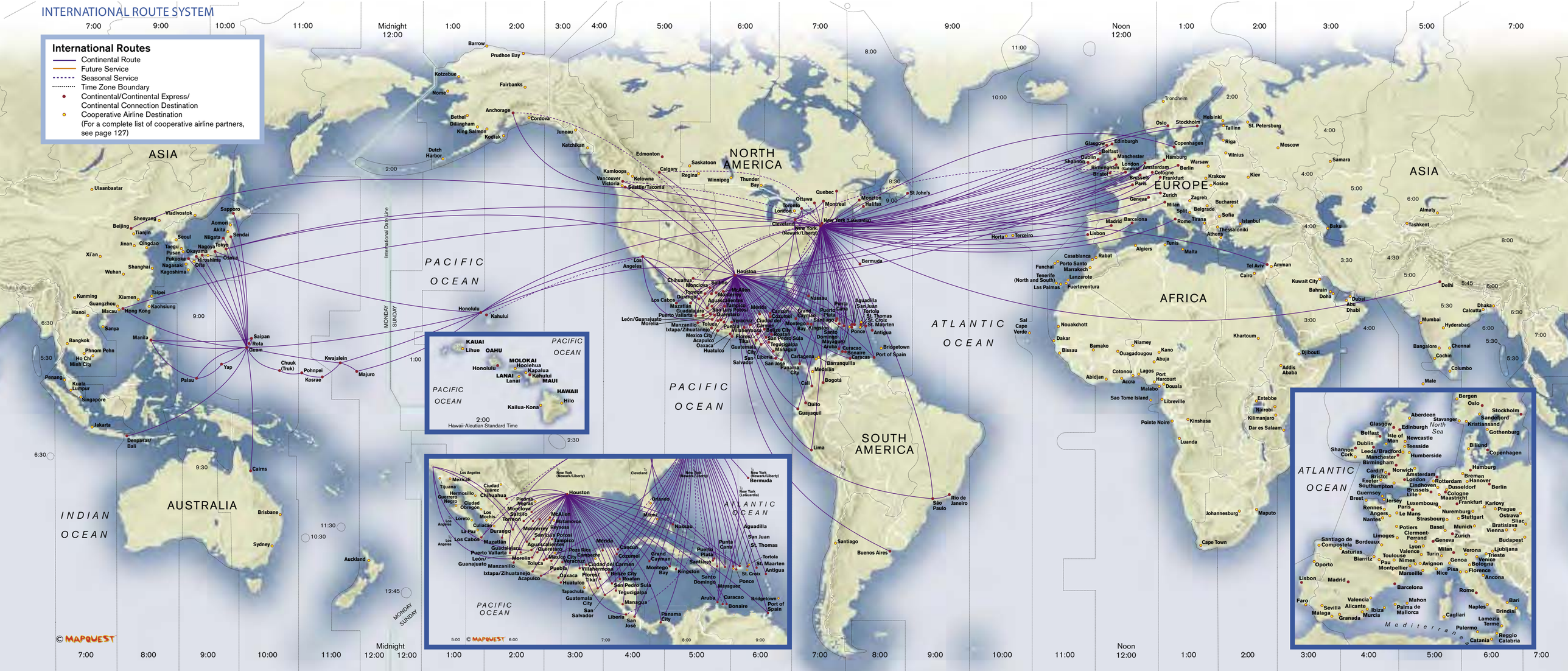
Some Continental routes may be operated by a Continental Connection partner

Train Routes

AMTRAK

- Codeshare/OnePass Service
- OnePass Eligible Service

INTERNATIONAL ROUTE SYSTEM



A New Era for Crew Recovery at Continental Airlines

Gang Yu
Department of Management Science and Information Systems, McCombs School of Business, University of Texas at Austin, Austin, Texas 78712

Michael Argüello • Gao Song • Sandra M. McCowan
CALEB Technologies Corporation, 9130 Jollyville Road, Suite 100, Austin, Texas 78759

Anna White
Continental Airlines, 1600 Smith Street, Houston, Texas 77002
yu@uts.cc.utexas.edu • mike.arguello@calebtech.com • mark.song@calebtech.com
sandy.mccowan@calebtech.com • awhite@coair.com

Airlines face schedule disruptions daily because of unexpected events, including inclement weather, aircraft mechanical problems, and crew unavailability. These disruptions can cause flight delays and cancellations. As a result, crews may not be in position to service their remaining scheduled flights. Airlines must reassign crews quickly to cover open flights and to return them to their original schedules in a cost-effective manner while honoring all government regulations, contractual obligations, and quality-of-life requirements. CALEB Technologies developed the CrewSolver decision-support system for Continental Airlines to generate globally optimal, or near optimal, crew-recovery solutions. Since its implementation, the system has dealt successfully with several high-profile events, including the December 2000 and March 2001 Nor'easter snowstorms, the June 2001 Houston flood, and most dramatically, the September 11th terrorist attacks. In each case, Continental recovered quickly and obtained overall benefits worth millions of dollars. Continental estimates that in 2001 the CrewSolver system helped it save approximately US $40 million for major disruptions only.
(*Transportation: scheduling, personnel. Decision analysis: systems.*)

On an average day in the United States before September 11, 2001, 15 to 20 percent of commercial airline flights were delayed more than 15 minutes and one to three percent of flights were canceled. The United States Inspector General reported that, during 2000, more than one in four flights (27.5 percent) were delayed, canceled, or diverted, affecting approximately 163 million passengers (United States Inspector General 2001 report). Airlines spend a great deal of time and energy planning and scheduling their operations. They use state-of-the-art processes and automated tools to create plans and schedules that maximize expected revenue and minimize operational costs. The resulting plans and schedules tightly couple resources, such as aircraft and crew. In general, execution of these plans during normal operations makes the airlines profitable; however, such tight schedules leave the airlines vulnerable to disruptions.

During the day of operations, such disruptions as inclement weather, mechanical problems, the Federal Airline Administration (FAA) air traffic control (ATC) and ground delay program (GDP), and sick crew frequently jeopardize an airline's ability to execute its schedule as planned. Airlines structure their services as networks and design their complex schedules to achieve high resource utilization. As a result, any dis-

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ruption has an immediate impact, resulting in flight delays and cancellations, and may also propagate additional disruptions in operations throughout the day and into subsequent days. For example, the skies may be clear and blue with no severe weather anywhere in the United States, and yet a flight may be delayed an hour because a pilot scheduled to fly becomes ill and no replacement pilot is available. With their narrow profit margins, airlines lose money during irregular operations when schedules are disrupted.

In 1994, Continental Airlines, through its primary information-technology provider, Electronic Data Systems (EDS), approached CALEB Technologies' founder, chairman and CEO, Gang Yu, to develop a system for dealing with crew disruptions in real time.

DOT ranked Continental first in on-time performance for the 12 months ending in August 2002.

The goal of the system is to address the problem of recovering crew schedules when disruptions occur. The term *crew* refers to both pilots and flight attendants. In most of our examples, we refer to pilots because their rescheduling is more constrained, but airlines must recover both pilot and flight-attendant schedules to get back to normal operations.

Like a passenger, a crew member may miss a connection when a flight is delayed. Similarly, if a flight is canceled, a crew member may be stranded in an airport, unable to work on a subsequent flight. Pilots are qualified to fly specific aircraft types (for example, Boeing 737, Boeing 747, Boeing 777). Reassigning a flight from one aircraft type to another creates a case in which the originally scheduled pilots—*active crew*—are not qualified to work the flight on the newly assigned aircraft type. The airline must find and assign qualified pilots to cover the flight. We focus on the recovery of active crew back onto their original schedules and the assignment of additional reserve crew to new schedules in response to disruptions that result in crew being unable to fly their assigned flights.

After the "storm of the century" disrupted operations in March 1993, Continental Airlines decided to reengineer its processes for managing its operations and its control center and for recovering from both common and cataclysmic disruptions. Continental contracted with several vendors to design and implement information systems to support its new processes. It also partnered with CALEB Technologies to develop an optimization-based decision-support system to determine the best crew-recovery solutions in real time. With the new processes and systems in place, Continental has become an industry leader in reliability, service, and on-time performance as demonstrated by Department of Transportation (DOT) on-time performance statistics. (The DOT Air Travel Consumer Report ranked Continental first in on-time performance during the 12 months ending in August 2002.)

Continental Airlines Background

Continental Airlines, a major United States air carrier, transports passengers, cargo, and mail. It is the fifth largest United States airline and, together with its wholly owned subsidiaries Continental Express and Continental Micronesia, operates more than 2,000 daily departures to 123 domestic and 93 foreign destinations.

Continental operates its domestic route system primarily through its hubs in the New York metropolitan area at Newark International Airport, in Houston, Texas at George Bush Intercontinental Airport, and in Cleveland, Ohio at Hopkins International Airport. Its hub system allows it to provide passenger services between a large number of destinations more frequently than it would by servicing each route directly. This system also allows Continental to add service to a new destination from a number of cities, using a limited number of aircraft. Each domestic hub is in a large business and population center, ensuring a high volume of passenger traffic. Continental serves more non-US cities than any other US carrier, including cities throughout the Americas, Europe, and Asia. It has more than 50,000 employees, including 4,000 pilots and 8,000 flight attendants.

Continental's system operations control center (SOCC) is located at its headquarters in Houston, Texas. At the SOCC, Continental personnel monitor operations, track the execution of schedules, anticipate

disruptions, and determine the recovery from disruptions. The SOCC provides a central location for making all decisions affecting airline operations, including customer service, crew scheduling, aircraft routing, maintenance scheduling, and dispatch. When disruptions occur, SOCC personnel change the flight schedule, perhaps canceling or delaying flights, route aircraft to support those changes, and finally reassign crew to fly the new schedule. Although they make these decisions sequentially, they do not make them in isolation. They use advanced systems to view the impact one decision may have on another. The operations managers who change the flight schedule and route the aircraft consider the impact on passengers, crew, and required scheduled maintenance in making these decisions. They confer with customer-service representatives, crew coordinators, and maintenance routers when making recovery decisions. After the operations managers determine the new flight schedule and aircraft routings, the crew coordinators take over to assign crew to uncovered flights and recover crew back onto their original schedules.

March 1993: The Storm of the Century and Catalyst for Change

In March of 1993, a super storm hit the east coast of the United States. This blizzard, the worst to hit the United States since the legendary blizzard of 1888, affected 26 states, killed 240 people, and caused approximately $1 billion in damage. The storm dumped over 20 inches of snow in the Southeast, spawned 11 tornadoes in Florida alone, and had hurricane-force winds of over 75 mph. The storm grounded aircraft up and down the eastern seaboard for days. Newark Airport was closed for almost two days.

It took Continental five days to dig out from the storm. Employees located airplanes by brushing the snow off the planes' identification numbers. Crew managers found crews by calling the airports to find out where they had been sent for accommodations. Some crews stayed together and others were dispersed among two or three different hotels. It took days for Continental to figure out where all of its crews were. Most flight crews tried to call in to the operations center but found the phone lines jammed. From an operational standpoint, Continental completely lost control of its operations. Other airlines were affected as well, but the biggest disruptions were in the New England area and Continental's Newark hub.

Because of the storm, Continental reexamined its operations and processes. The senior management pulled 13 top employees from their duties in the operations center and formed a task force for improving recovery operations. This task force identified inefficient lines of communication and decision-making processes. Continental then rebuilt and reorganized the operations center. It grouped cross-functional decision-making personnel together in the operations center. Those responsible for different components of operations, such as aircraft routing, maintenance, crew, and customer service, would now be face to face with each other and jointly make operational decisions in a timely manner. Continental also reorganized crew coordination from a hub-based management system to a fleet-based management system, in which each coordinator would be responsible for an aircraft type rather than a hub. When a disruption occurs at one location, a single person is no longer responsible for recovering all of the affected crew. Instead, four people tackle clearly separable problems.

It took days for Continental to figure out where all of its crews were.

In 1993, Continental was a conglomeration of systems from a host of different airlines obtained through acquisitions and mergers over the years. Continental had tried to pick the best systems from these airlines but did not always integrate them. For example, it deployed a training-qualification system that operated in isolation from other systems and a flight-control system that did not integrate with the existing crew-management systems for years. After the storm, Continental decided to spend time and resources to determine what it needed to operate its business effectively.

With the help of EDS, Continental toured domestic and international airlines searching for the best-of-breed system that would fit its needs. It was looking for an integrated IT system with real-time decision support in crew management and aircraft routing to

support its new SOCC. It found that most airlines were looking for the same thing.

Continental reluctantly concluded that it would have to build what it wanted. In a monumental effort, it documented its specific requirements for a comprehensive real-time operations database that would share data with all operations applications, the infrastructure required to collect and distribute this data, and the decision-support systems themselves. It awarded EDS the contract for the SOCC database, the supporting infrastructure, and the decision-support systems.

No commercial optimization system for crew recovery existed when Continental began its search. Researchers had begun working on the subject but had reached no consensus on how to recover from operational disruptions and particularly how to recover crew schedules. Outside of the airlines, there was little expertise in the area of airline operations. EDS brought Continental and CALEB Technologies together. CALEB Technologies' founder, Gang Yu, had previously worked with United Airlines to develop an aircraft-routing recovery system (Rakshit et al. 1996). He had also learned about the problems of flight-crew scheduling and recovery from operational disruptions.

Yu and his associates successfully developed a prototype to prove the feasibility of developing such a complex system and to demonstrate the benefits that an optimization-based system could provide in solution time and quality. The prototype was capable of generating solutions in seconds for reasonably sized problems that might take experienced Continental personnel 30 to 40 minutes. The prototype did not contain the complete rules Continental would need to adhere to governmental regulations, contractual obligations, and crew quality-of-life issues, but it did prove its value to an enlightened Continental management that recognized the potential value and efficiency of such a system. Continental executives had the vision to see what this system could do for their airline in dollar savings and in the way they did business—the way they treated their passengers and their crew members.

Continental managers recognized that such a crew-recovery system fit into their corporate go-forward plan. Continental had developed this plan to carry it out of bankruptcy to the top of the airline industry. The go-forward plan consists of four components: "fund the future, make reliability a reality, fly to win, and working together." The crew-recovery system would fund the future by limiting the impact of operational disruptions on crew, reducing the cost and duration of irregular operations. It would make reliability a reality by producing crew-recovery plans that would minimize the additional flight cancellations and delays due to crew unavailability. With this system, Continental would fly to win by becoming more profitable than its competitors by reducing its operational costs and improving its reliability. This system would support the firm's goal of working together to treat its internal employees and external customers with dignity and respect by providing optimal crew-recovery solutions constrained by crew quality-of-life requirements that would help the airline to serve its passengers reliably.

Pilots are usually qualified for one position: captain, first officer, or second officer.

Working together, Continental and CALEB Technologies defined the requirements for the crew-recovery system. Continental personnel outlined the characteristics of a good recovery solution and described to CALEB personnel the details, intricacy, and complexity of their business. In their collaboration in defining the goodness of solutions, Continental and CALEB personnel identified two important components for the future system: partial solutions and multiple solutions.

Continental recognized early that, in some situations, the crew available would not be able to cover all the scheduled flights because it had incomplete information about the current disruption or the crew infeasibilities the disruption caused. In this case, Continental wanted to use a buy-time strategy to cover the immediate and most important flights at the expense of leaving later and less important flights without crew. Crew coordinators would then have time to work with the flight-operations managers to modify the flight schedule or to wait until they had more complete information.

We use partial solutions to ensure continuity of operations and to permit decision making when resources are limited. In practice, a recovery solution with some flights uncovered is considered infeasible. However, for real-time decision support, it is not acceptable to determine that the solution is infeasible and give the user no useful information. To carry out operations smoothly with a shortage of resources, airlines must cover as many flights as possible, cover the important flights, and cover the immediate flights so that we can resolve the ensuing problems as more resources become available in the recovery process. By placing a higher penalty on more important and earlier uncovered flights, we can obtain the desired partial solutions.

We came up with the idea of producing multiple solutions after we realized that many scenarios had several solutions that made sense operationally and that some important information would not be available to the recovery system. We realized that (1) because soft costs, such as customer ill will caused by delays and cancellations, would be a factor, experienced users would prefer to examine various high-quality solutions, and (2) often we would not be able to take into account temporary limitations, such as unavailable hotel rooms. With multiple solutions, users have several worthy alternatives and are likely to adopt real-time decision support. They can use their experience and knowledge in evaluating the alternatives before committing to a solution. For instance, an optimal solution to a disruption could require several crews to spend a night in a particular city. This could be problematic if the city is hosting a major convention or event, leaving no hotel space for the crews. A crew coordinator aware of the convention would choose an alternate solution if the system provided multiple solutions to use. The multiple-solution approach relies on crew coordinators to manage the extraordinary situations that cannot be embedded in the optimization model.

Crew Scheduling and the Crew-Recovery Problem

For the major airlines, crew costs constitute the second-largest component of direct operating costs after fuel. (Yu (1997) discusses a sample of recent research on crew scheduling and crew recovery.) Crew scheduling prior to the day of operations is an important step in using crew resources efficiently. Airlines schedule crews after fleet assignment—assigning fleet types to aircraft routes (markets).

The first of two crew-scheduling problems is the crew-pairing problem. A crew pairing is a sequence of flight legs beginning and ending at a crew base that satisfies all governmental and contractual restrictions (also called legalities). A crew base is a city where crew pairings start and end, not necessarily where crew members live. Continental's crew bases include Cleveland (CLE), Houston (IAH), and Newark (EWR). Crew pairings generally cover a period of one to four days. The crew-pairing problem is to find a set of pairings that cover all flight segments at minimum cost. Analysts have generally modeled it as a set-partitioning problem in which pairings are enumerated or generated dynamically (Graves et al. 1993, Hoffman and Padberg 1993, Stojkovic et al. 1998). Others attempting to solve this problem have employed a decomposition approach based on graph partitioning (Ball and Roberts 1985) and a linear-programming relaxation of a set-covering problem (Lavoie et al. 1988). Often airlines use deadheading, the practice of moving crews on flights as passengers, to reposition flight crews. Thus for the crew-pairing problem, the airline must cover all flight segments but may cover them with more than one crew. Indeed, solving the crew-pairing problem is recognized as a critical function within the airlines, and the researchers who advanced the state of the art, such as Edelman finalists Anbil et al. (1991), have recognized this as well.

> The combinational nature of the problem easily leads to millions of possible alternatives.

The second of the related crew-scheduling problems is the problem of generating monthly bid lines, sequences of pairings, to which crews are assigned for a month. Bid lines are also subject to legalities. Airlines construct bid lines to satisfy a number of objectives, including workload balancing and crew quality of life.

In balancing workloads, airlines try to minimize the variance of hours of flight time (block hours) among the bid lines created for a crew base. They address quality-of-life considerations in the composition of one-, two-, three-, and four-day pairings in the bid line. One crew member may prefer a bid line composed of a repeated pattern of one four-day pairing followed by three days off while another may prefer a bid line consisting of one-day and two-day pairings.

Airlines generally construct bid lines and assign them to their crews through seniority-based bidding processes, or they use preferential bidding systems to create personalized bid lines for specific crew members that take into consideration their crew member's indicated preferences and such activities as training sessions and vacations (Gamache et al. 1998, Nicoletti 1975).

To cover different markets and to meet various demands, most major carriers operate several aircraft types, such as Boeing 737, McDonnell-Douglass 80, and DC 9. Pilots are usually qualified to fly only one type, but flight attendants can generally serve on all types. Also, pilots are usually qualified for one position: captain, first officer, or second officer. Pilots must also have specific qualifications to serve on certain international routes and land at specific airports. Similarly, airlines create some pairings for flight attendants who speak particular languages for international flights. These qualification limitations, along with governmental and contractual legality rules, restrict crew assignments and reassignments.

On the day of operations, decisions to add, cancel, delay, and divert flights and to reassign flights from one equipment type to another create situations in which crews cannot serve the flights in their pairings, leaving flights without crews. These decisions serve as inputs to the crew-recovery system. Operations managers cancel, delay, divert, add, or reassign flights in their attempts to return the airline to normal operations. They must weigh such factors as reaccommodating passengers, impacts on crews, and aircraft-maintenance requirements when modifying flight schedules for a feasible and desirable recovery plan.

In addition to coping with operational disruptions, managers must identify replacements for crew members who cannot work because of illness or some emergency in the middle of an assigned pairing or who fail to connect with an assigned flight because a prior flight is delayed to the point that the crew is unable to connect to the next flight in his or her pairing. Occasionally, crew members cannot serve flights because they would violate a legality rule, such as a duty-hour limit.

The goal of the crew-recovery system is to minimize the incremental costs for qualified crew to cover the remaining flights in the schedule while retaining the assigned pairings as much as possible. Covering all of the flights limits further disruption to the flight schedule. Also, returning crew members to their assigned pairings and limiting the number of crew members unaffected by the disruption who are reassigned preserve the value and quality of life built into the original pairings. Speedy solutions also limit the extent of disruptions. By producing desirable recovery solutions quickly, airlines can avoid additional delays and cancellations, improve on-time performance, reduce the number of passengers to reaccommodate, and preserve passenger goodwill.

The Architecture of the CrewSolver System

The improvements we made to the SOCC decision-making processes and databases helped crew coordinators to fully understand the impact of operational disruptions. However, without a decision-support system for recovery, they would have had to produce recovery solutions manually, which process could take hours for even moderate disruptions because of the complexity of governmental and contractual legality rules and crew quality-of-life issues. The combinatorial nature of the problem easily leads to millions of possible alternatives.

Working closely with Continental crew coordinators, CALEB personnel defined, designed, and implemented an optimization engine that incorporates the logic to produce feasible solutions that satisfy legality requirements and promote crew quality of life. CALEB also worked closely with EDS to design and implement a system to be deployed in the infrastructure EDS developed. The resulting application is a complete, reliable, constantly available, real-time decision-support system called CrewSolver, which supports availability 24 hours per day, seven days per week (Figure 1).

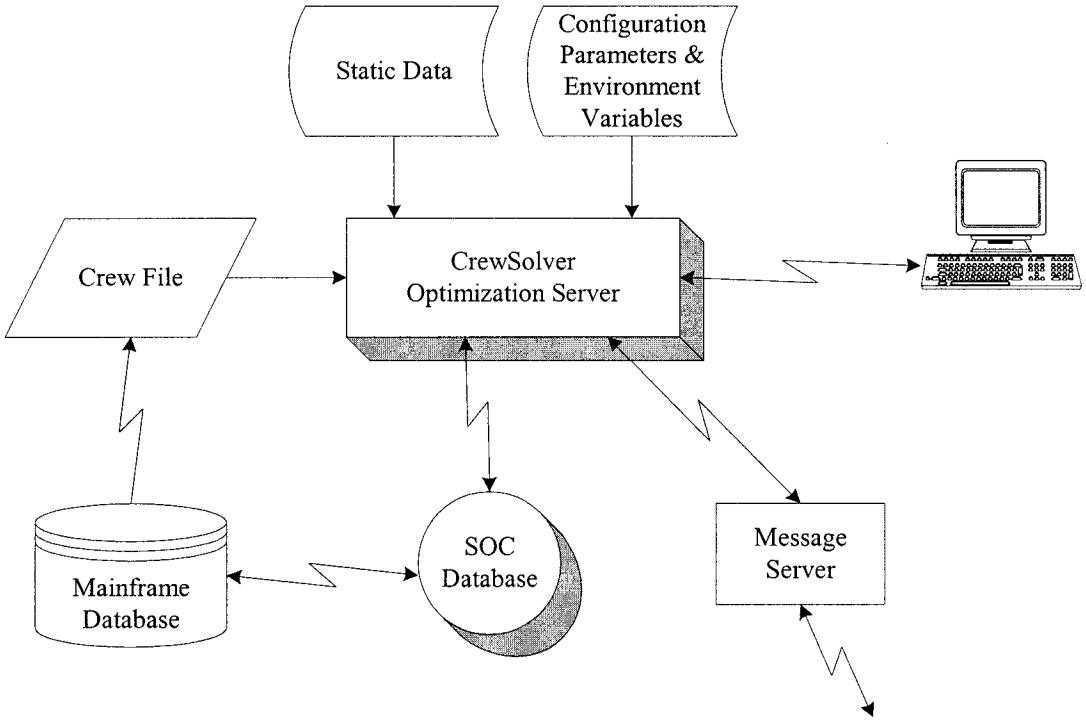

Figure 1: The CrewSolver system architecture consists of an optimization server with interfaces to various data sources and a connection to crew clients—the graphical user interface crew managers use to view disruptions and access the optimization server. Upon initialization, the optimization server retrieves static data from electronic files and live operational data from the system operations control (SOC) database. After initialization, the optimization server receives update messages regarding modifications to the current state of operations. The optimization server uses an in-memory data store that represents the operational status and has an embedded legality checker and algorithms that solve the crew-recovery problem and give the user multiple solutions.

For performance reasons, the CrewSolver optimization server contains an in-memory data store representing current operations. The system initializes the data store with live operational data from the system operations control (SOC) database, crew data retrieved from mainframe systems, static data maintained in electronic data files, and optimization parameters also maintained in electronic data files. The system updates the data using messages from a message server.

A crew coordinator uses a graphical user interface to request the optimization server to provide a recovery solution. The optimization server sets up a problem scenario based on the data the user inputs and the in-memory data store. The solver then generates up to three solutions (Figure 2). Solutions consist of

—Reassigning crews from one flight to another,

—Deadheading crews to cover a flight or return back to base,

—Holding crews at their current locations,

—Assigning crews additional duty periods,

—Moving a crew's layover to a different city, and

—Using reserve crews to cover flights left uncovered by active crews.

When flights are canceled, for example, two linked flights, a flight from Newark, NJ (EWR) to Raleigh-Durham, NC (RDU), and a flight from RDU to EW, the two cockpit crews, each consisting of a captain (CA) and a first officer (FO), will not be in place to fly their scheduled flights immediately following the canceled flights. One solution would be for one crew to end its duty with its previous flight, for the second crew to work a flight left open by the first crew and then return

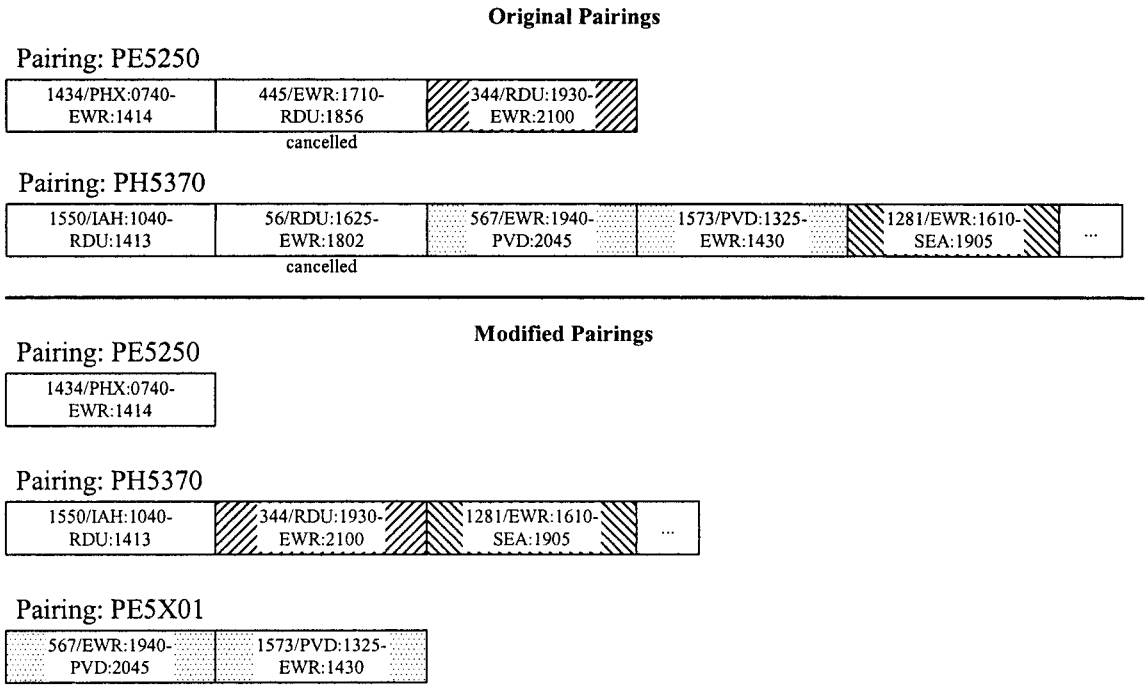

Figure 2: CrewSolver generates this solution in response to the cancellation of flight 445 from Newark, NJ (EWR) to Raleigh-Durham, NC (RDU) and flight 56 from RDU to EWR. The solution shows the following: the crew assigned to pairing PE5250 completes its pairing with flight 1434, and the crew assigned to pairing PH5370 will take flight 344 from RDU to EWR, which was left open by PE5250, and then return to its assigned pairing on flight 1281 from EWR to Seattle, WA (SEA). The two flights left open by PH5370, flight 567 from EWR to Providence, RI (PVD) and flight 1573 from PVD to EWR, form a pairing that will be assigned to a reserve crew.

to its assigned pairing, and for a reserve crew to fly the two flights left open by the second crew (Figure 2).

The user obtains the solutions generated through the graphical user interface.

Integration at Continental Airlines

The CrewSolver system is but one of several crew-related systems at Continental. It is integrated with the system operations control center (SOCC) database, the crew-management system (CMS), and the crew-operations-management system (COMS) graphical user interface to provide the day-of-operations crew system (Figure 3). The day-of-operations crew system and the day-of-operations flight system exchange updates the crew and flight schedules.

The day-of-operations crew system sends crew revised information on schedule changes via the Internet and the company intranet. Pilots and flight attendants then review their schedules and reply to the system to acknowledge schedule changes.

The day-of-operations crew system uses flight schedules generated by the flight-scheduling system and the schedule-synchronization system and pairings generated by the crew-pairing optimization system to determine what the airline plans to fly over a particular period of time and how it will make the transition to that plan and adapt to deviations from it. It uses the manpower-planning system with the flight-scheduling system to generate plans for hiring and training pilots and flight attendants and for staffing the scheduled flights. Thus the day-of-operations crew system is the beneficiary of data produced by the planning and scheduling systems as much as a year before the day of operations.

On the day of operations, Continental crew coordi-

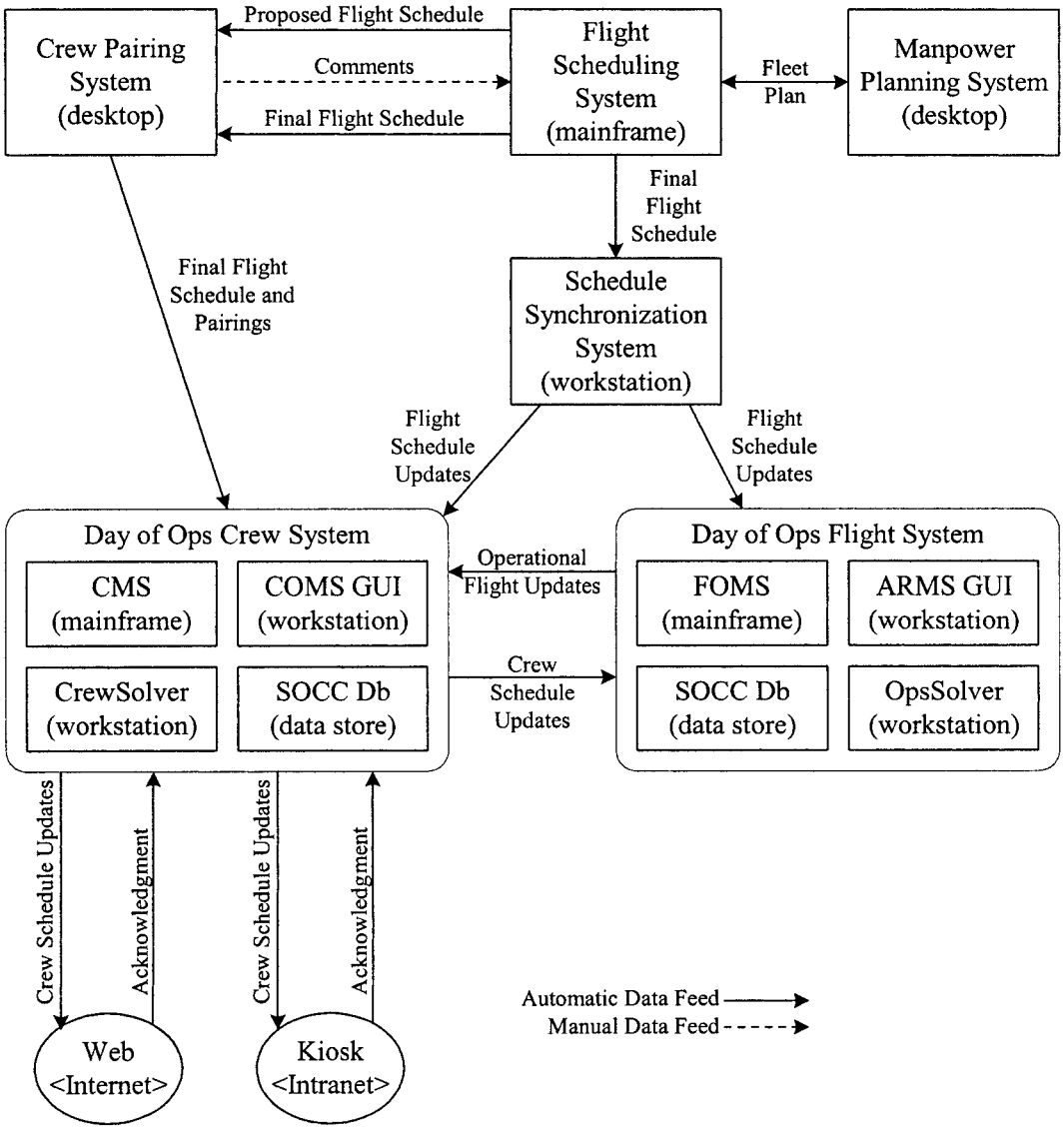

Figure 3: Continental's crew-related systems are connected. CrewSolver is directly connected to the crew-management system (CMS), the crew-operations-management system (COMS) (which serves as the interface for the CrewSolver system), and the system-operations-control-center (SOCC) database. It is indirectly connected to the crew-pairing system, the schedule-synchronization system, and the day-of-operations flight system, which includes the flight-operations-management system (FOMS) and the aircraft-routing management system (ARMS). It also uses output produced by the manpower-planning system and flight-scheduling system.

nators use the day-of-operations crew system to monitor ongoing crew activities, detect operational disruptions, and resolve crew disruptions. In resolving crew disruptions, the coordinators use the CrewSolver system whenever a crew-recovery solution is not immediately obvious (about 36 times in the first quarter of 2002).

Continental assigns its crew coordinators to specific fleets, and they use CrewSolver to resolve minor crew disruptions within those fleets. A crew coordination

manager uses CrewSolver to resolve larger crew disruptions that concern multiple fleets and major disruptions involving all fleets.

In anticipation of predicted operational disruptions, due to weather, for example, flight operations managers use a flight operations recovery system called the OpsSolver system (developed by CALEB) to propose schedule modifications. They pass these modifications in data files to the CrewSolver system to determine the corresponding crew-recovery solution. Working together, the flight operations managers, crew coordinators, and crew-coordination managers review the alternative solutions and choose the one that best recovers the airline's operations.

The system routes the chosen solution to the crew-management system (CMS) for implementation. CMS owns the crew data and schedules. Similarly, the system routes the flight-operations-recovery solution to the flight-operations-management system (FOMS) for implementation.

Impact at Continental Airlines

Continental Airlines estimates that it saved approximately $40 million during 2001 as a direct result of using the CrewSolver system to recover from four major disruptions only. For the first quarter of 2002, Continental estimates that it saved approximately $5 million by using the CrewSolver system to recover from minor disruptions. These savings include fewer enroute and predeparture delays, fewer minutes per delay, fewer cancellations, reductions in ferry flights and diversions, fuel savings, crew-penalty savings, and hotel and per diem savings. In addition, Continental recognized improved on-time performance, reductions in reaccommodating passengers, and improved passenger goodwill. The CrewSolver system also provided faster and more efficient recovery solutions than Continental's previous system and higher quality of life for crews. Continental claims that, without the CrewSolver system, it could not have recovered from the disruptions and schedule changes resulting from the September 11, 2001 terrorist attacks, which halted all flights for several days and drastically reduced demand for flights.

In 2001, Continental Airlines faced several major disruptions with very different characteristics. In each case, Continental used the CrewSolver system to get back on schedule in record time. These disruptions included a major snowstorm on New Year's Eve weekend, another snowstorm in March, a devastating flood in June, and the devastating terrorist attacks of September 11, 2001.

On Friday, December 29, 2000, a major snowstorm began moving into the New York area. That day, Continental operations managers precanceled 35 percent of their flights at Newark for Saturday. It took Continental personnel over three hours to determine the revised flight schedule and aircraft routings; the result was 112 flights canceled for Saturday. The crew solution for the 737 fleet, the largest aircraft fleet at Continental, affected 144 pairings. The CrewSolver system generated a solution for the cancellations in 3.5 minutes. Without the CrewSolver system, crew recovery at Continental was the bottleneck in the process of generating a complete recovery plan for the airline. With CrewSolver in place, the bottleneck has been pushed up to the flight- and aircraft-recovery process.

Continental used the CrewSolver system again on Saturday as the storm worsened and completely shut down the Newark hub. Other major airlines took as many as three days to recover, with follow-on cancellations and delays into Tuesday. Continental was back on schedule and running normal operations by noon on Sunday. Crews made no complaints about their rerouted solutions, and Continental noted using fewer crew reserves than it had in similar past disruptions that it had solved manually (although data supporting this last claim is unavailable).

Continental estimates that it saved approximately $4,422,000 by using CrewSolver for this disruption. These savings came primarily from avoidance of flight cancellations due to crew unavailability and reduced crew costs. It also realized additional revenue by accommodating other airlines' stranded passengers.

Another Nor'easter descended upon Newark on March 4, 2001. This storm was predicted to be the next great "storm of the century." At noon on Sunday, Continental decided to cancel 141 flights in and out of Newark for Monday. In the past, the crew coordinators

would have had to start working on a solution immediately, but because CrewSolver had worked so successfully during past disruptions, the head of crew coordination waited until evening to begin generating a crew solution. By then the airline had better information about the storm.

At 7:00 pm, Continental used CrewSolver to generate solutions for its 757, MD 80, and 737 crews. It encountered an unexpected problem. The solutions were so extensive that printing them out on a dot-matrix printer for crew notification took four hours. Continental realized that its million-dollar optimization system needed supporting infrastructure, and it bought a new laser printer for the operations center. Even with the printer difficulties, Continental had notified all the crews of their schedule changes by Monday morning, and it handled the additional weather disruptions on Monday and Tuesday quite easily with additional solutions from CrewSolver.

Continental estimates that it saved approximately $1,119,000 by using the CrewSolver system for this disruption. The savings come mostly from avoiding flight cancellations due to crew unavailability. The ability to wait until it had more accurate weather data also permitted Continental to avoid unnecessary cancellations.

Continental used the CrewSolver system again in June 2001 when Houston Intercontinental Airport (IAH) closed for a day after a devastating flood brought on by heavy rains from Tropical Storm Allison. Continental set a record for the number of diverted aircraft in one day as no aircraft were able to land at IAH and Houston Hobby (HOU) airports. In addition, most Continental operations personnel could not get to work because many major freeways were closed—and those on duty could not get home. The center operated throughout this disruption with a skeleton crew, made up mainly of people who were on duty over 24-hours. Continental estimates that it would have taken the crew coordinators 72 hours to solve the problems manually, but with the CrewSolver system, they solved the problem and notified all of the affected crews in eight hours.

Continental estimates that the CrewSolver system saved $5,425,000 for this disruption. Again, the primary savings came from avoiding additional flight cancellations due to unavailable crews. In this case, Continental basically shifted its operations out of Houston to its other hubs and used the crews that were available to fly the remainder of its flights. Although the storm closed the Houston airports, Continental used CrewSolver to limit its impact on the rest of its operations.

The most important test of the CrewSolver system's abilities came on and after Tuesday, September 11, 2001, when the FAA closed the airspace over the United States and diverted all planes to the nearest airport following the attacks by terrorists using four aircraft from major US carriers. As a result, Continental canceled all scheduled operations through Friday morning. Throughout the week, Continental used the CrewSolver system, along with the OpsSolver system for recovering flight schedules and rerouting aircraft, to determine the best method of resuming operations when the FAA reopened the airspace. It used OpsSolver to determine the best set of flight cancellations, delays, additions, and aircraft routings. Solutions from the OpsSolver system were passed into the CrewSolver system for comprehensive recovery solutions.

The first 737 crew solutions the optimization system returned rerouted approximately 1,600 pairings; the problem included more cancellations and a larger time window (four days) than any Continental or CALEB had ever imagined. The system solved this problem in less than 17 minutes. CALEB and EDS personnel were available to Continental throughout to make any changes needed.

One notable change we made to the optimization server was to extend the problem window to as much as two weeks. After September 11, Continental and other major airlines reduced their flight schedules by 20 percent for the remainder of September. After working for an hour on the disruptions to the crew schedule caused by this 20 percent reduction and realizing the monumental task it faced, Continental asked CALEB personnel if they could extend the optimization server to solve problems for the rest of the month. The CrewSolver system was designed to load seven days of data—the current day, plus three days in the past and three days in the future—for the purpose of checking legality. The new scenario called for loading over 14 days of data and solving a time window of 10 days.

CALEB, Continental, and EDS personnel together solved the data issues for the expanded window, and CALEB modified the optimization system for Continental.

CrewSolver gave Continental an advantage over other US airlines following the attacks on September 11 (Figure 4). Continental used CrewSolver in determining a new operational schedule for the rest of September. It produced a schedule it could execute reliably (Figure 5). Continental planned almost all of its flight cancellations before the day of operations. On the day of operations, it was able to execute those plans successfully.

Because of its successful planning, Continental delayed fewer flights than the other airlines. Because it knew how to recover its crew, it suffered fewer delays caused by crew unavailability. Because it could generate a plan and use CrewSolver to recover its crew, Continental could publicize its schedule changes and reaccommodate affected passengers. Continental offered its passengers a consistent and more reliable schedule than most of the other airlines.

For the month of September, the CrewSolver system generated solutions modifying 5,866 pairings involving 11,921 crew members. Not a single pairing in the system for the remainder of September was unaffected by the schedule reduction. Continental's completion factor (ratio of completed, noncanceled flights to scheduled flights) for the month of September was 81.2 percent. Excluding cancellations due to the terrorist attacks and the subsequent schedule reduction, its completion factor was 99.7 percent. Since then, Continental has set company and industry records with eight 100-percent-completion days in October 2001, nine in January 2002, and 14 in February 2002, along with an all-time-company-record completion factor of 99.9 percent for February 2002. To sum it all up, Continental claims that without the CrewSolver system it could not have recovered from the disruptions and schedule changes caused by the September 11, 2001 terrorist attacks.

Continental estimates that it saved $29,289,000 by using CrewSolver to recover after the September 11 disruption. More than half of the savings ($15,051,000) came from avoiding flight cancellations due to crew unavailability. Most of the rest came from avoiding added crew costs ($6,007,000) and avoiding losses of future revenue from passengers that would have been on unnecessarily canceled or delayed flights ($6,660,000), respectively. The remainder of the savings came from avoiding unnecessary flight delays due

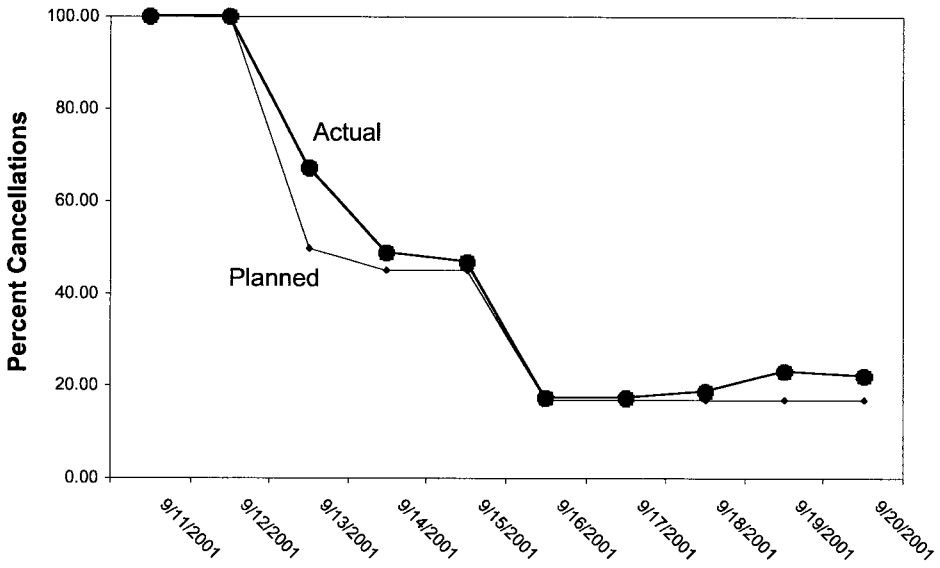

Figure 4: While other airlines canceled many more flights than they had planned to cancel in the days following September 11, 2001, Continental's cancellations followed its plan.

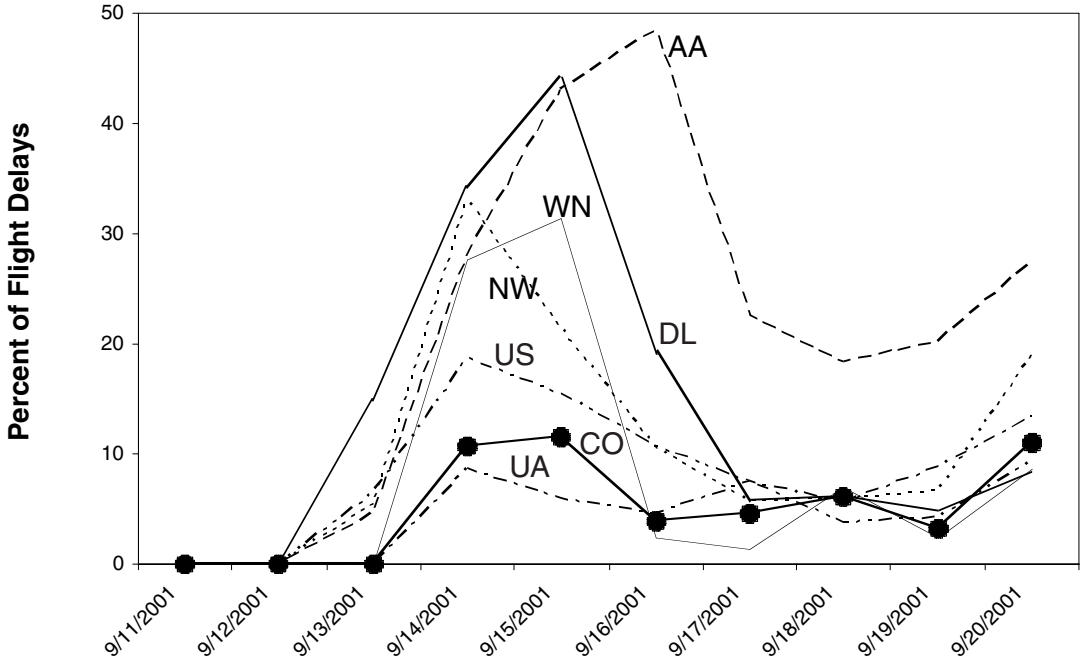

Figure 5: Because Continental used CrewSolver to replan its operations, it executed its new schedule more successfully and with fewer delays than most of its US-based competitors. The abbreviations in the chart are the following: American Airlines (AA), Continental Airlines (CO), Delta Air Lines (DL), Northwest Airlines (NW), Southwest Airlines (WN), United Airlines (UA), and US Airways (US).

to crew unavailability ($1,175,000) and avoiding overtime pay to reservations and airport-services personnel ($396,000), respectively.

Contributing to the costs of flight cancellations are crew pay and station costs. We assumed that the airline incurs these costs when a flight is canceled with no benefit in return. Additional liabilities for crew pay include contractual pay for rescheduled flights, pay for excess duty, pay for extended duty, pay for days originally scheduled off, pay for guaranteed minimum flight time for all crew members, and additional, unexpected hotel and per diem costs. We determined lost future revenue through historical analysis, observing that 10 percent of passengers on canceled flights do not return to Continental and three percent of passengers on delayed flights do not return to Continental. Costs for delayed flights include additional crew pay, fuel, maintenance, and airport costs. Thus pay for unutilized crew and liabilities for additional crew pay are key contributors to the airline's cost for crew recovery during irregular operations. By limiting the impact of the irregular operations on Continental's crews, CrewSolver helps the airline to use its available crews and avoid unnecessary crew costs.

Successes, such as the CrewSolver system, show that Continental is a trailblazer in adopting technology. The CrewSolver system has been very helpful to Continental Airlines:

—Most airlines make money during regular operations but lose money during irregular operations. The CrewSolver system addresses the bottleneck in recovering from operational disruptions, recovering crews.

—The CrewSolver system is available 24×7.

—The CrewSolver system has saved Continental Airlines more money than any other single application: $40 million savings for four major disruptions in 2001 (versus net revenue of $341 million in 2000 and a net loss of $95 million in 2001).

—It has saved the airline an estimated $5 million for daily disruptions in the first quarter of 2002.

—It has saved Continental $1 to $5 million for every major disruption.

—Speed is money. CrewSolver has cut the time it takes Continental to recover, reducing the cost and lost revenue from irregular operations.

—CrewSolver promotes what-if analysis, allowing the airline to easily and quickly examine different scenarios before making decisions that concern large sums of money.

—Continental Airlines now reacts to facts, not forecasts. The system's speed allows operations personnel to wait for accurate and complete data before making decisions.

—Reduced recovery time reduces the impact of disruptions on the flying public.

Conclusions

Continental Airlines is committed to adopting technology to improve its operations. Among the major US airlines, Continental is early in using decision-support tools to recover from day-of-operations disruptions. In doing so, it has reaped the rewards of consistent and reliable operation. It is considered one of the best airlines in the industry with respect to on-time performance and customer satisfaction (DOT Air Travel Consumer Report 2002).

With the addition of the OpsSolver system, Continental now has the tools to produce comprehensive recovery solutions for both aircraft and crews. Together, OpsSolver and CrewSolver generate recovery solutions that retain revenue and promote customer satisfaction at little cost. The CrewSolver provides crew-recovery solutions that support the disrupted flight schedule at the lowest cost possible while maintaining a high quality of life for its pilots and flight attendants.

Other airlines are aware of Continental's success and have contracted with CALEB to license its decision-support systems for operations recovery. Southwest Airlines began using its customized implementation of the CrewSolver system in the summer of 2002. Its crew-management personnel use the CrewSolver system several times per day every day. Northwest Airlines expects to have its customized implementation of the CrewSolver system in production by the end of 2002.

Continental and CALEB have forged a successful partnership dedicated to solving real problems that affect millions of people every year. Continental is a pioneer in determining the way an airline should manage its operations. CALEB is also a pioneer in applying operations research to support Continental's vision and to solve real operational problems.

Acknowledgments

We gratefully acknowledge those who helped make the CrewSolver system a success at Continental Airlines. In particular, we thank, from Continental, Janet Wejman, Michael Zorens, Coby Schoettlin, Scott Spencer, Jeanette McQuillan, Bill Leudte, Mike Bleike, Daniel Wiesner, and Randy Branstetter. From EDS, we thank Rick Jackson, Mike Ballantyne, Jim Potts, Darrin Duhon, Barry Eckle, and Kerry McCutchen. From CALEB Technologies, we thank Guo Wei, Stuart Smith, Ira Greenstein, Stacy Dugan, Mu Xia, and Randall DeWeerd.

We extend our appreciation to Ben Thengvall and Julian Pachon for their contributions to the writing of this paper. We are also deeply grateful to Stephen C. Graves and the Edelman Competition judges for their insight and comments, which helped us to clarify our presentation of the success of the CrewSolver system at Continental Airlines.

Executive summaries of Edelman award papers are presented here. The complete article was published in the INFORMS journal Interfaces [2003, 33:1, 5-22]. Full text is available by subscription at http://www.extenza-eps.com/extenza/contentviewing/viewJournal.do?journalId=5

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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 of incorporation or organization)	(I.R.S. Employer 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 _X_ 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 _X_
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 _X_

_____

As of July 14, 2006, 89,439,706 shares of Class B common stock were outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CONTINENTAL AIRLINES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating Revenue:				
Passenger (excluding fees and taxes of $364, $298, $679, and $569, respectively)	$3,227	$2,621	$5,911	$4,888
Cargo	112	97	218	196
Other, net	168	139	324	278
	3,507	2,857	6,453	5,362
Operating Expenses:				
Aircraft fuel and related taxes	791	575	1,452	1,045
Wages, salaries and related costs	744	649	1,416	1,364
Regional capacity purchase, net	454	382	869	735
Aircraft rentals	248	229	493	455
Landing fees and other rentals	198	181	383	352
Distribution costs	178	154	338	291
Maintenance, materials and repairs	140	106	267	218
Depreciation and amortization	97	98	193	197
Passenger services	90	84	171	162
Special charges	10	-	3	43
Other	313	280	613	554
	3,263	2,738	6,198	5,416
Operating Income (Loss)	244	119	255	(54)
Nonoperating Income (Expense):				
Interest expense	(100)	(101)	(201)	(198)
Interest capitalized	5	3	9	5
Interest income	31	15	55	26
Income from affiliates	17	20	34	40
Gain on disposition of ExpressJet Holdings shares	-	47	-	98
Other, net	1	(3)	6	(3)
	(46)	(19)	(97)	(32)
Income (Loss) before Income Taxes and Cumulative Effect of Change in Accounting Principle	198	100	158	(86)
Income Taxes	-	-	-	-
Income (Loss) before Cumulative Effect of Change in Accounting Principle	198	100	158	(86)
Cumulative Effect of Change in Accounting Principle	-	-	(26)	-
Net Income (Loss)	$ 198	$ 100	$ 132	$ (86)

(continued on next page)

CONTINENTAL AIRLINES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Earnings (Loss) per Share:				
Basic:				
Income (Loss) before Cumulative Effect of Change in Accounting Principle	$ 2.24	$ 1.49	$ 1.82	$(1.29)
Cumulative Effect of Change in Accounting Principle	-	-	(0.30)	-
Net Income (Loss)	$ 2.24	$ 1.49	$ 1.52	$(1.29)
Diluted:				
Income (Loss) before Cumulative Effect of Change in Accounting Principle	$ 1.84	$ 1.26	$ 1.55	$(1.29)
Cumulative Effect of Change in Accounting Principle	-	-	(0.24)	-
Net Income (Loss)	$ 1.84	$ 1.26	$ 1.31	$(1.29)
Shares Used for Computation:				
Basic	88.6	66.8	87.7	66.6
Diluted	111.0	85.5	109.8	66.6

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, 2006 (Unaudited)	December 31, 2005	June 30, 2005 (Unaudited)
Current Assets:			
Cash and cash equivalents	$ 2,202	$ 1,723	$ 1,869
Restricted cash	248	241	241
Short-term investments	270	234	177
Total cash, cash equivalents and short-term investments	2,720	2,198	2,287
Accounts receivable, net	687	515	589
Spare parts and supplies, net	208	201	207
Deferred income taxes	171	154	184
Note receivable from ExpressJet Holdings, Inc	-	18	72
Prepayments and other	461	341	318
Total current assets	4,247	3,427	3,657
Property and Equipment:			
Owned property and equipment:			
Flight equipment	6,786	6,706	6,713
Other	1,376	1,372	1,283
	8,162	8,078	7,996
Less: Accumulated depreciation	2,441	2,328	2,182
	5,721	5,750	5,814
Purchase deposits for flight equipment	234	101	186
Capital leases	335	344	363
Less: Accumulated amortization	112	109	118
	223	235	245
Total property and equipment, net	6,178	6,086	6,245
Routes	484	484	615
Airport operating rights, net	127	133	225
Intangible pension asset	60	60	63
Investment in affiliates	131	112	143
Other assets, net	219	227	243
Total Assets	$11,446	$10,529	$11,191

(continued on next page)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2006 (Unaudited)	December 31, 2005	June 30, 2005 (Unaudited)
Current Liabilities:			
Current maturities of long-term debt and capital leases	$ 766	$ 546	$ 609
Accounts payable	1,084	846	851
Air traffic and frequent flyer liability	2,104	1,475	1,657
Accrued payroll	225	234	292
Accrued other liabilities	308	298	266
Total current liabilities	4,487	3,399	3,675
Long-Term Debt and Capital Leases	4,626	5,057	5,415
Deferred Income Taxes	171	154	394
Accrued Pension Liability	927	1,078	1,083
Other	651	615	552
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, 200,000,000 and 200,000,000 shares authorized; 114,685,100, 111,690,943 and 92,355,665 issued	1	1	1
Additional paid-in capital	1,693	1,635	1,414
Retained earnings	538	406	388
Accumulated other comprehensive loss	(507)	(675)	(590)
Treasury stock - 25,489,506, 25,489,413 and 25,489,291 shares, at cost	(1,141)	(1,141)	(1,141)
Total stockholders' equity	584	226	72
Total Liabilities and Stockholders' Equity	$11,446	$ 10,529	$ 11,191

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)

	Six Months Ended June 30,	
	2006	2005
	(Unaudited)	
Net cash provided by operations	$ 984	$ 530
Cash Flows from Investing Activities:		
Capital expenditures	(163)	(78)
Purchase deposits paid in connection with future aircraft deliveries, net	(128)	(78)
(Purchase) sale of short-term investments, net	(36)	103
Proceeds from dispositions of property and equipment	5	32
Increase in restricted cash	(7)	(30)
Net cash used in investing activities	(329)	(51)
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations	(556)	(219)
Proceeds from issuance of long-term debt	336	425
Proceeds from issuance of common stock	43	4
Other	1	2
Net cash (used in) provided by financing activities	(176)	212
Net Increase in Cash and Cash Equivalents	479	691
Cash and Cash Equivalents - Beginning of Period	1,723	1,178
Cash and Cash Equivalents - End of Period	$2,202	$1,869
Investing and Financing Activities Not Affecting Cash:		
Contribution of ExpressJet stock to pension plan	$ -	$ 130

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. As discussed in Note 4 below, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" ("SFAS 123R"), effective January 1, 2006.

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, as amended, for the year ended December 31, 2005 (the "2005 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 to prior period amounts to conform with the current period's presentation.

NOTE 1 - EARNINGS (LOSS) PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Numerator:				
Numerator for basic earnings (loss) per share - net income (loss)	$198	$100	$132	$(86)
Effective of dilutive securities - interest expense on:				
5% Convertible Notes	2	2	3	-
4.5% Convertible Notes	2	2	3	-
6% Convertible Junior Subordinated Debentures Held by Subsidiary Trust	2	4	5	-
Numerator for diluted earnings (loss) per share - net income (loss) after assumed conversions	$ 204	$ 108	$ 143	$(86)
Denominator:				
Denominator for basic earnings (loss) per share - weighted average shares	88.6	66.8	87.7	66.6
Effect of dilutive securities:				
5% Convertible Notes	8.8	8.8	8.8	-
4.5% Convertible Notes	5.0	5.0	5.0	-
6% Convertible Junior Subordinated Debentures Held by Subsidiary Trust	4.1	4.1	4.1	-
Employee stock options	4.5	0.8	4.2	-
Dilutive potential common shares	22.4	18.7	22.1	-
Denominator for diluted earnings (loss) per share - adjusted weighted-average and assumed conversion	111.0	85.5	109.8	66.6

Approximately 17.9 million potential shares of common stock related to convertible debt securities were excluded from the computation of diluted loss per share in the six months ended June 30, 2005 because they were antidilutive. In addition, approximately 1.3 million, 5.1 million, 1.1 million and 5.6 million of weighted average options to purchase shares of our common stock were excluded from the computation of diluted earnings (loss) per share for the three months ended June 30, 2006 and 2005 and the six months ended June 30, 2006 and 2005, respectively, because the effect of including the options would have been antidilutive or the options' exercise prices were greater than the average market price of our common stock.

NOTE 2 - FLEET INFORMATION

As shown in the following table, our operating aircraft fleet consisted of 360 mainline jets and 274 regional jets at June 30, 2006, excluding aircraft out of service. The regional jets

are leased by ExpressJet Airlines, Inc. ("ExpressJet") from us and are operated for us by ExpressJet as Continental Express. Our purchase commitments (firm orders) for aircraft as of June 30, 2006 are also shown below.

Aircraft Type	Total Aircraft	Owned	Leased	Firm Orders(a)
787-8	-	-	-	20
777-200ER	18	6	12	2
767-400ER	16	14	2	-
767-200ER	10	9	1	-
757-300	17	9	8	-
757-200	41	13	28	-
737-900	12	8	4	3
737-800	99	26	73	22
737-700	36	12	24	41
737-500	63	15	48	-
737-300	48	20	28	-
Mainline jets	360	132	228	88
ERJ-145XR	104	-	104	-
ERJ-145	140	18	122	-
ERJ-135	30	-	30	-
Regional jets	274	18	256	-
Total	634	150	484	88

(a) We generally have the ability to convert 737 and 787 firm orders to other model types and, as such, we expect that some of our 737 orders may be converted to other 737 model types and some of our 787-8 orders may be converted to other 787 model types.

During the first half of 2006, we placed into service four used 757-300 aircraft and ExpressJet took delivery of eight ERJ-145XR aircraft.

As further discussed in Note 9, 69 of the regional jets operated by ExpressJet will be withdrawn from our capacity purchase agreement with ExpressJet beginning in December 2006. ExpressJet has notified us that it intends to retain these 69 aircraft. Following the withdrawal of these aircraft, they will no longer be operated for us by ExpressJet under the capacity purchase agreement. We have reviewed our options for replacing these aircraft and, as further discussed in Note 12, have selected Chautauqua Airlines, Inc., a subsidiary of Republic Airways Holdings Inc., to provide and operate 44 regional jet aircraft on our behalf beginning in 2007, under a new capacity purchase agreement. Chautauqua will supply the 44 aircraft that it will operate under the agreement. We currently have no plans to replace 25 of the 69 50-seat regional jets retained by ExpressJet.

Substantially all of the aircraft and engines we own are subject to mortgages. A significant portion of our spare parts inventory is also encumbered.

Firm Order and Option Aircraft. On June 6, 2006, we announced that we had ordered ten additional Boeing 787 aircraft and 24 additional Next-Generation 737 aircraft. These orders are included in the table above. Including these new orders, as of June 30, 2006, we had firm commitments for 88 new aircraft from Boeing, with an estimated cost of $4.5 billion including related spare engines, and options to purchase 57 additional Boeing aircraft. We are scheduled to take delivery of six 737-800 aircraft in 2006, with delivery of the remaining 82 Boeing aircraft occurring from 2007 through 2012.

We have entered into agreements to finance the six 737-800 aircraft to be 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.

Out-of-Service Aircraft. In addition to our operating fleet, we had six owned and one leased MD-80 aircraft permanently removed from service as of June 30, 2006. The owned out-of-service MD-80 aircraft are being carried at an aggregate fair market value of $9 million as of June 30, 2006. We are currently exploring sale or lease opportunities for the owned out-of-service aircraft. However, we cannot predict when or if purchasers or lessees can be found, and it is possible that our owned out-of-service aircraft could suffer additional impairment. The leased out-of-service MD-80 aircraft will be returned to its lessor in the second half of 2006.

NOTE 3 - LONG-TERM DEBT

Equipment Notes. In June 2006, we refinanced our $195 million Floating Rate Secured Notes due December 2007 and $97 million Floating Rate Secured Subordinated Notes due December 2007 by redeeming these notes with proceeds that we received from issuing two new series of equipment notes. The new notes total $320 million principal amount and mature in June 2013. Similar to the refinanced notes, the new notes are secured by the majority of our spare parts inventory. A portion of the spare parts inventory that serves as collateral for the new equipment notes is classified as property and equipment and the remainder is classified as spare parts and supplies, net.

The new series of senior equipment notes, which totaled $190 million principal amount, bears interest at the three-month London Interbank Offered Rate, or LIBOR, plus 0.35% for an initial coupon of 5.63%. The new series of junior equipment notes, which totaled $130 million principal amount, bears interest at the three-month LIBOR plus 3.125% for an initial coupon of 8.41%. The effect of the issuance of the new equipment notes and the redemption of the previously issued notes was to lower the interest rate that we pay on the indebtedness by approximately 55 basis points in the case of the senior notes and 438 basis points in the case of the junior notes, to increase the cash raised and principal amount by $28 million and to extend the maturity date of the indebtedness by five and a half years.

In connection with these equipment notes, we entered into a collateral maintenance agreement requiring us, among other things, to maintain a loan-to-collateral value ratio of not greater than 45% with respect to the senior series of equipment notes and a loan-to-collateral value ratio of not greater than 75% with respect to both series of notes combined. We must also maintain a certain level of rotable components within the spare parts collateral pool. These ratios are calculated semi-annually based on an independent appraisal of the spare parts collateral pool. If any of the collateral ratio requirements are not met, we must take action to meet all ratio requirements by adding additional eligible spare parts to the collateral pool, redeeming a portion of the outstanding notes, providing other collateral acceptable to the bond insurance policy provider for the senior series of equipment notes or any combination of the above actions.

Convertible Debt Securities. On July 1, 2006, our 5% Convertible Notes due 2023 with a principal amount of $175 million became convertible into shares of our common stock at a conversion price of $20 per share following the satisfaction of one of the conditions to convertibility. This condition, which was satisfied on June 30, 2006, provided that the notes would become convertible once the closing price of our common stock exceeded $24 per share (120% of the $20 per share conversion price) for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of a fiscal quarter. All or a portion of the notes are also redeemable for cash at our option on or after June 18, 2010 at par plus accrued and unpaid interest, if any. Holders of the notes may require us to repurchase all or a portion of their notes at par plus accrued and unpaid interest, if any, on June 15 of 2010, 2013 or 2018, or in the event of certain changes in control.

Maturities. Maturities of long term debt due before December 31, 2006 and for the next four years are as follows (in millions):

July 1, 2006 through December 31, 2006	$393
Year ending December 31,	
2007	558
2008	637
2009	465
2010	606

NOTE 4 - STOCK PLANS AND AWARDS

Adoption of SFAS 123R. We adopted SFAS 123R effective January 1, 2006. This pronouncement requires companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is estimated using option-pricing models. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. Prior to the adoption of SFAS 123R, this accounting treatment was optional with pro forma disclosures required. We adopted SFAS 123R using the modified prospective transition method, which is explained below.

The adoption of SFAS 123R changes the accounting for our stock options and awards of restricted stock units ("RSUs") under our Long-Term Incentive and RSU Program, including RSUs with performance targets based on the achievement of specified stock price targets ("Stock Price Based RSU Awards"), as discussed below. Additionally, it changes the accounting for our

employee stock purchase plan, which does not have a material impact on our statement of operations.

Stock Options. SFAS 123R is effective for all stock options we grant beginning January 1, 2006. Stock options granted prior to January 1, 2006, but for which the vesting period is not complete, have been accounted for using the modified prospective transition method provided by SFAS 123R. Under this method, we account for such options on a prospective basis, with expense being recognized in our statement of operations beginning in the quarter of adoption, the first quarter of 2006, using the grant-date fair values previously calculated for our pro forma disclosures. We will recognize the related compensation cost not previously recognized in the pro forma disclosures over the remaining vesting periods. Our options typically vest in equal annual installments over the required service period. Expense related to each portion of an option grant is recognized over the specific vesting period for those options.

The fair value of options is determined at the grant date using a Black-Scholes option-pricing model, which requires us to make several assumptions. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The dividend yield on our common stock is assumed to be zero since we historically have not paid dividends and have no current plans to do so in the future. The market price volatility of our common stock is based on the historical volatility of our common stock over a time period equal to the expected term of the option and ending on the grant date. The expected life of the options is based on our historical experience for various work groups.

The table below summarizes stock option activity pursuant to our plans for the six months ended June 30, 2006 (share data in thousands):

	Options	Weighted-Average Exercise Price	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (millions)
Outstanding at beginning of period..	12,710	$13.57		
Granted.....	1,189	$20.82		
Exercised.....	(2,728)	$14.31		
Cancelled.....	(265)	$19.40		
Outstanding at end of period.....	10,906	$14.03	4.6	$174
Exercisable at end of period.....	4,090	$15.03	3.4	$ 63

In connection with pay and benefit cost reductions, we issued stock options for approximately 1.2 million shares of our common stock with a weighted average exercise price of $20.82 per share during the first six months of 2006. The majority of these options were issued to our flight attendants. The exercise price is the closing price of our common stock on the grant date. The options vest in three equal installments on the first, second and third anniversaries of the date of grant, and have terms of six years. The weighted-average fair value of options granted during the first half of 2006 was determined to be $9.62, based on the following weighted-average assumptions:

Risk-free interest rate	4.4%
Dividend yield	0%
Expected market price volatility of our common stock	63%
Expected life of options (years)	3.2

The total intrinsic value of options exercised during the six months ended June 30, 2006 was $33 million. Cash received from option exercises during the six months ended June 30, 2006 totaled $39 million.

The following tables summarize the range of exercise prices and the weighted average remaining contractual life of the options outstanding and the range of exercise prices for the options exercisable at June 30, 2006 (share data in thousands):

Options Outstanding

Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$3.65-$11.87	500	2.9	$11.29
$11.89	7,060	5.5	$11.89
$11.96-$15.78	1,879	1.3	$15.59
$15.90-$56.81	1,467	5.2	$23.29
$3.65-$56.81	10,906	4.6	$14.03

Options Exercisable

Range of Exercise Prices	Exercisable	Weighted Average Exercise Price
$3.65-$11.87	214	$11.16
$11.89	1,842	$11.89
$11.96-$15.78	1,762	$15.68
$15.90-$56.81	272	$35.07
$3.65-$56.81	4,090	$15.03

Stock Price Based RSU Awards. Stock Price Based RSU Awards made pursuant to our Long-Term Incentive and RSU Program can result in cash payments to our officers if there are specified increases in our stock price over multi-year performance periods. Prior to our adoption of SFAS 123R, we had recognized no liability or expense because the targets set forth in the program had not been met. However, SFAS 123R requires these awards to be measured at fair value at each reporting date with the related expense being recognized over the required service periods, regardless of whether the specified stock price targets have been met. The fair value is determined using a pricing model until the specified stock price target has been met, and is determined based on the current stock price thereafter. On January 1, 2006, we recognized a cumulative effect of change

in accounting principle to record our liability related to the Stock Price Based RSU Awards at that date, which reduced earnings $26 million ($0.30 per basic share and $0.24 per diluted share).

On February 1, 2006, in light of the sacrifices made by their co-workers in connection with pay and benefit cost reduction initiatives, our officers voluntarily surrendered their Stock Price Based RSU Awards for the performance period ending March 31, 2006, which had vested during the first quarter of 2006 and would have otherwise paid out $23 million at the end of March 2006. Of the $26 million total cumulative effect of change in accounting principle recorded on January 1, 2006, $14 million related to the surrendered awards. Accordingly, upon surrender, we reported the reversal of the $14 million as a reduction of special charges in our statement of operations during the first quarter of 2006. The remaining $12 million of the cumulative effect of change in accounting principle was related to Stock Price Based RSU Awards with a performance period ending December 31, 2007, which were not surrendered.

During the first quarter of 2006, our stock price achieved the performance target price per share for 1.2 million Stock Price Based RSU Awards with a performance period ending December 31, 2007. Accordingly, we now measure these awards based on the current stock price (which was $29.80 per share at June 30, 2006) and will recognize the related expense ratably through December 31, 2007, after adjustment for changes in the market price of our common stock.

Profit Based RSU Awards. During the second quarter of 2006, we issued 1.6 million profit-based RSU awards ("Profit Based RSU Awards") pursuant to our Long-Term Incentive and RSU Program that can result in cash payments to our officers upon achievement of specified profit-based performance targets. The performance targets require that we reach target levels of cumulative employee profit sharing that are the basis for calculating distributions to participants under our enhanced employee profit sharing plan during the period from April 1, 2006 through December 31, 2009 and that we have net income calculated in accordance with generally accepted accounting principles for the applicable fiscal year. To serve as a retention feature, payments related to the achievement of a performance target will generally be made in one-third annual increments to participants who remain continuously employed by us through each payment date. The earliest possible payment date is March 31, 2008. Payments are also conditioned on our having a minimum unrestricted cash, cash equivalents and short-term investments balance of $1.125 billion at the end of the fiscal year preceding the date any payment is made. If we do not achieve the cash hurdle applicable to a payment date, the payment will be deferred until the next payment date (March 31 of the next year), subject to a limit on the number of years payments may be carried forward. Payment amounts will be calculated based on the average price of our common stock during the 20-day trading period preceding the payment date and the payment percentage set by the Human Resources Committee of our Board of Directors for achieving the applicable profit-based performance target. Depending on the level of cumulative employee profit sharing, the payment percentage can range from 0% to 337.5% of the underlying Profit Based RSU Award.

Under SFAS 123R, we account for the Profit Based RSU Awards as liability awards. Once it is probable that a performance target will be met, we measure the awards at fair value based on the current stock price. The related expense is recognized ratably over the required service period, which ends on each payment date, after adjustment for changes in the market price of our common stock.

Impact of Adoption of SFAS 123R. The impact of adopting SFAS 123R on January 1, 2006 for the three and six months ended June 30, 2006, including the effects of grants of options and Profit Based RSU Awards and the vesting and surrender of Stock Price Based RSU Awards subsequent to January 1, 2006, was as follows (in millions, except per share data):

	Increase (Decrease) in Net Income	
	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Wages, salaries and related costs	$(15)	$(32)
Special charges	-	14
Income before income taxes and cumulative effect of change in accounting principle	$(15)	$(18)
Cumulative effect of change in accounting principle	-	(26)
Net income	$(15)	$(44)
Earnings per share:		
Basic	$(0.16)	$(0.49)
Diluted	$(0.13)	$(0.39)

As of June 30, 2006, $83 million of compensation cost attributable to future performance related to unvested employee stock options, Stock Price Based RSU Awards and Profit Based RSU Awards that are probable of being achieved had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 2.1 years.

The following table illustrates the pro forma effect on net income (loss) and earnings (loss) per share for the three and six months ended June 30, 2005 had we applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-based Compensation" (in millions, except per share data):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income (loss), as reported	$ 100	$ (86)
Deduct total stock-based employee compensation expense determined under SFAS 123, net of tax in 2005	(9)	(11)
Net income (loss), pro forma	$ 91	$ (97)
Basic earnings (loss) per share:		
As reported	$1.49	$(1.29)
Pro forma	$1.35	$(1.45)
Diluted earnings (loss) per share:		
As reported	$1.26	$(1.29)
Pro forma	$1.16	$(1.46)

NOTE 5 - COMPREHENSIVE INCOME (LOSS)

We include changes in minimum pension liabilities and changes in the fair value of derivative financial instruments which qualify for hedge accounting in other comprehensive income (loss). For the second quarter of 2006 and 2005, total comprehensive income amounted to $331 million and $108 million, respectively. For the six months ended June 30, 2006 and 2005, total comprehensive income (loss) amounted to $300 million and $(90) million, respectively. Total comprehensive income for the three and six months ended June 30, 2006 was increased by reductions to the minimum pension liability of $136 million and $164 million, respectively, resulting from remeasurements of our pension obligation as a result of the pension settlement charges. Total comprehensive loss for the six months ended June 30, 2005 includes a loss adjustment of $23 million to the minimum pension liability resulting from the pension curtailment loss recorded in the first quarter of 2005. The remaining difference between the net income (loss) and total comprehensive income (loss) for each period was attributable to changes in the fair value of derivative financial instruments.

NOTE 6 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans. Net periodic defined benefit pension expense for the three and six months ended June 30 included the following components (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Service cost	$ 15	$ 20	$ 30	$ 60
Interest cost	37	36	74	79
Expected return on plan assets	(31)	(31)	(62)	(62)
Amortization of prior service cost	2	2	4	7
Amortization of unrecognized net actuarial loss	17	17	35	39
Net periodic defined benefit pension expense	40	44	81	123
Settlement charge (included in special charges)	14	-	29	-
Curtailment loss (included in special charges)	-	-	-	43
Net defined benefit pension expense	$ 54	$ 44	$110	$166

During the first six months of 2006, we contributed $97 million to our defined benefit pension plans. We contributed an additional $75 million to these plans in July 2006. Including these contributions, based on current assumptions and applicable law, we expect to contribute a total of $258 million to our defined benefit pension plans in 2006 to meet our minimum funding obligations. During the first half of 2005, we contributed 12.1 million shares of ExpressJet Holdings, Inc. ("Holdings") common stock valued at $130 million to our primary defined benefit pension plan. We recognized gains of $98 million related to these contributions.

During the three and six months ended June 30, 2006, we recorded $14 million and $29 million non-cash settlement charges, respectively, related to lump sum distributions from our pilot-only defined benefit pension plan. SFAS No. 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("SFAS 88"), requires the use of settlement accounting if, for a given year, the cost of all settlements exceeds,

or is expected to exceed, the sum of the service cost and interest cost components of net periodic pension expense for the plan. Under settlement accounting, unrecognized plan gains or losses must be recognized immediately in proportion to the percentage reduction of the plan's projected benefit obligation. We anticipate that we will have additional non-cash settlement charges in the future in conjunction with lump-sum distributions to retiring pilots.

In the first quarter of 2005, we recorded a $43 million non-cash curtailment charge in accordance with SFAS 88 in connection with freezing the portion of our defined benefit pension plan related to our pilots, using actuarial assumptions consistent with those we used at December 31, 2004. SFAS 88 requires curtailment accounting if an event eliminates, for a significant number of employees, the accrual of defined benefits for some or all of their future services. In the event of a curtailment, a loss must be recognized for the unrecognized prior service cost associated with years of service no longer expected to be rendered.

Employee Profit Sharing Plan. In January 2005, we announced an enhanced employee profit sharing plan. The plan, which will be in place through December 31, 2009, creates an award pool for participating employees of 30% of the first $250 million of annual pre-tax income, 25% of the next $250 million and 20% of amounts over $500 million. For purposes of the plan, pre-tax net income excludes unusual or non-recurring items and is calculated prior to any costs associated with incentive compensation for executives with performance targets determined by the Human Resources Committee of our Board of Directors. Payment of profit sharing to participating employees occurs in the fiscal year following the year in which profit sharing is earned and the related expense is recorded. Substantially all of our employees (other than employees who participate in our management or officer bonus programs and employees who did not participate in pay and benefit concessions) participate in the plan.

Profit sharing expense is recorded each quarter based on the actual cumulative profits earned to date. Reductions in cumulative profits from quarter to quarter could result in the reversal of a portion or all of the previously recorded profit sharing expense. We recognized $60 million of profit sharing expense in the second quarter of 2006. This amount is included in wages, salaries and related costs in our consolidated statements of operations.

NOTE 7 - SPECIAL CHARGES

During the first and second quarters of 2006, we recorded non-cash settlement charges of $15 million and $14 million, respectively, related to lump sum distributions from our pilot-only defined benefit pension plan, as discussed in Note 6. As discussed in Note 4, on February 1, 2006, our officers voluntarily surrendered their vested Stock Price Based RSU Awards with a performance period ending March 31, 2006, resulting in a $14 million reduction of special charges. The remaining balance of special charges during the three and six months ended June 30, 2006 is attributable to our permanently grounded MD-80 aircraft. We reduced our allowance for future lease payments and return conditions following negotiated settlements with aircraft lessors and adjusted the carrying amount of our remaining owned MD-80 aircraft to current fair value.

In March 2005, we recorded a $43 million non-cash curtailment charge relating to the freezing of the portion of our defined benefit pension plan attributable to pilots, as discussed in Note 6.

NOTE 8 - INVESTMENT IN EXPRESSJET HOLDINGS

We account for our investment in Holdings using the equity method of accounting. At June 30, 2006, we held 4.7 million shares, or an 8.6% interest, of Holdings. These 4.7 million shares had a market value of $32 million at June 30, 2006. Subject to market conditions, we intend to sell or otherwise dispose of all of our shares of Holdings common stock in the future.

As of June 30, 2006, our defined benefit pension plans no longer held any shares of Holdings common stock. During the second quarter of 2006, the independent fiduciary for these plans, which exercises sole and exclusive control over the voting and disposition of all securities owned by such plans, sold the plans' remaining shares.

NOTE 9 - REGIONAL CAPACITY PURCHASE AGREEMENTS

Regional Capacity Purchase, Net. Expenses related to our capacity purchase agreements are reported as regional capacity purchase, net in our consolidated statements of operations. Our most significant capacity purchase agreement is with ExpressJet. Regional capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet.

ExpressJet Capacity and Fleet Matters. Our capacity purchase agreement with ExpressJet covers all of ExpressJet's existing fleet. Under the agreement, we have the right to give no less than twelve months' notice to ExpressJet of our intent to reduce the number of its aircraft covered by the contract. In December 2005, we gave notice to ExpressJet that we would withdraw 69 of the 274 regional jet aircraft from the capacity purchase agreement because we believe the rates charged by ExpressJet for regional capacity are above the current market. The withdrawals are scheduled to begin in December 2006 and be completed during the summer of 2007. On May 5, 2006, ExpressJet notified us that it intends to keep all of the 69 regional jets covered by our withdrawal notice, as permitted by the capacity purchase agreement. Accordingly, ExpressJet must retain each of those 69 regional jets for the remaining term of the applicable underlying aircraft lease and, as each aircraft is withdrawn from the capacity purchase agreement, the implicit interest rate used to calculate the scheduled lease payments that ExpressJet will make to us under the applicable aircraft sublease will automatically increase by 200 basis points to compensate us for our continued participation in ExpressJet's lease financing arrangements.

Under our capacity purchase agreement with ExpressJet, ExpressJet has the option to (1) fly any of the withdrawn aircraft it retains for another airline (subject to its ability to obtain facilities, such as gates, ticket counters, hold rooms and other operations-related facilities, and subject to its arrangement with us that prohibits ExpressJet from flying under its or another carrier's code in or out of our hub airports during the term of the agreement), or (2) fly any of the withdrawn aircraft it retains under ExpressJet's own flight designator code, subject to its ability to obtain facilities and subject to ExpressJet's arrangement with us respecting our hubs. So long as we are ExpressJet's largest customer, if ExpressJet enters into an agreement with another major carrier (as defined in our capacity purchase agreement) to provide regional airline services on a capacity purchase or other similar economic basis for more than ten aircraft, we are entitled

to the same or comparable economic terms and conditions on a most-favored-nations basis.

The capacity purchase agreement currently expires on December 31, 2010, but allows us to terminate the agreement at any time upon 12 months' notice, or at any time without notice for cause (as defined in the agreement). We may also terminate the agreement at any time upon a material breach by ExpressJet that does not constitute cause and continues for 90 days after notice of such breach, or without notice or opportunity to cure if we determine that there is a material safety concern with ExpressJet's flight operations. We have the option to extend the term of the agreement with 24 months' notice for up to four additional five-year terms through December 31, 2030.

As further discussed in Note 12, on July 21, 2006 we announced that we selected Chautauqua Airlines, Inc., a subsidiary of Republic Airways Holdings Inc., to provide and operate 44 regional jet aircraft on our behalf beginning in 2007 pursuant to a capacity purchase agreement.

NOTE 10 - SEGMENT REPORTING

We have two reportable segments: mainline and regional. We evaluate segment performance based on several factors, of which the primary financial measure is operating income (loss). However, we do not manage our business or allocate resources based on segment operating income or loss because (1) our flight schedules are designed to maximize revenue from passengers flying, (2) many operations of the two segments are substantially integrated (for example, airport operations, sales and marketing, scheduling and ticketing) and (3) management decisions are based on their anticipated impact on the overall network, not on one individual segment.

Financial information for the three and six months ended June 30 by business segment is set forth below (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating Revenue:				
Mainline	$2,890	$2,384	$5,337	$4,505
Regional	617	473	1,116	857
Total Consolidated	$3,507	$2,857	$6,453	$5,362
Operating Income (Loss):				
Mainline	$ 223	$ 157	$ 285	$ 75
Regional	21	(38)	(30)	(129)
Total Consolidated	$ 244	$ 119	$ 255	$ (54)
Net Income (Loss):				
Mainline	$ 179	$ 140	$ 166	$ 43
Regional	19	(40)	(34)	(129)
Total Consolidated	$ 198	$ 100	$ 132	$ (86)

Net income for the mainline segment for the six months ended June 30, 2006 includes the $26 million cumulative effect of change in accounting principle related to the adoption of SFAS 123R. The amounts presented above are presented on the basis of how our management reviews segment results. Under this basis, the regional segment's revenue includes a pro-rated share of our ticket revenue for segments flown by our regional carriers, and expenses include all activity related to the regional operations, regardless of whether such expenses were paid by us or our regional carriers.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Purchase Commitments. See Note 2 for a discussion of our aircraft purchase commitments.

Financings and Guarantees. We are the guarantor of approximately $1.7 billion aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon, excluding the US Airways contingent liability described below. These bonds, issued by various airport municipalities, are payable solely from our rentals paid under long-term agreements with the respective governing bodies. The leasing arrangements associated with approximately $1.5 billion of these obligations are accounted for as operating leases, and the leasing arrangements associated with approximately $200 million of these obligations are accounted for as capital leases in our financial statements.

We are contingently liable 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 obligations include the payment of ground rentals to the Port Authority and the payment of other rentals in respect of the full amounts owed on special facilities revenue bonds issued by the Port Authority having an outstanding par amount of $156 million at June 30, 2006 and a final scheduled maturity in 2015. If US Airways defaults on these obligations, we would be obligated to cure the default and we would have the right to occupy the terminal after US Airways' interest in the lease had been terminated.

We also have letters of credit and performance bonds relating to various real estate and customs obligations at June 30, 2006 in the amount of $56 million. These letters of credit and performance bonds have expiration dates through September 2008.

General Guarantees and Indemnifications. We are the lessee under many real estate leases. It is common in such commercial lease transactions for us, as the lessee, to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to our use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, we typically indemnify such parties for any environmental liability that arises out of or relates to our use of the leased premises.

In our aircraft financing agreements, we typically indemnify the financing parties, trustees acting on their behalf and other related parties against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties,

except for their gross negligence or willful misconduct.

We expect that we would be covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to real estate we lease and aircraft we operate.

In our financing transactions structured as loans, we typically agree to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on LIBOR, for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject in most cases to certain mitigation obligations of the lenders. At June 30, 2006, we had $1.0 billion of floating rate debt and $329 million of fixed rate debt, with remaining terms of up to 10 years, that is subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 10 years and an aggregate carrying value of $1.1 billion, we bear the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions. In addition, in cross-border aircraft lease agreements for two 757 aircraft, we bear the risk of any change in U.S. tax laws that would subject lease payments made by us to a resident of Japan to withholding taxes, subject to customary exclusions. These capital leases for two 757 aircraft expire in 2008 and have a carrying value of $44 million at June 30, 2006.

We cannot estimate the potential amount of future payments under the foregoing indemnities and agreements due to unknown variables related to potential government changes in capital adequacy requirements or tax laws.

Financial Covenants. We and our wholly-owned subsidiaries Air Micronesia, Inc. ("AMI") and Continental Micronesia, Inc. ("CMI") have loans under a $350 million secured loan facility. The loans are secured by certain of our U.S.-Asia routes and related assets, all of the outstanding common stock of AMI and CMI and substantially all of the other assets of AMI and CMI, including route authorities and related assets. The loan documents require us to maintain a minimum balance of unrestricted cash and short-term investments of $1.0 billion at the end of each month. The loans may become due and payable immediately if we fail to maintain the monthly minimum cash balance and upon the occurrence of other customary events of default under the loan documents. If we fail to maintain a minimum balance of unrestricted cash and short-term investments of $1.125 billion, we and CMI will be required to make a mandatory aggregate $50 million prepayment of the loans.

In addition, if the ratio of the outstanding loan balance to the value of the collateral securing the loans, as determined by the most recently delivered periodic appraisal, is greater than 52.5% through October 2, 2006 and 48% thereafter, we and CMI will be required to post additional collateral or prepay the loans to reestablish a loan-to-collateral value ratio of not greater than the loan-to-collateral value ratio permitted on the date of determination. We are currently in compliance with these covenants. However, on or prior to October 3, 2006, in order to satisfy the 48% loan-to-collateral value ratio on such date, we will be required to post additional non-cash collateral in an amount not less than $60 million, prepay loans or post cash collateral in an amount not less than $29 million or a combination thereof.

Our bank-issued credit card processing agreement 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. The agreement also requires us to maintain a minimum senior unsecured debt rating of Caa3 as rated by Moody's or CCC- as rated by Standard & Poor's. 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 $560 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 secured loan facility, resulting in a default under such facility.

Employees. As of June 30, 2006, we had approximately 43,450 employees, or 40,725 full-time equivalent employees. On January 29, 2006, our flight attendants ratified their new contract containing pay and benefit reductions and work rule changes. In March 2006, the three unionized workgroups at CMI voted on tentative agreements containing benefit reductions and work rule changes. The tentative agreement with the CMI technicians was ratified and implemented, while the tentative agreements with the CMI agents and the CMI flight attendants were not ratified. In May 2006, the CMI flight attendants ratified their agreement, which became effective June 1, 2006 and is amendable on December 31, 2010. We are continuing to negotiate with the union representing the CMI agents to obtain annual pay and benefit reductions and work rule changes. Although there can be no assurance that our generally good labor relations and high labor productivity will continue, we have established as a significant component of our business strategy the preservation of good relations with our employees, approximately 44% of whom are represented by unions.

Environmental Matters. We could be responsible for environmental remediation costs primarily related to jet fuel and solvent contamination surrounding our aircraft maintenance hangar in Los Angeles. In 2001, the California Regional Water Quality Control Board ("CRWQCB") mandated a field study of the site and it was completed in September 2001. In April 2005, under the threat of a CRWQCB enforcement action, we began environmental remediation of jet fuel contamination surrounding our aircraft maintenance hangar pursuant to a workplan submitted to (and approved by) the CRWQCB and our landlord, the Los Angeles World Airports.

We have established a reserve for estimated costs of environmental remediation at Los Angeles and elsewhere in our system, based primarily on third party environmental studies and estimates as to the extent of the contamination and nature of the required remedial actions. We expect our total losses from all environmental matters to be $44 million, for which we were fully accrued at June 30, 2006. We have evaluated and recorded this accrual for environmental remediation costs separately from any related insurance recovery. We do not have any receivables related to insurance recoveries at June 30, 2006.

Based on currently available information, we believe that our reserves for potential environmental remediation costs are adequate, although reserves could be adjusted as further information develops or circumstances change. However, we do not expect these items to materially impact our results of operations, financial condition or liquidity.

Legal Proceedings. During the period between 1997 and 2001, we reduced or capped the base commissions that we paid to travel agents, and in 2002 we eliminated such base commissions. These actions were similar to those also taken by other air carriers. We are now a defendant, along with several other air carriers, in two lawsuits brought by travel agencies that purportedly opted out of a prior class action entitled Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C. Eastern District of North Carolina) filed on June 21, 2000, in which the defendant airlines prevailed on summary judgment that was upheld on appeal. These similar suits against Continental and other major carriers allege violations of antitrust laws in reducing and ultimately eliminating the base commission formerly paid to travel agents. The pending cases are Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 2003 and Swope Travel Agency, et al. v. Orbitz LLC et al. (U.S.D.C., Eastern District of Texas), filed on June 5, 2003. By order dated November 10, 2003, these actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has commenced.

In each of the foregoing cases, we believe the plaintiffs' claims are without merit and we are vigorously defending the lawsuits. Nevertheless, a final adverse court decision awarding substantial money damages could have a material impact on our results of operations, financial condition or liquidity.

We and/or certain of our subsidiaries are defendants in various other lawsuits and proceedings arising in the normal course of business. Although the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on our results of operations, financial condition or liquidity, it is our opinion, after consulting with outside counsel, that the ultimate disposition of such suits will not have a material adverse effect on our results of operations, financial condition or liquidity.

NOTE 12 - SUBSEQUENT EVENTS

Investment in Copa. On July 5, 2006, we sold 7.5 million shares of Class A common stock of Copa Holdings, S.A. ("Copa"), the parent company of Copa Airlines, for $156 million in cash, net of underwriting fees. This sale reduced our ownership in Copa to 4.4 million shares, which represents a 10% interest. We will recognize a gain of $92 million in the third quarter of 2006 related to this transaction.

Regional Capacity Purchase. On July 21, 2006, we announced our selection of Chautauqua Airlines, Inc. to provide and operate 44 regional jets as a Continental Express carrier beginning in 2007, under a new capacity purchase agreement. We intend to use these aircraft to replace a portion of the capacity represented by the 69 regional jet aircraft being retained by ExpressJet under its agreement with us. Chautauqua, a subsidiary of Republic Airways Holdings Inc., will operate 50-seat regional jets on our behalf, under the Continental Express brand. We will continue to schedule and market all of our Continental Express regional jet service. Our agreement with Chautauqua calls for us to pay a fixed fee to Chautauqua, which is subject to

specified reconciliations and annual escalations, for their operation of the aircraft. Chautauqua will supply the 44 aircraft that it will operate under the agreement. The agreement has a five year term with respect to ten aircraft and an average term of 2.5 years for the balance of the aircraft. In addition, we have the right to extend the agreement with respect to any of the aircraft on the same terms for five one-year terms. In the case of up to 24 of the aircraft, this right will be subject to the terms of the related aircraft lease. We currently have no plans to replace 25 of the 69 50-seat regional jets retained by ExpressJet.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains forward-looking statements that are not limited to historical facts, but reflect our current beliefs, expectations or intentions regarding future events. In connection therewith, please see the risk factors set forth in Item 1A of our 2005 Form 10-K and Part II, Item 1A of this report, which identify important factors such as the consequences of our significant financial losses and high leverage, terrorist attacks, domestic and international economic conditions, the significant cost of aircraft fuel, labor costs, competition and industry conditions including the demand for air travel, the airline pricing environment and industry capacity decisions, regulatory matters, disruptions in our computer systems and the seasonal nature of the airline business (the second and third quarters are generally stronger than the first and fourth quarters). We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

General information about us can be found at *http://www.continental.com/company/investor*. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the Securities and Exchange Commission.

OVERVIEW

We recorded net income of $198 million for the second quarter of 2006, as compared to net income of $100 million for the second quarter of 2005 (which included a gain of $47 million related to the contribution of 6.1 million shares of Holdings common stock to our defined pension benefit plan). The higher net income in the second quarter of 2006 was the result of higher revenue and our cost-savings initiatives, primarily pay and benefit reductions and work rule changes. 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, those high fuel prices continue to pressure all carriers. Further increases in jet fuel prices or disruptions in fuel supplies could have a material adverse effect on our results of operations, financial condition and liquidity. Additionally, a number of our competitors are increasing their international capacity, which is resulting in pressure on yields in impacted markets.

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. In addition to competition from low-cost carriers, we are facing stronger competition from carriers that have filed for bankruptcy protection, such as Delta Air Lines and Northwest Airlines (both of which filed for bankruptcy in September 2005), and from carriers recently emerged from bankruptcy, including US Airways (which emerged from bankruptcy in September 2005, for the second time since 2002) and United Airlines (which emerged from over three years of bankruptcy protection in February 2006). Carriers in bankruptcy are able to achieve substantial cost reductions through, among other things, reduction or discharge of debt, lease and pension obligations and wage and benefit reductions.

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 length-of-haul adjusted revenue per available seat mile ("RASM") premium to the industry and responding effectively to the factors that threaten the airline industry as a whole. We have attempted to return to sustained profitability by implementing the majority of $1.1 billion of annual cost-cutting and revenue-generating measures since 2002, and we have also achieved agreements or arrangements for substantially all of the $500 million reduction in annual pay and benefits costs and work rule changes on a run-rate basis that we targeted in late 2004.

We believe that under current conditions, absent adverse factors outside of our control, such as additional terrorist attacks, hostilities involving the United States, or further significant increases in jet fuel prices, our existing liquidity and projected operating cash flows will be sufficient to fund our current operations and other financial obligations through 2007.

RESULTS OF OPERATIONS

The following discussion provides an analysis of our results of operations and reasons for material changes therein for the three and six months ended June 30, 2006 as compared to the corresponding periods ended June 30, 2005.

Comparison of Three Months Ended June 30, 2006 to Three Months Ended June 30, 2005

Consolidated Results of Operations

We recorded a consolidated net income of $198 million for the second quarter of 2006 as compared to a consolidated net income of $100 million for the second quarter of 2005. We consider a key measure of our performance to be operating income, which was $244 million for the second quarter of 2006, as compared $119 million for the second quarter of 2005. Significant components of our consolidated operating results are as follows (in millions, except percentage changes):

	Three Months Ended June 30,		Increase	% Increase
	2006	2005	(Decrease)	(Decrease)
Operating Revenue:				
Passenger	$3,227	$2,621	$606	23.1 %
Cargo	112	97	15	15.5 %
Other, net	168	139	29	20.9 %
	3,507	2,857	650	22.8 %
Operating Expenses:				
Aircraft fuel and related taxes	791	575	216	37.6 %
Wages, salaries and related costs	744	649	95	14.6 %
Regional capacity purchase, net	454	382	72	18.8 %
Aircraft rentals	248	229	19	8.3 %
Landing fees and other rentals	198	181	17	9.4 %
Distribution costs	178	154	24	15.6 %
Maintenance, materials and repairs	140	106	34	32.1 %
Depreciation and amortization	97	98	(1)	(1.0)%
Passenger services	90	84	6	7.1 %
Special charges	10	-	10	NM
Other	313	280	33	11.8 %
	3,263	2,738	525	19.2 %
Operating Income	244	119	125	105.0 %
Nonoperating Income (Expense)	(46)	(19)	27	NM
Income before Income Taxes	198	100	98	98.0 %
Income Taxes	-	-	-	-
Net Income	$ 198	$ 100	$ 98	98.0 %

Operating Revenue. Passenger revenue increased 23.1% due to increased capacity and traffic and higher fares. Consolidated revenue passenger miles for the quarter increased 15.2% year-over-year on a capacity increase of 10.9%, which produced a consolidated load factor for the second quarter of 2006 of 82.7%, up 3.1 points over the same period in 2005. Consolidated yield increased 6.9% year-over-year. Consolidated RASM for the quarter increased 11.0% year-over-year due to higher yield and load factors. The improved RASM reflects recent fuel-driven fare increases and our actions taken to improve the mix of local versus flow traffic and reduce discounting.

The table below shows passenger revenue for the quarter ended June 30, 2006 and period to period comparisons for passenger revenue, RASM and available seat miles ("ASMs") by geographic region for our mainline and regional operations:

	Passenger Revenue (in millions)	Percentage Increase in Second Quarter 2006 vs Second Quarter 2005		
		Passenger Revenue	RASM	ASMs
Domestic	$1,465	18.1%	12.4%	5.1%
Trans-Atlantic	570	25.8%	4.7%	20.1%
Latin America	346	30.6%	11.2%	17.4%
Pacific	217	21.6%	7.2%	13.5%
Total Mainline	2,598	21.6%	9.7%	10.8%
Regional	629	30.0%	16.6%	11.5%
Total System	$3,227	23.1%	11.0%	10.9%

Cargo revenue increased 15.5% primarily due to higher freight and mail volumes and increases in freight fuel surcharges. Other revenue increased due to higher revenue associated with sales of mileage credits in our OnePass frequent flyer program and passenger service fees.

Operating Expenses. Aircraft fuel and related taxes increased 37.6% due to a significant rise in fuel prices, combined with a 10.8% increase in mainline ASMs. The average jet fuel price per gallon including related taxes increased 26.4% to $2.11 in the second quarter of 2006 from $1.67 in the second quarter of 2005. Fuel expense was reduced by gains of approximately $9 million related to our fuel hedging program in the second quarter of 2006. We had no fuel hedges in place during 2005. Wages, salaries and related costs increased 14.6% primarily due to a $60 million increase in profit sharing expense, an increase in the average number of employees to support our growth and $15 million additional expense in 2006 related to stock options, Stock Price Based RSU Awards and Profit Based RSU Awards following the adoption of SFAS 123R, partially offset by pay and benefit reductions and work rule changes.

Expenses related to our capacity purchase agreements are reported in regional capacity purchase, net. Our most significant capacity purchase agreement is with ExpressJet. Regional capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. The net expense was higher in the

second quarter of 2006 than in the corresponding quarter of 2005 due to increased flight activity, a larger fleet at ExpressJet and increased fuel prices, offset in part by lower block hour rates.

Aircraft rentals increased due to new mainline and regional aircraft delivered in 2005 and 2006. Landing fees and other rentals were higher primarily due to increased flight activity. Distribution costs increased primarily due to higher credit card fees and reservation costs related to the increase in revenue. Maintenance, materials and repairs increased primarily due to a higher contractual repair rates associated with a maturing fleet and increased flight hours. Other operating expenses increased primarily due to a higher number of international flights which resulted in increased air navigation, ground handling, security and related expenses.

During the second quarter of 2006, we recorded a $14 million settlement charge related to lump sum distributions from our pilot-only defined benefit pension plan. The remaining balance of the net special item recognized during the second quarter of 2006 is attributable to our permanently grounded MD-80 aircraft. We reduced our allowance for future lease payments and return conditions following negotiated settlements with aircraft lessors.

Nonoperating Income (Expense). Nonoperating income (expense) includes net interest expense (interest expense less interest income and capitalized interest), income from affiliates, and gains from dispositions of investments. Total nonoperating income (expense) was a net expense in the second quarters of both 2006 and 2005. The net expense increased $27 million in the second quarter of 2006 compared to the second quarter of 2005 primarily due to gains of $47 million in 2005 related to the contribution of 6.1 million shares of Holdings common stock to our primary defined benefit pension plan. Net interest expense decreased $19 million in 2006 primarily as a result of interest income on our higher cash balances. Income from affiliates, which includes income related to our tax sharing agreement with Holdings and our equity in the earnings of Copa and Holdings, was $3 million lower in 2006 as compared to 2005 as a result of our reduced ownership interest in Copa and Holdings and less income from our tax sharing agreement with Holdings.

Income Tax Benefit (Expense). Beginning in the first quarter of 2004, we concluded that we were required to provide a valuation allowance for deferred tax assets due to our continued losses and our determination that it was more likely than not that such deferred tax assets would ultimately not be realized. As a result, our losses subsequent to that point were not reduced by any tax benefit. Consequently, we also did not record any provision for income taxes on our pre-tax income for the second quarters of 2005 and 2006 because we utilized a portion of the operating loss carryforwards for which we had not previously recognized a benefit.

Segment Results of Operations

We have two reportable segments: mainline and regional. The mainline segment consists of flights using jets that have a capacity of greater than 100 seats while the regional segment consists of flights using jets with a capacity of 50 or fewer seats. The regional segment is operated by our regional carriers through capacity purchase agreements. Our most significant capacity purchase agreement is with ExpressJet. Under our capacity purchase agreements, we handle all of the scheduling and are responsible for setting prices and selling all of the seat inventory. In exchange for the regional carriers' operation of the flights, we pay them for each scheduled block hour based on the applicable agreed upon formula. Under the agreements, we

recognize all passenger, cargo and other revenue associated with each flight, and are responsible for all revenue-related expenses, including commissions, reservations, catering and terminal rent at hub airports.

We evaluate segment performance based on several factors, of which the primary financial measure is operating income (loss). However, we do not manage our business or allocate resources based on segment operating profit or loss because (1) our flight schedules are designed to maximize revenue from passengers flying, (2) many operations of the two segments are substantially integrated (for example, airport operations, sales and marketing, scheduling and ticketing), and (3) management decisions are based on their anticipated impact on the overall network, not on one individual segment.

Mainline. Significant components of our mainline segment's operating results are as follows (in millions, except percentage changes):

	Three Months Ended June 30,		Increase	% Increase
	2006	2005	(Decrease)	(Decrease)
Operating Revenue	$2,890	$2,384	$506	21.2 %
Operating Expenses:				
Aircraft fuel and related taxes	791	575	216	37.6 %
Wages, salaries and related costs	733	638	95	14.9 %
Aircraft rentals	170	158	12	7.6 %
Landing fees and other rentals	187	169	18	10.7 %
Distribution costs	147	131	16	12.2 %
Maintenance, materials and repairs	140	106	34	32.1 %
Depreciation and amortization	94	96	(2)	(2.1)%
Passenger services	86	80	6	7.5 %
Special charges	10	-	10	NM
Other	309	274	35	12.8 %
	2,667	2,227	440	19.8 %
Operating Income	$ 223	$ 157	$ 66	42.0 %

The variances in specific line items for the mainline segment are due to the same factors discussed under consolidated results of operations.

Regional. Significant components of our regional segment's operating results are as follows (in millions, except percentage changes):

	Three Months Ended June 30, 2006	2005	Increase (Decrease)	% Increase (Decrease)
Operating Revenue	$617	$473	$144	30.4 %
Operating Expenses:				
Wages, salaries and related costs	11	11	-	-
Regional capacity purchase, net	454	382	72	18.8 %
Aircraft rentals	78	71	7	9.9 %
Landing fees and other rentals	11	12	(1)	(8.3)%
Distribution costs	31	23	8	34.8 %
Depreciation and amortization	3	2	1	50.0 %
Passenger services	4	4	-	-
Other	4	6	(2)	(33.3)%
	596	511	85	16.6 %
Operating Income (Loss)	$ 21	$(38)	$ 59	NM

The reported results of our regional segment do not reflect the total contribution of the regional segment to our system-wide operations. The regional segment generates additional revenue for the mainline segment as it feeds traffic between smaller cities and our mainline hubs.

The variances in specific line items for the regional segment are due to the growth in our regional operations and reflect generally the same factors discussed under consolidated results of operations. ASMs for our regional operations increased by 11.5% in the second quarter of 2006 as compared to the second quarter of 2005.

Regional capacity purchase, net was higher due to increased flight activity at ExpressJet and higher fuel costs, partially offset by the higher number of regional jets leased by ExpressJet from us. The net amounts consist of the following (in millions, except percentage changes):

	Three Months Ended June 30, 2006	2005	Increase	% Increase
Capacity purchase expenses	$422	$388	$34	8.8%
Fuel and fuel taxes in excess of 71.2 cents per gallon cap	115	70	45	64.3%
Aircraft sublease income	(83)	(76)	7	9.2%
Regional capacity purchase, net	$454	$382	$72	18.8%

Comparison of Six Months Ended June 30, 2006 to Six Months Ended June 30, 2005

Consolidated Results of Operations

We recorded a consolidated net income of $132 million for the six months ended June 30, 2006 as compared to a consolidated net loss of $86 million for the six months ended June 30, 2005. Our net income for the six months ended June 30, 2006 includes a cumulative effect of change in accounting principle of $26 million related to our adoption of SFAS 123R effective January 1, 2006. See Note 4 in the Notes to Consolidated Financial Statements contained in Item 1 for a discussion of the impact of adopting this new standard. We consider the key measure of our performance to be operating income (loss), which was income of $255 million for the six months ended June 30, 2006, as compared to a loss of $54 million for the six months ended June 30, 2005. Significant components of our consolidated operating results are as follows (in millions, except percentage changes):

	Six Months Ended June 30,		Increase	% Increase
	2006	2005	(Decrease)	(Decrease)
Operating Revenue:				
Passenger	$5,911	$4,888	$1,023	20.9 %
Cargo	218	196	22	11.2 %
Other, net	324	278	46	16.5 %
	6,453	5,362	1,091	20.3 %
Operating Expenses:				
Aircraft fuel and related taxes	1,452	1,045	407	38.9 %
Wages, salaries and related costs	1,416	1,364	52	3.8 %
Regional capacity purchase, net	869	735	134	18.2 %
Aircraft rentals	493	455	38	8.4 %
Landing fees and other rentals	383	352	31	8.8 %
Distribution costs	338	291	47	16.2 %
Maintenance, materials and repairs	267	218	49	22.5 %
Depreciation and amortization	193	197	(4)	(2.0)%
Passenger services	171	162	9	5.6 %
Special charges	3	43	(40)	NM
Other	613	554	59	10.6 %
	6,198	5,416	782	14.4 %
Operating Income (Loss)	255	(54)	309	NM
Nonoperating Income (Expense)	(97)	(32)	65	NM
Income (Loss) before Income Taxes and Cumulative Effect of Change in Accounting Principle	158	(86)	244	NM
Income Taxes	-	-	-	-
Cumulative Effect of Change in Accounting Principle	(26)	-	(26)	NM
Net Income (Loss)	$ 132	$ (86)	$ 218	NM

Operating Revenue. Passenger revenue increased 20.9% due to increased capacity and traffic and higher fares. Consolidated revenue passenger miles for the first half of 2006 increased 13.8% year-over-year on a capacity increase of 10.8%, which produced a consolidated load factor for the first half of 2006 of 80.4%, up 2.1 points over the same period in 2005. Consolidated yield increased 6.2% year-over-year. Consolidated RASM for the six months ended June 30, 2006 increased 9.1% year-over-year due to higher yield and load factors. The improved RASM also reflects recent fuel driven fare increases and our actions taken to improve the mix of local versus flow traffic and reduce discounting.

The table below shows passenger revenue for the six months ended June 30, 2006 and period to period comparisons for passenger revenue, RASM and ASMs by geographic region for our mainline and regional operations:

	Passenger Revenue (in millions)	Percentage Increase in June 30, 2006 YTD vs June 30, 2005 YTD		
		Passenger Revenue	RASM	ASMs
Domestic	$2,718	16.2%	10.3%	5.3%
Trans-Atlantic	960	25.7%	3.7%	21.3%
Latin America	672	21.6%	7.1%	13.5%
Pacific	421	18.8%	3.5%	14.8%
Total Mainline	4,771	19.0%	7.6%	10.7%
Regional	1,140	29.8%	15.9%	12.0%
Total System	$5,911	20.9%	9.1%	10.8%

Cargo revenue increased 11.2% due to higher freight and mail volumes and increases in freight fuel charges. Other revenue increased due to higher revenue associated with sales of mileage credits in our OnePass frequent flyer program and passenger service fees.

Operating Expenses. Aircraft fuel and related taxes increased 38.9% due to a significant rise in fuel prices, combined with a 10.7% increase in mainline ASMs. The average jet fuel price per gallon including related taxes increased 28.5% to $2.01 in the first half of 2006 from $1.56 in the first half of 2005. Fuel expense was reduced by gains of approximately $8 million related to our fuel hedging program in the first half of 2006. We had no fuel hedges in place during 2005. Wages, salaries and related costs increased 3.8% primarily due to a $60 million increase in profit sharing expense, an increase in the average number of employees to support our growth and $32 million additional expense in 2006 related to stock options, Stock Price Based RSU Awards and Profit Based RSU Awards following the adoption of SFAS 123R, largely offset by pay and benefit reductions and work rule changes.

Expenses related to our capacity purchase agreements are reported in regional capacity purchase, net. Our most significant capacity purchase agreement is with ExpressJet. Regional capacity purchase, net includes all of ExpressJet's fuel expense plus a margin on ExpressJet's fuel expense up to a cap provided in the capacity purchase agreement and a related fuel purchase agreement (which margin applies only to the first 71.2 cents per gallon, including fuel taxes) and is net of our rental income on aircraft we lease to ExpressJet. The net expense was higher in the

first half of 2006 than in the corresponding six months of 2005 due to increased flight activity, a larger fleet at ExpressJet and increased fuel prices, offset in part by lower block hour rates.

Aircraft rentals increased due to new mainline and regional aircraft delivered in 2005 and 2006. Landing fees and other rentals were higher primarily due to increased flight activity. Distribution costs increased primarily due to higher credit card fees and reservation costs related to the increase in revenue. Maintenance, materials and repairs increased primarily due to higher contractual repair rates associated with a maturing fleet and increased flight hours. Other operating expenses increased primarily due to a higher number of international flights, which resulted in increased air navigation, ground handling, security and related expenses.

During the first half of 2006, we recorded settlement charges of $29 million related to lump sum distributions from our pilot-only defined benefit pension plan. Additionally, on February 1, 2006, our officers voluntarily surrendered their vested Stock Price Based RSU Awards with a performance period ending March 31, 2006, resulting in a $14 million reduction of special charges. The remaining balance of special charges recognized during the first half of 2006 is attributable to our permanently grounded MD-80 aircraft. We reduced our allowance for future lease payments and return conditions following negotiated settlements with aircraft lessors and adjusted the carrying amount of our remaining owned MD-80 aircraft to current fair value.

In March 2005, we recorded a $43 million non-cash curtailment charge relating to the freezing of the portion of our defined benefit pension plan attributable to pilots.

Nonoperating Income (Expense). Nonoperating income (expense) includes net interest expense (interest expense less interest income and capitalized interest), income from affiliates, and gains from dispositions of investments. Total nonoperating income (expense) was a net expense in the first half of both 2006 and 2005. The net expense increased $65 million in the first half of 2006 compared to the first half of 2005 primarily due to gains of $98 million in 2005 related to the contribution of 12.1 million shares of Holdings common stock to our primary defined benefit pension plan. Net interest expense decreased $30 million in 2006 primarily as a result of interest income on our higher cash balances. Income from affiliates, which includes income related to our tax sharing agreement with Holdings and our equity in the earnings of Copa and Holdings, was $6 million lower in 2006 as compared to 2005 as a result of our reduced ownership interest in Copa and Holdings and less income from our tax sharing agreement with Holdings.

Income Tax Benefit (Expense). Beginning in the first quarter of 2004, we concluded that we were required to provide a valuation allowance for deferred tax assets due to our continued losses and our determination that it was more likely than not that such deferred tax assets would ultimately not be realized. As a result, our losses subsequent to that point were not reduced by any tax benefit. Consequently, we also did not record any provision for income taxes on our pre-tax income for the first six months of 2006 because we utilized a portion of the operating loss carryforwards for which we had not previously recognized a benefit.

Segment Results of Operations

Mainline. Significant components of our mainline segment's operating results are as follows (in millions, except percentage changes):

	Six Months Ended June 30, 2006	2005	Increase (Decrease)	% Increase (Decrease)
Operating Revenue	$5,337	$4,505	$832	18.5 %
Operating Expenses:				
Aircraft fuel and related taxes	1,452	1,045	407	38.9 %
Wages, salaries and related costs	1,394	1,342	52	3.9 %
Aircraft rentals	339	315	24	7.6 %
Landing fees and other rentals	361	330	31	9.4 %
Distribution costs	281	246	35	14.2 %
Maintenance, materials and repairs	267	218	49	22.5 %
Depreciation and amortization	187	192	(5)	(2.6)%
Passenger services	163	155	8	5.2 %
Special charges	3	43	(40)	(93.0)%
Other	605	544	61	11.2 %
	5,052	4,430	622	14.0 %
Operating Income	$ 285	$ 75	$210	280.0 %

The variances in specific line items for the mainline segment are due to the same factors discussed under consolidated results of operations.

Regional. Significant components of our regional segment's operating results are as follows (in millions, except percentage changes):

	Six Months Ended June 30, 2006	2005	Increase (Decrease)	% Increase (Decrease)
Operating Revenue	$1,116	$857	$259	30.2 %
Operating Expenses:				
Wages, salaries and related costs	22	22	-	-
Regional capacity purchase, net	869	735	134	18.2 %
Aircraft rentals	154	140	14	10.0 %
Landing fees and other rentals	22	22	-	-
Distribution costs	57	45	12	26.7 %
Depreciation and amortization	6	5	1	20.0 %
Passenger services	8	7	1	14.3 %
Other	8	10	(2)	(20.0)%
	1,146	986	160	16.2 %
Operating Loss	$ (30)	$(129)	$ 99	(76.7)%

The reported results of our regional segment do not reflect the total contribution of the regional segment to our system-wide operations. The regional segment generates additional

revenue for the mainline segment as it feeds traffic between smaller cities and our mainline hubs.

The variances in specific line items for the regional segment are due to the growth in our regional operations and reflect generally the same factors discussed under consolidated results of operations. ASMs for our regional operations increased by 12.0% in the first half of 2006 as compared to the first half of 2005.

Regional capacity purchase, net was higher due to increased flight activity at ExpressJet and higher fuel costs, partially offset by the higher number of regional jets leased by ExpressJet from us. The net amounts consist of the following (in millions, except percentage changes):

	Six Months Ended June 30,			
	2006	2005	Increase	% Increase
Capacity purchase expenses	$829	$763	$ 66	8.7%
Fuel and fuel taxes in excess of 71.2 cents per gallon cap	205	123	82	66.7%
Aircraft sublease income	(165)	(151)	14	9.3%
Regional capacity purchase, net	$869	$ 735	$134	18.2%

Statistical Information.

	Three Months Ended June 30,		Net
	2006	2005	Increase
Mainline Operations:			
Passengers (thousands) (1)	12,746	11,465	11.2%
Revenue passenger miles (millions) (2)	20,633	18,046	14.3%
Available seat miles (millions) (3)	24,885	22,456	10.8%
Cargo ton miles (millions)	263	237	11.0%
Passenger load factor (4)	82.9%	80.4%	2.5 pts.
Passenger revenue per available seat mile (cents)	10.44	9.52	9.7%
Total revenue per available seat mile (cents)	11.61	10.62	9.3%
Average yield per revenue passenger mile (cents) (5)	12.59	11.84	6.3%
Average segment fare per revenue passenger	$206.33	$189.18	9.1%
Cost per available seat mile, including special charges (cents) (6)	10.72	9.92	8.1%
Average price per gallon of fuel, including fuel taxes (cents)	210.95	166.95	26.4%
Fuel gallons consumed (millions)	375	344	9.0%
Actual aircraft in fleet at end of period (7)	360	348	3.4%
Average length of aircraft flight (miles)	1,435	1,374	4.4%
Average daily utilization of each aircraft (hours) (8)	11:23	10:37	7.3%
Regional Operations:			
Passengers (thousands) (1)	4,850	4,075	19.0%
Revenue passenger miles (millions) (2)	2,734	2,246	21.7%
Available seat miles (millions) (3)	3,374	3,026	11.5%
Passenger load factor (4)	81.0%	74.2%	6.8 pts.
Passenger revenue per available seat mile (cents)	18.66	16.00	16.6%
Average yield per revenue passenger mile (cents) (5)	23.03	21.56	6.8%
Actual aircraft in fleet at end of period (7)	274	256	7.0%
Consolidated Operations (Mainline and Regional):			
Passengers (thousands) (1)	17,596	15,540	13.2%
Revenue passenger miles (millions) (2)	23,367	20,292	15.2%
Available seat miles (millions) (3)	28,259	25,482	10.9%
Passenger load factor (4)	82.7%	79.6%	3.1 pts.
Passenger revenue per available seat mile (cents)	11.42	10.29	11.0%
Average yield per revenue passenger mile (cents) (5)	13.81	12.92	6.9%

(continued on next page)

	Six Months Ended June 30,		Net
	2006	2005	Increase
Mainline Operations:			
Passengers (thousands) (1)	24,232	22,063	9.8%
Revenue passenger miles (millions) (2)	38,651	34,205	13.0%
Available seat miles (millions) (3)	47,919	43,301	10.7%
Cargo ton miles (millions)	525	497	5.6%
Passenger load factor (4)	80.7%	79.0%	1.7 pts.
Passenger revenue per available seat mile (cents)	9.96	9.26	7.6%
Total revenue per available seat mile (cents)	11.14	10.40	7.1%
Average yield per revenue passenger mile (cents) (5)	12.34	11.72	5.3%
Average segment fare per revenue passenger	$199.19	$184.54	7.9%
Cost per available seat mile, including special charges (cents) (6)	10.54	10.23	3.0%
Average price per gallon of fuel, including fuel taxes (cents)	201.09	156.46	28.5%
Fuel gallons consumed (millions)	722	668	8.1%
Actual aircraft in fleet at end of period (7)	360	348	3.4%
Average length of aircraft flight (miles)	1,418	1,362	4.1%
Average daily utilization of each aircraft (hours) (8)	11:03	10:23	6.5%
Regional Operations:			
Passengers (thousands) (1)	8,958	7,598	17.9%
Revenue passenger miles (millions) (2)	5,052	4,198	20.3%
Available seat miles (millions) (3)	6,456	5,766	12.0%
Passenger load factor (4)	78.3%	72.8%	5.5 pts.
Passenger revenue per available seat mile (cents)	17.65	15.23	15.9%
Average yield per revenue passenger mile (cents) (5)	22.56	20.91	7.9%
Actual aircraft in fleet at end of period (7)	274	256	7.0%
Consolidated Operations (Mainline and Regional):			
Passengers (thousands) (1)	33,190	29,661	11.9%
Revenue passenger miles (millions) (2)	43,703	38,403	13.8%
Available seat miles (millions) (3)	54,375	49,067	10.8%
Passenger load factor (4)	80.4%	78.3%	2.1 pts.
Passenger revenue per available seat mile (cents)	10.87	9.96	9.1%
Average yield per revenue passenger mile (cents) (5)	13.52	12.73	6.2%

(1) Revenue passengers measured by each flight segment flown.
(2) The number of scheduled miles flown by revenue passengers.
(3) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
(4) Revenue passenger miles divided by available seat miles.
(5) The average passenger revenue received for each revenue passenger mile flown.
(6) Includes special charges which represented 0.04 cents per available seat mile for the three months ended June 30, 2006, 0.01 cents for the six months ended June 30, 2006 and 0.10 cents for the six months ended June 30, 2005.
(7) Excludes aircraft that have been removed from service.
(8) The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2006, we had $2.7 billion in consolidated cash, cash equivalents and short-term investments, which is $522 million higher than at December 31, 2005. Included in this amount at June 30, 2006 is $248 million of restricted cash, which is primarily collateral for estimated future workers' compensation claims, credit card processing contracts, letters of credit and performance bonds. Restricted cash at December 31, 2005 totaled $241 million.

Operating Activities. Cash flows provided by operations for the six months ended June 30, 2006 were $984 million compared to $530 million in the same period in 2005. The increase in cash flows provided by operations in 2006 compared to 2005 is primarily the result of an improvement in operating income and advance ticket sales associated with increased flight activity, partially offset by $47 million higher contributions to our defined benefit pension plans in the first six months of 2006 than in the first six months of 2005.

Investing Activities. Cash flows used in investing activities were $329 million for the six months ended June 30, 2006 compared to cash flows used investing activities of $51 million for the six months ended June 30, 2005. Capital expenditures for the six months ended June 30, 2006 were $85 million higher than in the first six months of 2005. Cash used for purchase deposits increased $50 million related to deposits on Boeing aircraft. A significant component of cash provided by investing activities in the first six months of 2005 was our conversion of certain short-term auction rate certificates into short-term cash equivalents.

We have substantial commitments for capital expenditures, including for the acquisition of new aircraft. On June 6, 2006, we announced that we had ordered ten additional Boeing 787 aircraft and 24 additional Next-Generation 737 aircraft. Net capital expenditures for the full year 2006 are expected to be $340 million, or $405 million after considering purchase deposits to be paid, net of purchase deposits to be refunded. Projected net capital expenditures for 2006 consist of $180 million of fleet expenditures, $100 million of non-fleet expenditures and $60 million for rotable parts and capitalized interest. Through June 30, 2006, our net capital expenditures totaled $163 million and net purchase deposits paid totaled $128 million.

On July 5, 2006, we sold 7.5 million shares of Copa's Class A common stock for $156 million in cash, net of underwriting fees. This sale reduced our ownership to 4.4 million shares, which represents a 10% interest. We will recognize a gain of $92 million in the third quarter of 2006 related to this transaction.

Financing Activities. Cash flows used in financing activities, primarily the payment of long-term debt and capital lease obligations, were $176 million for the six months ended June 30, 2006 compared to cash flows provided by financing activities of $212 million in the six months ended June 30, 2005.

In March 2006, we elected to pre-pay $96 million of debt due in early 2007. This debt had an interest rate of LIBOR plus 4.53%.

In June 2006, we refinanced our $195 million Floating Rate Secured Notes due December 2007 and $97 million Floating Rate Secured Subordinated Notes due December 2007 by redeeming these notes with proceeds that we received from issuing two new series of

equipment notes. The new notes total $320 million principal amount and mature in June 2013. Similar to the refinanced notes, the new notes are secured by the majority of our spare parts inventory. A portion of the spare parts inventory that serves as collateral for the new equipment notes is classified as property and equipment and the remainder is classified as spare parts and supplies, net.

The new series of senior equipment notes, which totaled $190 million principal amount, bears interest at the three-month London Interbank Offered Rate, or LIBOR, plus 0.35% for an initial coupon of 5.63%. The new series of junior equipment notes, which totaled $130 million principal amount, bears interest at the three-month LIBOR plus 3.125% for an initial coupon of 8.41%. The effect of the issuance of the new equipment notes and the redemption of the previously issued notes was to lower the interest rate that we pay on the indebtedness by approximately 55 basis points in the case of the senior notes and 438 basis points in the case of the junior notes, to increase the cash raised and principal amount by $28 million and to extend the maturity date of the indebtedness by five and a half years.

In connection with these equipment notes, we entered into a collateral maintenance agreement requiring us, among other things, to maintain a loan-to-collateral value ratio of not greater than 45% with respect to the senior series of equipment notes and a loan-to-collateral value ratio of not greater than 75% with respect to both series of notes combined. We must also maintain a certain level of rotable components within the spare parts collateral pool. These ratios are calculated semi-annually based on an independent appraisal of the spare parts collateral pool. If any of the collateral ratio requirements are not met, we must take action to meet all ratio requirements by adding additional eligible spare parts to the collateral pool, redeeming a portion of the outstanding notes, providing other collateral acceptable to the bond insurance policy provider for the senior series of equipment notes or any combination of the above actions.

We have entered into agreements to finance the six 737-800 aircraft to be delivered in the remainder 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 June 30, 2006, we had approximately $5.4 billion (including current maturities) of long-term debt and capital lease obligations. We do not currently have any undrawn lines of credit or revolving credit facilities and substantially all of our otherwise readily financeable assets are encumbered. However, our remaining interests in Copa and Holdings are not pledged as collateral under any of our debt. We were in compliance with all debt covenants at June 30, 2006.

On July 1, 2006, our 5% Convertible Notes due 2023 with a principal amount of $175 million became convertible into shares of our common stock at a conversion price of $20 per share following the satisfaction of one of the conditions to convertibility. This condition, which was satisfied on June 30, 2006, provided that the notes would become convertible once the closing price of our common stock exceeded $24 per share (120% of the $20 per share

conversion price) for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of a fiscal quarter. All or a portion of the notes are also redeemable for cash at our option on or after June 18, 2010 at par plus accrued and unpaid interest, if any. Holders of the notes may require us to repurchase all or a portion of their notes at par plus accrued and unpaid interest, if any, on June 15 of 2010, 2013 or 2018, or in the event of certain changes in control.

At June 30, 2006, our senior unsecured debt ratings were Caa2 by Moody's and CCC+ by Standard & Poor's. Reductions in our credit ratings have increased the interest we pay on new issuances of debt and 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 $115 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 $27 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.

We and our wholly-owned subsidiaries AMI and CMI have loans under a $350 million secured loan facility. The loans are secured by certain of our U.S.-Asia routes and related assets, all of the outstanding common stock of AMI and CMI and substantially all of the other assets of AMI and CMI, including route authorities and related assets. The loan documents require us to maintain a minimum balance of unrestricted cash and short-term investments of $1.0 billion at the end of each month. The loans may become due and payable immediately if we fail to maintain the monthly minimum cash balance and upon the occurrence of other customary events of default under the loan documents. If we fail to maintain a minimum balance of unrestricted cash and short-term investments of $1.125 billion, we and CMI will be required to make a mandatory aggregate $50 million prepayment of the loans.

In addition, if the ratio of the outstanding loan balance to the value of the collateral securing the loans, as determined by the most recently delivered periodic appraisal, is greater than 52.5% through October 2, 2006 and 48% thereafter, we and CMI will be required to post additional collateral or prepay the loans to reestablish a loan-to-collateral value ratio of not greater than the loan-to-collateral value ratio permitted on the date of determination. We are currently in compliance with these covenants. However, on or prior to October 3, 2006, in order to satisfy the 48% loan-to-collateral value ratio on such date, we will be required to post additional non-cash collateral in an amount not less than $60 million, prepay loans or post cash collateral in an amount not less than $29 million or a combination thereof.

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 $560 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 secured loan facility, resulting in a default under such facility.

On April 10, 2006, we filed an automatically effective universal shelf registration statement covering the sale from time to time of our securities in one or more public offerings. The securities offered might include debt securities, including pass-through certificates, shares of common stock, shares of preferred stock and securities exercisable for, or convertible into, shares of common stock, such as stock purchase contracts, warrants or subscription rights, among others. Proceeds from any sale of securities under this registration statement other than pass-through certificates would likely be used for general corporate purposes, including the repayment of debt, the funding of pension obligations and working capital requirements, whereas proceeds from the issuance of pass-through certificates would be used to finance or refinance aircraft and related equipment.

We have utilized proceeds from the issuance of pass-through certificates to finance the acquisition of 250 leased and owned mainline jet aircraft. Typically, these pass-through certificates, as well as separate financings secured by aircraft spare parts and spare engines, contain liquidity facilities whereby a third party agrees to make payments sufficient to pay at least 18 months of interest on the applicable certificates if a payment default occurs. The liquidity providers for these certificates include the following: CALYON New York Branch, Landesbank Hessen-Thuringen Girozentrale, Morgan Stanley Capital Services, Morgan Stanley Bank, Westdeutsche Landesbank Girozentrale, AIG Matched Funding Corp., ABN AMRO Bank N.V., Credit Suisse First Boston, Caisse des Depots et Consignations, Bayerische Landesbank Girozentrale, ING Bank N.V. and De Nationale Investeringsbank N.V.

We are also the issuer of pass-through certificates secured by 130 leased regional jet aircraft currently operated by ExpressJet. The liquidity providers for these certificates include the following: ABN AMRO Bank N.V., Chicago Branch, Citibank N.A., Citicorp North America, Inc., Landesbank Baden-Wurttemberg, RZB Finance LLC and WestLB AG, New York Branch.

We currently utilize policy providers to provide credit support on three separate financings with an outstanding principal balance of $511 million at June 30, 2006. The policy providers have unconditionally guaranteed the payment of interest on the notes when due and the payment of principal on the notes no later than 24 months after the final scheduled payment date. Policy providers on these notes are Ambac Assurance Corporation (a subsidiary of Ambac Financial Group, Inc.) and Financial Guaranty Insurance Company (a subsidiary of FGIC). Financial information for the parent company of Ambac Assurance Corporation is available over the internet at the SEC's website at *http://www.sec.*gov or at the SEC's public reference room in Washington, D.C. and financial information for FGIC is available over the internet at *http://www.fgic.com*. A policy provider is also used as credit support for the financing of certain facilities at Bush Intercontinental, currently subject to a sublease by us to the City of Houston, with an outstanding balance of $57 million at June 30, 2006.

Pension Plans. We have noncontributory defined benefit pension plans in which substantially all of our U.S. employees participate, other than Chelsea Food Services and CMI employees. Future benefit accruals for our pilots under the pilot-only defined benefit pension plan ceased as of May 31, 2005. Funding requirements for defined benefit pension plans are

determined by government regulations. During the first six months of 2006, we contributed $97 million to our defined benefit pension plans. We contributed an additional $75 million to these plans in July 2006. Including these contributions, based on current assumptions and applicable law, we expect to contribute a total of $258 million to our defined benefit pension plans in 2006 to meet our minimum funding obligations.

OUTLOOK

Capacity Purchase Agreement. Our capacity purchase agreement with ExpressJet covers all of ExpressJet's existing fleet. Under the agreement, we have the right to give no less than twelve months' notice to ExpressJet of our intent to reduce the number of its aircraft covered by the contract. In December 2005, we gave notice to ExpressJet that we would withdraw 69 of the 274 regional jet aircraft from the capacity purchase agreement because we believe the rates charged by ExpressJet for regional capacity are above the current market. The withdrawals are scheduled to begin in December 2006 and be completed during the summer of 2007. On May 5, 2006, ExpressJet notified us that it intends to keep all of the 69 regional jets covered by our withdrawal notice, as permitted by the capacity purchase agreement. Accordingly, ExpressJet must retain each of those 69 regional jets for the remaining term of the applicable underlying aircraft lease and, as each aircraft is withdrawn from the capacity purchase agreement, the implicit interest rate used to calculate the scheduled lease payments that ExpressJet will make to us under the applicable aircraft sublease will automatically increase by 200 basis points to compensate us for our continued participation in ExpressJet's lease financing arrangements.

Under our capacity purchase agreement with ExpressJet, ExpressJet has the option to (1) fly any of the withdrawn aircraft it retains for another airline (subject to its ability to obtain facilities, such as gates, ticket counters, hold rooms and other operations-related facilities, and subject to its arrangement with us that prohibits ExpressJet from flying under its or another carrier's code in or out of our hub airports during the term of the agreement), or (2) fly any of the withdrawn aircraft it retains under ExpressJet's own flight designator code, subject to its ability to obtain facilities and subject to ExpressJet's arrangement with us respecting our hubs. So long as we are ExpressJet's largest customer, if ExpressJet enters into an agreement with another major carrier (as defined in our capacity purchase agreement) to provide regional airline services on a capacity purchase or other similar economic basis for more than ten aircraft, we are entitled to the same or comparable economic terms and conditions on a most-favored-nations basis.

As we have reviewed our options for replacing these aircraft, we have evaluated the size of our overall regional network and expect to reduce capacity in unprofitable markets. On July 21, 2006, we announced our selection of Chautauqua Airlines, Inc. to provide and operate 44 regional jets as a Continental Express carrier beginning in 2007, under a new capacity purchase agreement. Chautauqua, a subsidiary of Republic Airways Holdings Inc., will operate 50-seat regional jets on our behalf, under the Continental Express brand. We will continue to schedule and market all of our Continental Express regional jet service. Our agreement with Chautauqua calls for us to pay a fixed fee to Chautauqua, which is subject to specified reconciliations and annual escalations, for their operation of the aircraft. Chautauqua will supply the 44 aircraft that it will operate under the agreement. The agreement has a five year term with respect to ten aircraft and an average term of 2.5 years for the balance of the aircraft. In addition, we have the right to extend the agreement with respect to any of the aircraft on the same terms for five one-year terms. In the case of up to 24 of the aircraft, this right will be subject to the terms of the

related aircraft lease. We currently have no plans to replace 25 of the 69 50-seat regional jets retained by ExpressJet.

We anticipate that the reduced costs for the regional capacity that will be operated by Chautauqua, together with the elimination of unprofitable routes due to the reduced number of regional aircraft and the increased income from ExpressJet for higher lease rates to be paid to us on the 69 retained aircraft, will result in a net benefit to us of over $100 million annually on a run-rate basis.

Capacity Growth. Other than the 44 replacement regional jet aircraft that Chautauqua will provide and operate to partially replace the 69 withdrawn ExpressJet aircraft and two Boeing 777 aircraft that we will take delivery of in early 2007, we will not take any new aircraft deliveries in 2007. As a result, we anticipate growing our mainline capacity approximately 5% and our consolidated capacity between 3% and 4% in 2007.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our 2005 Form 10-K except as follows:

Foreign Currency. We had forward contracts outstanding at June 30, 2006 to hedge the following cash flows for the remainder of 2006:

- Approximately 20% of our projected British pound-denominated cash flows.
- Approximately 9% of our projected Japanese yen-denominated cash flows.
- Approximately 77% of our projected Canadian dollar-denominated cash flows.

We estimate that at June 30, 2006, a 10% strengthening in the value of the U.S. dollar relative to the British pound, Japanese yen, and Canadian dollar would have increased the fair value of the existing forward contracts by $1 million, $2 million and $2 million, respectively, offset by a corresponding loss on the underlying 2006 exposure of $9 million, $13 million and $4 million, respectively, resulting in net losses of $8 million, $11 million and $2 million, respectively.

Aircraft Fuel. Historically, we have from time to time entered 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.

Beginning in the first quarter of 2006, we modified our hedging strategy to hedge in a manner that better matches our hedged fuel costs with passenger tickets already sold. As part of our strategy, we take into account the volume and date of flight for the tickets sold comprising our current air traffic liability, the amount of jet fuel that has been delivered or we have under contract and the volume of fuel required by us with respect to tickets already sold. We then construct a hedge position that is designed to better hedge fuel prices with respect to tickets already sold, with respect to which we can no longer adjust our pricing. Implicit in this strategy is our belief that, as to tickets not yet sold, the market will be efficient and that fare levels will adjust to keep pace with fuel costs.

As of June 30, 2006, we had hedged approximately 29% of our projected fuel requirements for the third quarter of 2006 and 8% of our projected fuel requirements for the fourth quarter of 2006 using petroleum swap contracts with a weighted average swap price of $72.80 per barrel. The fair value of the petroleum swap contracts outstanding at June 30, 2006 was $9 million, which is included in prepayments and other current assets in our consolidated balance sheet. We estimate that a 10% increase in the price per barrel of crude oil at June 30, 2006 would increase the fair value of petroleum swap contracts outstanding at June 30, 2006 by $30 million.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer performed an evaluation of our disclosure controls and procedures,

which have been designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. They concluded that the controls and procedures were effective as of June 30, 2006 to provide reasonable assurance that the information required to be disclosed by the Company in reports it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. While our disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well it may be designed or administered.

Changes in Internal Controls. There was no change in our internal control over financial reporting during the quarter ended June 30, 2006, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

During the period between 1997 and 2001, we reduced or capped the base commissions that we paid to travel agents, and in 2002 we eliminated such base commissions. These actions were similar to those also taken by other air carriers. We are now a defendant, along with several other air carriers, in two lawsuits brought by travel agencies that purportedly opted out of a prior class action entitled Sarah Futch Hall d/b/a/ Travel Specialists v. United Air Lines, et al. (U.S.D.C., Eastern District of North Carolina), filed on June 21, 2000, in which the defendant airlines prevailed on summary judgment that was upheld on appeal. These similar suits against Continental and other major carriers allege violations of antitrust laws in reducing and ultimately eliminating the base commission formerly paid to travel agents. The pending cases are Tam Travel, Inc. v. Delta Air Lines, Inc., et al. (U.S.D.C., Northern District of California), filed on April 9, 2003 and Swope Travel Agency, et al. v. Orbitz LLC et al. (U.S.D.C., Eastern District of Texas), filed on June 5, 2003. By order dated November 10, 2003, these actions were transferred and consolidated for pretrial purposes by the Judicial Panel on Multidistrict Litigation to the Northern District of Ohio. Discovery has commenced.

In each of the foregoing cases, we believe the plaintiffs' claims are without merit and we are vigorously defending the lawsuits. Nevertheless, a final adverse court decision awarding substantial money damages could have a material adverse impact on our results of operations, financial condition or liquidity.

Item 1A. Risk Factors

Item 1A. "Risk Factors" of our 2005 Form 10-K includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our 2005 Form 10-K.

The airline industry is highly competitive and susceptible to price discounting and fluctuations in passenger demand. 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. We are responding vigorously to this challenge, but have experienced 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 aggressive plans to expand into international markets, including some destinations that we currently serve. The increased competition in these international markets, particularly to the extent our competitors engage in price discounting, 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.

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 regarding strategic alternatives. The impact of any consolidation within the U.S. airline industry cannot be predicted at this time.

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 is scheduled to expire in September 2006. We are currently in negotiations with the operator of the fourth major GDS,

and we have not yet been able to reach a content agreement on terms that are acceptable to us. If we are unable to reach agreement with the operator of the fourth GDS, it is possible that our flights would not be available for sale through that GDS. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

Continental's Annual Meeting of Stockholders was held on June 6, 2006. The following individuals were elected to Continental's Board of Directors to hold office for the ensuing year:

NOMINEE	VOTES FOR	VOTES WITHHELD
Thomas J. Barrack, Jr.	66,295,605	7,256,936
Kirbyjon H. Caldwell	67,178,104	6,374,437
Lawrence W. Kellner	66,989,540	6,563,001
Douglas H. McCorkindale	66,976,364	6,576,177
Henry L. Meyer III	66,339,582	7,212,959
Oscar Munoz	67,853,627	5,698,914
George G. C. Parker	67,804,261	5,748,280
Jeffery A. Smisek	66,989,954	6,562,587
Karen Hastie Williams	65,932,367	7,620,174
Ronald B. Woodard	67,235,135	6,317,406
Charles A. Yamarone	67,127,529	6,425,012

A proposal to amend our Amended and Restated Certificate of Incorporation to increase the authorized Class B common stock was voted on by the stockholders as follows:

VOTES FOR	VOTES AGAINST	VOTES ABSTAINING
55,144,546	18,314,889	87,105

A proposal to amend our Incentive Plan 2000 to increase the number of shares of Class B common stock issuable under the plan was voted on by the stockholders as follows:

VOTES FOR	VOTES AGAINST	VOTES ABSTAINING
30,849,597	25,661,744	91,288

A proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2006 was voted on by the stockholders as follows:

VOTES FOR	VOTES AGAINST	VOTES ABSTAINING
73,129,381	351,416	65,743

A proposal of stockholder regarding our political activities was voted on by the stockholders as follows:

VOTES FOR	VOTES AGAINST	VOTES ABSTAINING
3,246,842	35,923,656	17,430,132

Item 5. Other Information.

On July 18, 2006, we entered into a senior loan finance agreement with a syndicate of commercial banks and a subordinated loan finance agreement with a financial institution to provide for an aggregate of $394 million in debt financing for the six Boeing 737-800 aircraft to be delivered to us in the second half of 2006 and the two Boeing 777-200ER aircraft expected to be delivered to us in the first half of 2007. The loans will be funded as each aircraft delivers in accordance with two separate loan agreements for each aircraft and the loans will be secured by a mortgage and security agreement covering each of the financed aircraft. The first such loan funded on July 18, 2006 in conjunction with the delivery of a Boeing 737-800 aircraft. All of the senior loans for all of the Boeing 737-800 aircraft will mature in July 2018 and all of the senior loans for the Boeing 777-200ER aircraft will mature in January 2019. All of the subordinated loans for all of the aircraft will have a term of approximately seven years. The interest rate on the loans generally will be the London Interbank Offered Rate, known as LIBOR, plus a blended margin of approximately 1.9% per annum. Each senior loan agreement for a particular aircraft will contain cross default provisions to the subordinated loan agreement for that particular aircraft as well as to the senior loan agreements for the other aircraft, and each subordinated loan agreement will contain similar cross default provisions. In addition, the loans will be cross collateralized. The loan agreements will contain customary events of default and remedies provisions for transactions of this nature, including provisions that entitle lenders to accelerate their loans if we, among other things, fail to make scheduled payments of principal and interest after designated grace periods or if we file for bankruptcy.

Item 6. Exhibits.

3.1	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Continental - incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 8-A/A filed July 5, 2006.
10.1*	Second Amendment to Continental's Incentive Plan 2000.
10.2	Amendment No. 1, dated May 30, 2006, to Credit and Guaranty Agreement, dated as of June 1, 2005, among Continental and Continental Micronesia, Inc., as borrowers and guarantors, Air Micronesia, Inc., as a guarantor, Merrill Lynch Mortgage Capital Inc., as administrative agent, and the lenders party thereto.
10.3	Supplemental Agreement No. 38, dated June 6, 2006, to Purchase Agreement No. 1951 between Continental and The Boeing Company ("Boeing"), dated July 23, 1996, relating to the purchase of Boeing 737 aircraft. (1)
10.4	Supplemental Agreement No. 3, dated May 3, 2006, to Purchase Agreement No. 2484 between Continental and Boeing, dated December 29, 2004, relating to the purchase of Boeing 787 aircraft. (1)
10.5	Fifth Amendment, dated April 14, 2006, to Amended and Restated Capacity Purchase Agreement among Continental, ExpressJet Holdings, Inc., XJT Holdings, Inc. and ExpressJet Airlines, Inc. dated April 17, 2002. (1)
31.1	Rule 13a-14 (a)/15d-14 (a) Certification of Chief Executive Officer.
31.2	Rule 13a-14 (a)/15d-14 (a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications.

*This exhibit relates to management contracts or compensatory plans or arrangements.

(1) Continental has applied to the Commission for confidential treatment of a portion of this exhibit.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONTINENTAL AIRLINES, INC.
Registrant

Date: July 21, 2006

by: /s/ Jeffrey J. Misner
Jeffrey J. Misner
Executive Vice President and
Chief Financial Officer
(On behalf of Registrant)

Date: July 21, 2006

by: /s/ Chris Kenny
Chris Kenny
Vice President and Controller
(Principal Accounting Officer)

INDEX TO EXHIBITS
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BALANCE DE CONTINENTAL AL 30/06/2006 COMPARADA CON LA DEL 30/09/2001 y 31/12/2000 (en miles de millones de USD)

ACTIVO	Al 30/06/2006	Al 30/09/2001	Al 31/12/2000	Variación 2000/2001	%	Variación 2001/2006	%
Activo circulante							
Efectivo y equivalentes de efectivo	$ 2,202	$ 1,201	$ 1,371	-$ 170	-12%	$ 1,001	83%
Inversiones a corto plazo	$ 518	$ -	$ 24	-$ 24	-100%	$ 518	0%
Cuentas por cobrar, neto	$ 687	$ 455	$ 495	-$ 40	-8%	$ 232	51%
Partes de refacción y suministros, neto	$ 208	$ 290	$ 280	$ 10	4%	-$ 82	-28%
Otros	$ 632	$ 306	$ 289	$ 17	6%	$ 326	107%
Total Activo circulante	$ 4,247	$ 2,252	$ 2,459	-$ 207	-8%	$ 1,995	89%
Total de propiedad y equipo	$ 6,178	$ 6,063	$ 5,163	$ 900	17%	$ 115	2%
Rutas, puertas de abordar y espacios, neto	$ 484	$ 1,048	$ 1,081	-$ 33	-3%	-$ 564	-54%
Otros conceptos de activo, neto	$ 537	$ 453	$ 498	-$ 45	-9%	$ 84	19%
TOTAL DE ACTIVO	**$ 11,446**	**$ 9,816**	**$ 9,201**	$ 615	7%	$ 1,630	17%
PASIVO Y CAPITAL CONTABLE DE ACCIONISTAS							
Pasivo circulante (obligaciones actuales o a corto plazo)							
Vencimientos actuales de deuda a largo plazo y de arriendo de capital	$ 766	$ 349	$ 304	$ 45	15%	$ 417	119%
Cuentas por pagar	$ 1,084	$ 988	$ 1,016	-$ 28	-3%	$ 96	10%
Deuda de tráfico aéreo	$ 2,104	$ 1,124	$ 1,125	-$ 1	0%	$ 980	87%
Otras deudas acumuladas	$ 533	$ 623	$ 535	$ 88	16%	-$ 90	-14%
Total de pasivo circulante	$ 4,487	$ 3,084	$ 2,980	$ 104	3%	$ 1,403	45%
Deuda a largo plazo y de arriendo de capital	$ 4,626	$ 4,092	$ 3,374	$ 718	21%	$ 534	13%
Otras obligaciones a largo plazo	$ 1,749	$ 1,145	$ 995	$ 150	15%	$ 604	53%
Valores preferentes obligatoriamente redimibles de deuda de Continental de fideicomiso subsidiario retendor de obligaciones subordinadas únicamente convertibles (en acciones)	$ -	$ 243	$ 242	$ 1	0%	-$ 243	-100%
Acciones comunes redimibles	$ -	$ -	$ 450	-$ 450	-100%	$ -	0%
Capital contable de los accionistas				$ -	0%	$ -	0%
Acciones preferentes	$ -	$ -	$ -	$ -	0%	$ -	0%
Acciones comunes clase A	$ -	$ -	$ -	$ -	0%	$ -	0%
Acciones comunes clase B	$ 1	$ 1	$ 1	$ -	0%	$ -	0%
Capital adicional pagado	$ 1,693	$ 885	$ 379	$ 506	134%	$ 808	91%
Ganancias retenidas	$ 538	$ 1,510	$ 1,456	$ 54	4%	-$ 972	-64%
Otros ingresos (pérdidas) amplios (as) acumulados (as)	-$ 507	-$ 4	$ 13	-$ 17	-131%	-$ 503	12575%
Acciones de tesorería	-$ 1,141	-$ 1,140	-$ 689	-$ 451	65%	-$ 1	0%
Total de capital contable de los accionistas	$ 584	$ 1,252	$ 1,160	$ 92	8%	-$ 668	-53%
TOTAL DE PASIVO Y CAPITAL CONTABLE DE LOS ACCIONISTAS	**$ 11,446**	**$ 9,816**	**$ 9,201**	$ 615	7%	$ 1,630	17%

AVISO IMPORTANTE

Por orden del Departamento de Seguridad de los Estados Unidos,
a través de la Administración de Seguridad de Transporte “TSA”

LOS PASAJEROS NO PUEDEN LLEVAR LÍQUIDOS Ó GEL DE CUALQUIER TIPO O TAMAÑO, A PARTIR DEL PUNTO DE REVISIÓN DE SEGURIDAD PARA INGRESO A SALAS DE ABORDAJE O EN LA CABINA DEL AVIÓN

Incluye Bebidas, Shampoo, Jabón, Protector solar, Cremas, Pasta dental, Gel para cabello y otros artículos de consistencia similar deberán transportarse en el equipaje documentado.

Los pasajeros podrán llevar - Leche preparada para infantes, Leche maternizada o Jugo en caso de que este viajando un infante o menor de edad. La medicina de prescripción siempre que este viajando el pasajero a quien se le receto, así como Insulina y otras medicinas esenciales para el pasajero, aun y cuando no tengan prescripción medica

Las bebidas compradas en establecimientos dentro de las salas de espera, deberán consumirse antes de abordar el avión.

IMPORTANT NOTICE

By Order of the Department of Homeland Security
Transportation Security Administration “TSA”

PASSENGERS MAY NOT HAVE LIQUIDS OR GELS OF ANY SIZE AT THE SCREENING CHECKPOINT OR IN THE CABIN OF THE AIRCRAFT

Including beverages, shampoo, suntan lotion, creams, toothpaste, hair gel, and other items of similar consistency Such items may be transported in checked baggage

Passengers may have – Baby formula, breast milk, or juice if a baby or small child is travelling. Prescription medicine with a name that matches the passenger's ticket. Insulin and essential other non-prescription medicines.

Beverages purchased in the sterile area must be consumed before boarding the aircraft.