OVERSIGHT HEARING ON EFFECT OF BANKRUPTCY ACTIONS ON THE STABILITY OF LABOR-MANAGEMENT RELATIONS AND THE PRESERVATION OF LABOR STANDARDS

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
LABOR-MANAGEMENT RELATIONS

AND

SUBCOMMITTEE ON LABOR STANDARDS

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

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OVERSIGHT HEARING ON EFFECT OF BANKRUPTCY ACTIONS ON THE STABILITY OF LABOR-MANAGEMENT RELATIONS AND THE PRESERVATION OF LABOR STANDARDS

WEDNESDAY, OCTOBER 5, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LABOR-MANAGEMENT RELATIONS,
SUBCOMMITTEE ON LABOR STANDARDS,
COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittees met in joint session, pursuant to call, at 9:30 a.m., in room 2261, Rayburn House Office Building, Hon. William (Bill) Clay (chairman of the Subcommittee on Labor-Management Relations) and Hon. George Miller (chairman of the Subcommittee on Labor Standards) presiding.

Members present: Representatives Clay, Miller, Erlenborn, Roukema, Bartlett, and Packard.

Staff present: Frederick L. Feinstein, staff director-counsel, Subcommittee on Labor-Management Relations; Michael L. Goldberg, counsel, Subcommittee on Labor Standards; and Daniel V. Yager, Republican assistant labor counsel.

Mr. CLAY. The subcommittees will come to order.

It is undeniable that bankruptcies are increasingly playing a major role in labor-management relations, not only in the airline industry but in virtually every industry. Thus, we find that in order to understand the climate in labor-management relations today, we need to know more about how management is sharpening the new collective-bargaining weapon of bankruptcy.

We are here today to begin the examination of this growing intrusion of bankruptcy proceedings in labor-management relations. I state at the outset that I am quite concerned by these developments.

The National Labor Relations Act is the backbone of Federal labor policy and has been on the books for nearly 50 years. Its function is to allow for the establishment of orderly and stable labor-management relations through the mechanism of collective bargaining. A central principle of the labor law is that once the parties agree and sign a contract, it cannot be altered without the mutual consent of both parties until the contract expires. This is a contract that has been recognized by the courts as having a higher and more binding status than a commercial contract. A contract is the objective of the collective-bargaining process. The bankruptcy

laws likewise fulfill the important function of providing assistance to companies that are experiencing extreme financial distress. Bankruptcy is the last resort of a floundering employer seeking to survive.

What we see today is the potential undermining of both the bankruptcy law and the National Labor Relations Act. No doubt there can be instances when release from a collective-bargaining agreement in bankruptcy is appropriate. It is clear that both the bankruptcy law and the collective-bargaining law dictates that such a drastic step is appropriate only under extreme circumstances.

It is equally clear that use of the bankruptcy court to void a collective-bargaining agreement violates both labor law and bankruptcy law. Of even greater concern is the potential damage that can be inflicted on labor policy if this kind of abuse of the bankruptcy courts is systematically utilized. We will soon be faced with a situation where the mere threat of filing for bankruptcy undermines collective bargaining.

If a union violates a contract, the courts will act swiftly to prevent the violation. The union and workers are subject to heavy penalties. Once the unions sign an agreement, they must abide by the contract. Labor law requires the same of the employer. Without this mutual obligation, collective bargaining becomes a sham and labor law will not work.

This is the danger posed by abuse of the bankruptcy laws. The stability of labor-management relations that our law is designed to foster is undermined.

I might also add, although it is not our direct concern today, an increase in companies filing for bankruptcy solely to get out of union contracts poses a threat to bankruptcy law as well. Such abuse could hamper the ability of courts in providing relief intended by the bankruptcy laws.

Currently the courts are addressing some of these concerns. In some instances the courts have failed to properly interpret the relationship between labor and bankruptcy laws. We hope and trust they will be mindful of what is at stake and will ultimately correctly interpret congressional intent.

This problem is a serious one. It potentially affects the labor relations of virtually every industry. Today's hearing begins a careful examination of these troubling developments in labor law.

Mr. Miller, do you have an opening statement?

Mr. MILLER. Thank you, Mr. Chairman.

We are focusing the attention of Congress today on one of the most critical issues in the field of labor relations during the past three decades—the growing use of the Federal bankruptcy laws by corporations to abrogate labor agreements and commitments to workers.

Our Nation's labor laws create a system to assure that voluntarily agreed upon contracts are enforced. Those laws do not impose solutions on management or labor; instead, they are designed to protect the rights of each party once the agreement is reached. Within the last year, a growing number of major corporations have attempted to use Federal bankruptcy laws in a way which I do not believe were ever intended by the Congress, to renounce unilateral-

ly the contractual commitments and legal obligations. The Manville Corp. is using chapter 11 to tie up the liability and compensation claims of thousands of diseased and dying victims of asbestos poisoning. While those workers linger in pain and often in poverty, the profits of the Manville Corp. are booming. Wilson Foods used chapter 11 this year to tear up its union contract and to slash wages dramatically. Continental calls itself the proud bird with the golden tail. That bird must be a phoenix because only 3 days after filing for bankruptcy the new Continental arose from the pyre from chapter 11, renounced its labor contract, slashed wages, and fired many of its employees. Eastern Airlines is threatening to resort to chapter 11 as a way to convince its employees to abandon benefits gained just a few months ago through the collective-bargaining process.

These developments undermine the foundation of our system of labor-management relations, and they constitute a very grave threat to the workers' benefits. This concern is shared not only by these subcommittees and labor organizations, but by responsible leaders in the business community, too.

Earlier this month, in an editorial entitled "Chapter 11 No Way to Bargain," Business Week magazine concluded, "if bankruptcy can be used solely as an escape hatch from high labor costs, where does that leave the extensive body of Federal labor law? The courts should tie bankruptcy more firmly to a company's financial condition, and in the case of airlines, send issues such as labor problems back to the bargaining table."

If management resorts to dubious tactics like bankruptcy filings to avoid its obligations, labor will undoubtedly invent strategies of its own—wildcat strikes, boycotts, and walkouts—to challenge management's unilateral violations of collectively bargained agreements. The results of those confrontations would be a return to an era of labor unrest and exploitation which could produce chaos in our industrial relations, a development our economy can ill afford.

These hearings provide a timely forum to explore these issues and their impact on our system of labor-management relations. If at the conclusion of these hearings we will determine whether such use of the bankruptcy laws undermines our labor statutes. Then we will consider the introduction of legislation to assure that fairness and equity are preserved in our system of industrial relations.

Mr. CLAY. Thank you.

Mr. Bartlett.

Mr. BARTLETT. I will waive my opening statement at this time, Mr. Chairman.

Mr. CLAY. Our first witnesses today will consist of a panel: Capt. Henry A. Duffy, Ray Schoessling, and Susan Bianci Sand. Good morning.

Without objection, your entire statements will be included in the record at this point and you may proceed as you desire. Captain Duffy.

STATEMENT OF CAPT. HENRY A. DUFFY, PRESIDENT, AIR LINE PILOTS ASSOCIATION

Captain DUFFY. Good morning, Chairman Clay, Chairman Miller. I am Hank Duffy, president of the Air Line Pilots Association, and we represent the professional interests of 34,000 pilots who work for 46 airlines in this country.

We do appreciate the fact that you have expedited these hearings because this is a matter of considerable urgency to all employees in the airline industry and other major industries in this country.

The entire structure of labor-management relations in this country is being jeopardized by the actions of Continental Airlines. Instead of being a last resort, bankruptcy has become a haven for scoundrels seeking to break legally binding contracts with their employees. Much more is at stake than a piece of paper with the heading "collective bargaining agreement." The action of Continental Airlines threatens air safety, destroys the concept of a truly integrated national air system, shatters the standard of living of its former employees, and demonstrates callous disregard for that cornerstone of the free-enterprise system—the sanctity of a contract. Continental has cheapened and demeaned the purpose of bankruptcies, to help financially troubled individuals and corporations and to establish a fair treatment for creditors.

Mr. Chairman, airline unions would not be here today if we had demanded that Continental reopen our contracts or if we had struck to get some improvements. We would be defendants in Federal court. It is illegal, under the National Labor Relations Act and the Railway Labor Act, to use economic force to secure more favorable terms during the life of a collective-bargaining agreement. Management demanded guaranteed periods of industrial peace and stability.

If what Continental did is not illegal, it is definitely immoral and the Congress must act immediately to prevent misuse of the bankruptcy law to evade a corporation's legal responsibility to abide by a national labor law.

Allow me to outline what Continental has done with the aid and comfort of the Civil Aeronautics Board.

The parent company, Texas Air Corp., has sufficient resources to forestall any legitimate bankruptcy, but Continental's president, Frank Lorenzo, refused us to look at these resources. Continental lacked the common decency to work with the pilots and other unions who were offering significant relief to develop alternatives. Instead, it relied on the bankruptcy refuge to evade its legal commitment to bargain with the authorized representatives of its employees. It imposed so-called emergency work rules, and they were aptly named beause they contained the prospect of causing an emergency.

Under the terms of this unilateral, dictatorial document, pilots can be forced to work many hours beyond what commonsense requires for such an exacting job, with the consequences of life or death. There is no sick leave, so pilots will be forced to operate multimillion-dollar aircraft and be responsible for the lives of their passengers when they're ill.

The company has filed with the CAB to launch three so-called new airlines. The work rules imposed by Continental permit the wholesale reassignment of pilots between these companies, even though they are unfamiliar with routes and the peculiarities of equipment. We hope the CAB will not put its seal of approval on this union-busting tactic.

Mr. Chairman, Continental's actions pose a serious test for our system of law. Are the human rights of individual airline employees to organize and bargain collectively subordinate to corporate greed? Where will bankruptcy be tried next to evade legal responsibilities? Such a misuse of bankrutpcy law could spawn a wave of corporate lawlessness protected, ironically enough, by the Government.

Continental is the most shocking and dramatic case yet of misuse of the bankruptcy laws to destroy workers' wages and working conditions. We, the Air Line Pilots Association, join with our colleagues in the other unions representing Continental employees to make it the last such example of corporate efforts at union busting.

Mr. Chairman, the issue in the Continental strike is not money. It is greater even than principles that we hold dear. The issue is safety. We fear for the safety of the traveling public if Frank Lorenzo and company have their way and are permitted to willfully destroy work practices which have provided American air passengers with the safest form of transportation.

Let me give you an example. Sunday I had the opportunity to present our views on the current crisis at Continental on a network news show. Unlike today, Mr. Chairman, the company did appear to present their position. I laid out why Continental's unilaterally imposed work rules raised serious safety questions. I stated that it was possible to work a 16-hour day, followed by a federally mandated 8-hour rest period, which under the best of conditions provides 5½ or 6 hours of sleep, after taking time out to commute to the hotel from the airport and to eat. Following that, he can be scheduled for another 16 hours of duty while at the same time be encouraged to work ill because the emergency work rules don't have any sick leave.

Mr. Phil Bates, Continental executive vice president, denied before millions of viewers Sunday that my scenario could ever come to pass. Mr. Chairman, it happened the same afternoon when Capt. Jerry Schoefield and First Officer George Pathello refused to continue working after a flight between Honolulu and Auckland, New Zealand that had already extended their duty time to nearly 16 hours. In exercising his command authority, the captain refused the company's scheduled options which would have brought to at least 29 hours his total duty time. The duty option was double the provisions of the Continental pilot contract that the company had ripped up the week before through the use of the bankruptcy laws.

If Continental is successful, chaos will continue to reign in American labor-management relations. Workers will not stand idly by and see their contract abrogated by such tactics. The current strike at Continental will be only the first of many. That's not good for the economy, and that's not good for a nation that is built on a system of laws. This subcommittee and the Congress has an obligation to take emergency actions to prevent a total collapse in the

Nation's system of labor-management relations provoked by the misuse of the bankruptcy laws.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions.

[The prepared statement of Capt. Henry A. Duffy follows:]

PREPARED STATEMENT OF CAPT. HENRY A. DUFFY, PRESIDENT, AIR LINE PILOTS ASSOCIATION

My name is Henry A. Duffy, and I am President of the Air Line Pilots Association which represents the professional interests of 34,000 pilots who fly for 45 airlines.

I appreciate this opportunity to appear before you this morning to present ALPA's views on the use of the Bankruptcy Act to circumvent the normal process of collective bargaining under well-established law and national policy and ultimately to abrogate negotiated labor contracts and destroy the legitimate rights of workers.

Industrial relations in this country has long since passed the point of challenge to the collective bargaining process. National public labor policy reflected in the National Labor Relations Act and the Railway Labor Act has been painstakingly developed so as to permit both unions and management the greatest possible freedom consistent with the demands of difficult as well as prosperous economic environments.

Fortunately, we are beyond the 19th Century use of the doctrine of "criminal conspiracy", the widespread use of anti-labor injunctions and the denial of union representation to employees.

What we now confront is a regression by a few in the abuse of the recently revised Bankruptcy Act. More particularly, the misuse of Chapter 11, designed to assist the restructuring of businesses in genuine difficulty, would be applied by some to tear up negotiated labor agreements despite the fact that those agreements exist in furtherance of well established national labor policy reflected both in the RLA and NLRA. There is in fact no conflict, real or apparent, between the several statutes. Properly used, Chapter 11 of the Bankruptcy Act, is sensibly accommodated to the specific provisions of the RLA and NLRA so as to preserve stability in the transportation industry, the collective bargaining process and the obligations of labor and management to make, maintain and modify agreements realistically and in good faith.

Let us now review the most recent abuse of the Bankruptcy Act in this regard.

Until last Friday, September 29, 1983, Continental Airlines, Inc. was engaged in discussions with ALPA, representing its pilots, and UFA, representing its flight attendants, seeking labor cost concessions that management asserted were necessary for profitability. The pilots had, only one year earlier, agreed in collective bargaining negotiations to pay, pension and working condition concessions which resulted in $100 million savings to the Company over a two year period. As late as September 28, ALPA had, by official action, stated its willingness to grant further concessions necessary to ensure profitability. So, too, did the flight attendants.

The next evening, Continental filed in Chapter 11, suspended all domestic flight operation for three days, announced the termination of two-thirds of its unionized employees, unilaterally abrogated its union contracts and implemented wage and benefit cuts of 50 percent, eradicated seniority, and established work rules never before so much as reported to its union.

Accompanying this extraordinary display of unprincipled self-help, CAL engaged in a campaign of threats, intimidation and coercion of individual pilots to obtain each individual's acceptance of these inferior, unilaterally promulgated terms and conditions of employment.

Individual pilots were informed by Continental that only those pilots accepting the new items and conditions of employment would receive pay checks for work actually performed in September. Individual pilots were further informed by Continental that, if they did not immediately accept new terms and conditions of employment unilaterally promulgated by the Company, their employment would be terminated. In fact, Continental has terminated that employment of all pilots who did not immediately accept their proposal.

Continental followed this up with a formal motion in Bankruptcy Court to "reject" its collective bargaining agreements. Despite the fact that this motion has not yet been heard, Continental went ahead with its unilateral breach without waiting for Court disposition of its motion.

This action was taken by Continental upon the publicly advertised basis of shedding its collective bargaining obligations and sharply reducing its labor costs.

Continental, along with its employees and the unions representing them, are bound by specific provisions of the RLA which specify in Section 2, subdivision First,

"It shall be the duty of all carriers, their officers, agents and employees to exert every reasonable effort to make and maintain agreements concerning rates of pay, rules, working conditions . . . in order to avoid any interruption to commerce. . ."

The agreements which Continental sought to shed were achieved through the application of that provision of the RLA.

That Act further provides in Section 2, Seventh,

"No carrier, its officers, or agents shall change the rates of pay, rules or working conditions of its employees . . . embodied in agreements except in the manner prescribed in such agreements or Section 6 of this Act."

The Act does not prescribe that an agreement must be reached, nor does it prescribe the substance or nature of agreements.

The Act, in the interest of a stable transportation system, does prescribe and require without deviation strict observance of the procedures for the making and modification of collective bargaining agreements. That obligation of management and the employees in this field of transportation has been time and again affirmed by the Supreme Court of the United States as integral to the Act and the overriding public interest in the development and preservation of stable transportation facilities of our country.

There is no conflict between that Act and the Bankruptcy Act. The Supreme Court declared that the Norris-LaGuardia Act, which generally limits the availability of injunctions in labor disputes, must accommodate to the specific provisions of the RLA. That accommodation permitted injunctions so as to require the parties to adhere to the procedures for the making and modification of agreements. So the Bankruptcy Act, properly construed and applied in respect to Chapter 11, must clearly be applied as accommodating to the specific needs of our national public policy incorporated in the RLA and NLRA.

This "contract rejection" motion in Bankruptcy Court will raise the same issues currently before the Supreme Court in *Bildisco:* May a Bankruptcy Court reject—that is nullify—a union contract?

If so, under what circumstances, and by what standard? Is it enough merely that an employer can show that it could operate more cheaply without a union contract, or must the employer demonstrate that unless the union contract is voided the business will fail completely and everyone will lose their jobs?

What is the status of a union contract between the filing of a Chapter 11 petition and the Bankruptcy Court's decision on a motion to reject (which may not be decided for many months after a Chapter 11 petition is filed). We believe that Congress never intended that the provisions in the Bankruptcy Code which permit a debtor to relieve itself of burdensome commercial contracts—leases, purchase contracts—were intended to override fundamental principles of labor law—including the special "public law" qualities of collective bargaining agreements.

We believe that Congress fully expected a debtor-in-possession to observe specific statutory requirements whether they be laws regulating occupational safety and health, or speed and traffic laws; or regulations in the public interest imposed on businesses generally. Chapter 11 is not a license for lawlessness. And the labor relations statutes of the country are "public law" obligations not one whit less significant than the other public legal obligations binding us all, debtors-in-possession included.

But the Continental Airlines situation raises an even more fundamental question: May an employer seek recourse to the Bankruptcy Court purely and simply for the purpose of voiding its labor contract? Bildisco, and the host of other cases which have raised the labor-contract rejection issue, have generally assumed that the employer was a legitimate candidate for some Chapter 11 relief; the labor question involved was whether such relief could properly include labor contract nullification. In Continental, the situation is far different.

Continental is a solvent, cash-rich company, boasting of $50 million in the bank on the very day it filed for Chapter 11. The Chairman of the Board advertised his purpose in filing—to be rid of its union contracts and reduce the labor costs. This is a use of Chapter 11 as a collective bargaining weapon, not as a shield for the protection of a distressed business that needs a period of protection from its creditors while it "rehabilitates" itself. It is in total disregard of agreement making, maintenance and modification requirements of the RLA.

It effectively tears up union representation. If Chapter 11 can be used by an employer such as Continental to vitiate RLA collective bargaining agreements then the entire incentive for compliance with that Act and the public policy explicitly adopted by Congress is totally subverted.

It is our view that the basic requirement that Bankruptcy relief must be sought "in good faith" should ultimately result in the dismissal of Chapter 11 petitions filed by solvent businesses for the purposes of voiding labor contracts.

Comprehensive studies of the Bankruptcy Act have not addressed themselves to the test of "good faith" in the context of a filing with the central purpose of collective bargaining agreement repudiation or union busting. The dearth of such material reflects that the reality of a Continental type of raid on representation and agreements is a relatively recent regression.

Nevertheless, we cannot await the ultimate determination of this issue by the judiciary. There is no quick judicial relief in sight.

Bildisco filed its Chapter 11 petition on April 14, 1980. The motion to reject the labor contract was not filed until December 1980. The Bankruptcy Court did not issue its decision until January 15, 1981. And the Supreme Court will not hear argument until next Tuesday.

We do not have the luxury of awaiting the outcome of elucidating litigation.

The airline industry is in the grip of powerfully negative and destructive economic forces, caused by deregulation and fueled by predatory anti-union unfair competition. If we add to this already devastating combination a Bankruptcy Court escape hatch from labor law obligations, we have a scenario for the wholesale eradication of the rights of workers. The likelihood that, a few years from now, we will be able to establish in the courts that this was all a terrible mistake will be of little value to those whose economic and working lives will have been destroyed in the meanwhile.

Indeed, our ultimate legal success will in all likelihood constitute the ultimate irony. When it is established that the employer had no right to misuse the Bankruptcy Courts in this manner, had no right to abrogate union contracts, fire two-thirds of the work force, reduce wages and benefits by 50 percent, destroy seniority, terminate pension plans, the damage claims created by these legal breaches will be so substantial that they may well cause the employer to file a legitimate bankruptcy. Surely, a ridiculous result.

In short, what is needed is the quickest, clearest statement by the Congress that the Bankruptcy Laws of this nation are not intended to, and may not, be used to release employers from their obligations under the labor relations statutes. Chapter 11 must be declared as accommodating to the obligation to adhere to labor contracts; the obligation to recognize and negotiate with the labor unions that represent their employees; the obligation to refrain from unfair labor practices and labor law violations. The Bankruptcy Courts are to be a refuge for the economically distressed, not an attack station for a union-busting campaign.

That completes my prepared statement and I will be happy to answer questions which you and the members of the subcommittees might have.

Mr. CLAY. Thank you.

Mr. Schoessling.

STATEMENT OF RAY SCHOESSLING, GENERAL SECRETARY-TREASURER, INTERNATIONAL BROTHERHOOD OF TEAMSTERS

Mr. SCHOESSLING. Good morning, Mr. Chairman, and members of the subcommittee. My name is Ray Schoessling and I am the General Secretary-Treasurer of the International Brotherhood of Teamsters. I am joined here by William Genoese, our airline division director, and the attorney for our International Union, Wilma Liebman.

We welcome this opportunity to join with other trade unions to address the compelling problems created by the abuse of the bankruptcy laws and the gradual deterioration of the enforcement of collective bargaining obligations.

The International Brotherhood of Teamsters is a labor organization comprised of 715 local unions. The collective membership of the local unions totals approximately 1.8 million working men and women. Some 80 to 100,000 different collective bargaining agreements cover Teamster-represented employees in this country. We represent over 40,000 members in the airline industry, employed by

a wide range of carriers, including Pan Am, Northwest, Western, World, and Braniff, to mention just a few.

The highly publicized stories concerning the bankruptcy of Continental Airlines and the threats to follow suit by Eastern Airlines highlight a problem which unfortunately is not new to the Teamsters Union. For the last few years we have grappled with problems raised by industries in economic decline and by bankruptcies. The bankruptcies of Braniff and Continental were preceded by a long list of business failures in the trucking industry which continue to date. Indeed, the dual pressures of economic recession and economic deregulation of the trucking and airline industries have made bankruptcy a daily concern for this union and thousands of our members and their families.

Bankruptcies have occurred over the last 3 years at a record rate. The numbers of business failures are absolutely staggering, exceeding even the figures of the 1930's depression. In addition to the economic losses, there is the human tragedy of thousands of employees out of work, deprived of medical coverage for themselves and their families, forced to uproot themselves in order to find other work, and forced to deplete their life savings.

Bankruptcies have become a common occurrence for the Teamsters Union as a result of the economic deregulation of the transportation industries. Since the passage of the Motor Carrier Act of 1980, which deregulated the trucking industry, approximately 100,000 of our members have lost their jobs. Attached is a list of the largest trucking companies that have gone bankrupt since the passage of trucking deregulation.

These failures have hit some of the oldest and biggest trucking concerns. For example, Spector Red Ball began liquidating last year, putting 7,000 people out of work. Similarly, with the failure of Braniff, about 10,000 people lost their jobs, over half of whom were represented by this union. In addition, thousands of our members are employed by motor or airline carriers which hover on the verge of collapse as a direct result of deregulation.

In response to the serious financial problems caused by deregulation, many carriers have attempted to lower costs by pursuing exploitive labor policies. This phenomenon is becoming increasingly common. Heavyhanded threats to file for bankruptcy in order to coerce sacrifices from employees have become a stock weapon in management's arsenal against labor. And, as recent events show, these tactics do not stop when the bankruptcy petition is filed.

The Manville Corp., led the way in publicly exploiting bankruptcy procedures when it filed for reorganization under chapter 11, notwithstanding some $2.2 billion in assets, because of the potential liability from asbestosis lawsuits. Wilson Foods followed in April 1983 seeking to free itself from contracts with union meatcutters because it said the costs were too far above those of its nonunion competitors. Now, Continental Airlines has joined the bandwagon, claiming a week ago that it could not afford the salaries it paid its unionized people.

These are the highly publicized examples. But even as early as 1980, this union experienced attempts by trucking companies to sue the bankruptcy laws to become nonunion. At the same time that it filed for chapter 11, Brada Miller Freight System, for exam-

ple, declared its labor contract void and informed its drivers that they would work as nonunion employees or not at all.

What we are witnessing is a very dangerous trend. It is a threat to the entire system of collective bargaining that is so basic to our Nation's labor policies and also, we believe, to the basic structure of the American economy. If corporate giants succeed in evading their bargaining obligations and destroying their collective-bargaining agreements, then their cynical strategy will become an accepted way of doing business in this country.

The problems caused by legitimate bankruptcies in terms of financial and human losses, are bad enough. These problems will be made even worse if bankruptcy ceases to be an act of last resort of an ailing company and instead becomes an available avenue for companies to escape from their obligations and the unions that represent their workers.

It is gratifying that our concerns are shared not only by other labor organizations but by public opinion which, as expressed in the media, appears to be opposed to this abuse of bankruptcy. For example, the probusiness Journal of Commerce recently lambasted this cynical strategy:

> Who'll be the next to use the corporate tactic of pre-emptive bankruptcy? What will they aim to pre-empt—another set of lawsuits, another uncooperative union, maybe a disliked contract of any sort? The mind reels at the possibilities and that is why the courts should put their collective foot down on such nonsense, and hard.
>
> In the capitalist system, an obligation is an obligation, a contract is a contract, and bankruptcy is, or should be, what happens when a company literally is about to fail. A contract shouldn't be abrogated because one party fears something might happen or thinks his employees make too much money. Nor should someone receive the protection of the Federal Bankruptcy Code for similar reasons.
>
> . . . Mr. Lorenzo (Continental's Chairman) has demonstrated shrewdness in following the Manville example, but he's wrong and the courts should rule him so. The bankruptcy courts are for bankruptcies, not labor problems. The Manville case should not be allowed to spawn similar cases; the results could overwhelm the legal system, to say nothing of the marketplace.

We agree wholeheartedly with this viewpoint. Labor-management battles should be fought exactly where Congress intended they be fought—at the collective-bargaining table.

The policy of our Nation's labor laws is to encourage collective bargaining. The theory is that the free play of economic forces will bring about collective agreements which will promote industrial peace. The labor laws were enacted during the Depression at a time of record bankruptcies. The collective-bargaining process was conceived of as an ideal way to deal with financial crises. Experience has proven the validity of the policy. Negotiations with labor, conducted in good faith, are often very productive for an ailing business seeking to avoid collapse. And, even if bankruptcy is inevitable, labor participation can help effectuate a sound reorganization plan. We must keep in mind the effectiveness and wisdom of this system so as to preserve it from total destruction at the hands of the bankruptcy process. We must not allow the current irresponsible and cynical use of bankruptcy to destroy the viability of this time-tested system.

We concede that despite the sanctity of labor contracts there are situations where economic relief from collective-bargaining agreements may be necessary. Where a union has been given an opportunity to analyze an employer's arguments and its financial data,

labor may become convinced of the need for mid-term contract relief. In such cases, the union can provide financial concessions, realizing that a company's collapse is hardly in the best interest of its members. Stark economic realities mandate union willingness to negotiate with a financially troubled employer. Those cases where necessary savings can be derived from concessions in exchange for greater job security present the best example of the collective bargaining process at work. Not only may the union agree to cuts in wages and benefits and work rule changes, but it may also be able to suggest cost-saving operating procedures that will minimize the need for workers to sacrifice.

Successful bargaining over these matters by this union, as well as others, has been widely reported. In January 1982, Business Week reported that—

> To a much greater degree than in past recessions, unions are accepting modest long-term contracts months before their current agreements expire. In the short run, the temperance in labor costs is allowing financially ailing companies to survive by making union workers' compensation more responsive to economic conditions than many experts predicted just a few months ago.

And in June 1982, Business Week reported again that a poll of 600 large corporations disclosed that 26 percent of the unionized companies had obtained wage and benefit concessions from their unions. Similarly, concessions had been granted by workers in hundreds of smaller companies.

> Every industrial town in the recession-scarred Midwest probably has some company, large or small, where the workers have agreed to accept cutbacks to save their jobs or even to prevent bankruptcy.

This union has been very active in helping to find constructive solutions to economic ills, particularly in the trucking and airline industries. Wage moderation, in exchange for improved job security, highlighted the 1982 National Master Freight Agreement negotiations. In addition, numerous trucking firms have negotiated employee stock ownership plans. In the airline industry, over the past 2 years the Teamsters Union, the largest at Pan American World Airways, ratified a package calling for a 10-percent wage cut and freeze. In return for those sacrifices by our members, they obtained an employee stock option plan and now own the largest single block of Pan Am shares. Half the wage cut agreed to has already been restored, with the other half due to be regained by the end of 1983. A similar plan has been agreed to in principle at Western Airlines.

Last year a stock ownership program was negotiated at financially troubled World Airways. Those negotiations followed a lengthy battle during which the company demanded massive pay cuts and work rule changes, threatening bankruptcy if it did not obtain its demands. But, once the company was forced to deal with the union in good faith negotiations——

Mr. CLAY. May I interrupt the witness, please, and ask you if you will kindly summarize the last 15 pages of your statement?

Mr. SCHOESSLING. Sure.

Mr. CLAY. You see, we're going to end up with a number of votes and we've got witnesses that will probably carry us through past noon. We would hope that you would summarize.

Mr. SCHOESSLING. OK, Congressman.

In conclusion, we are discouraged at the apparent lack of safeguards to prevent erosion of the collective bargaining system through the bankruptcy device. Unfortunately, the bankruptcy courts appear to be insensitive to the rights of workers. With few exceptions, they have readily approved contract rejections and sanctioned questionable practices, like those at Braniff described above, which jeopardize funds available for compensating workers.

We are also concerned with the course which the National Labor Relations Board may take in the increasing number of bankruptcy related cases. For example, we are concerned it did not support our position in the *Bildisco* case that bargaining with the union over needed contract relief should be a prerequisite for contract rejection.

The actual impact of these bankruptcies will extend far beyond employee victims and their families. Despite the relative strength of company assets, creditors and suppliers risk losing millions of dollars because of the chapter 11 filing. Reorganization plans do not pay 100 cents on the dollar. Investors often suffer substantial losses. Accounts payable and other liabilities are frozen until the reorganization is resolved. The effect is that all creditors and suppliers will have to share the burden of the company's anti-union strategy.

Finally, we believe that companies who honor their labor obligations will be outraged by predatory business policies of their bankrupt competitors. Certainly, spheres broader than just labor will view this as a fraud.

I would like to thank you for your attention and your kindness here this morning in hearing us out.

[The prepared statement of Ray Schoessling follows:]

PREPARED STATEMENT OF RAY SCHOESSLING, GENERAL SECRETARY-TREASURER OF THE INTERNATIONAL BROTHERHOOD OF TEAMSTERS, CHAUFFEURS, WAREHOUSEMEN & HELPERS OF AMERICA

Mr. Chairman and Members of the Subcommittee: Good morning. My name is Ray Schoessling and I am the General Secretary Treasurer of the International Brotherhood of Teamsters. I am joined by William F. Genoese, Airline Division Director of the International Brotherhood of Teamsters, and Wilma B. Liebman, Attorney for the International Union.

We welcome this opportunity to join with other trade unions to address the compelling problems created by the abuse of the bankruptcy laws and the gradual deterioration of the enforcement of collective bargaining obligations. The International Brotherhood of Teamsters is a labor organization comprised of 715 local unions. The collective membership of the local unions totals approximately 1.8 million working men and women. Some eighty to one hundred thousand different collective bargaining agreements cover Teamster-represented employees in this country. We represent over 40,000 members in the airline industry, employed by a wide range of carriers, including Pan Am, Northwest, Western, World, and Braniff, to mention just a few.

The highly publicized stories concerning the bankruptcy of Continental Airlines and the threats to follow suit by Eastern Airlines highlight a problem which unfortunately is not new to the Teamsters Union. For the last few years we have grappled with problems raised by industries in economic decline and by bankruptcies. The bankruptcies of Braniff and Continental were preceded by a long list of business failures in the trucking industry which continue to date. Indeed, the dual pressures of economic recession and economic deregulation of the trucking and airline industries have made bankruptcy a daily concern for this Union and thousands of our members and their families.

I. Bankruptcy Use and Abuse

Bankruptcies have occurred over the last three years at a record rate. The numbers of business failures are absolutely staggering, exceeding even the figures of the 1930's Depression. In addition to the economic losses, there is the human tragedy of thousands of employees out of work, deprived of medical coverage for themselves and their families, forced to uproot themselves in order to find other work, and forced to deplete their life savings.

Bankruptcies have become a common occurrence for the Teamsters Union as a result of the economic deregulation of the transportation industries. Since the passage of the Motor Carrier Act of 1980 which deregulated the trucking industry, approximately 100,000 of our members have lost their jobs. Attached is a list of the largest trucking companies that have gone bankrupt since the passage of trucking deregulation. These failures have hit some of the oldest and biggest trucking concerns. For example, Spector Red Ball began liquidating last year, putting 7,000 people out of work. Similarly, with the failure of Braniff, about 10,000 people lost their jobs, over half of whom were represented by this Union. In addition, thousands of our members are employed by motor or airline carriers which hover on the verge of collapse as a direct result of deregulation.

In response to the serious financial problems caused by deregulation, many carriers have attempted to lower costs by pursuing exploitive labor policies. This phenomenon is becoming increasingly common. Heavy-handed threats to file for bankruptcy in order to coerce sacrifices from employees have become a stock weapon in management's arsenal against labor. And, as recent events show, these tactics do not stop when the bankruptcy petition is filed.

The Manville Corporation led the way in publicly exploiting bankruptcy procedures when it filed for reorganization under Chapter 11, notwithstanding some $2.2 billion in assets, because of the potential liability from asbestosis lawsuits. Wilson Foods followed in April, 1983, seeking to free itself from contracts with union meatcutters because it said the costs were too far above those of its non-union competitors. Now, Continental Airlines has joined the bandwagon, claiming a week ago that it could not afford the salaries it paid its unionized employees.

These are the highly-publicized examples. But even as early as 1980, this Union experienced attempts by trucking companies to use the bankruptcy laws to become nonunion. At the same time that it filed for Chapter 11, Brada Miller Freight System, for example, declared its labor contract void and informed its drivers that they would work as non-union employees or not at all.

What we are witnessing is a very dangerous trend. It is a threat to the entire system of collective bargaining that is so basic to our nation's labor policies and also, we believe, to the basic structure of the American economy. If corporate giants succeed in evading their bargaining obligations and destroying their collective bargaining agreements, then their cynical strategy will become an accepted way of doing business in this country.

The problems caused by legitimate bankruptcies, in terms of financial and human losses, are bad enough. These problems will be made even worse if bankruptcy ceases to be an act of last resort of an ailing company and instead becomes an available avenue for companies to escape from their obligations and the unions that represent their workers.

It is gratifying that our concerns are shared not only by other labor organizations, but by public opinion, which, as expressed in the media, appears to be opposed to this abuse of bankruptcy. For example, the pro-business Journal of Commerce recently lambasted this cynical strategy. (Editorial, Journal of Commerce, September 28, 1983, page 4A):

"Who'll be the next to use the corporate tactic of pre-emptive bankruptcy? What will they aim to pre-empt—another set of lawsuits, another uncooperative union, maybe a disliked contract of any sort? The mind reels at the possibilities and that is why the courts should put their collective foot down on such nonsense, and hard."

In the capitalist system, an obligation is an obligation, a contract is a contract and bankruptcy is—or should be—what happens when a company literally is about to fail. A contract shouldn't be abrogated because one party fears something might happen or thinks his employees make too much money. Nor should someone receive the protection of the Federal Bankruptcy Code for similar reasons.

. . . Mr. Lorenzo [Continental's Chairman] has demonstrated shrewdness in following the Manville example, but he's wrong and the courts should rule him so. The bankruptcy courts are for bankruptcies, not labor problems. The Manville case should not be allowed to spawn similar cases; the results could overwhelm the legal system, to say nothing of the marketplace."

We agree wholeheartedly with this viewpoint. Labor-management battles should be fought exactly where Congress intended they be fought—at the collective bargaining table.

II. Labor Battles Should Be Fought at the Collective Bargaining Table

The policy of our nation's labor laws is to encourage collective bargaining. The theory is that the free play of economic forces will bring about collective agreements which will promote industrial peace. The labor laws were enacted during the Depression at a time of record bankruptcies. The collective bargaining process was conceived of as an ideal way to deal with financial crises. Experience has proven the validity of the policy. Negotiations with labor, conducted in good faith, are often very productive for an ailing business seeking to avoid collapse. And, even if bankruptcy is inevitable, labor participation can help effectuate a sound reorganization plan. We must keep in mind the effectiveness and wisdom of this system so as to preserve it from total destruction at the hands of the bankruptcy process. We must not allow the current irresponsible and cynical use of bankruptcy to destroy the viability of this time-tested system.

We concede that despite the sanctity of labor contracts, there are situations where economic relief from collective bargaining agreements may be necessary. Where a union has been given an opportunity to analyze an employer's arguments and its financial data, labor may become convinced of the need for mid-term contract relief. In such cases, the union can provide financial concessions, realizing that a company's collapse is hardly in the best interest of its members. Stark economic realities mandate union willingness to negotiate with a financially troubled employer. Those cases where necessary savings can be derived from concessions in exchange for greater job security present the best example of the collective bargaining process at work. Not only may the union agree to cuts in wages and benefits and work rule changes, but it may also be able to suggest cost-saving operating procedures that will minimize the need for workers to sacrifice.

Successful bargaining over these matters by this Union, as well as others has been widely reported. In January 1982, Business Week reported that "to a much greater degree than in past recessions, unions are accepting modest long-term contracts months before their current agreements expire. In the short run, the temperance in labor costs is allowing financially ailing companies to survive by making union workers' compensation more responsive to economic conditions than many experts predicted just a few months ago." ("The Payoff of Wage Modification," Business Week, January 18, 1982, at 22). And in June 1982, Business Week again reported that a poll of 600 large corporations disclosed that 26 percent of the unionized companies had obtained wage and benefit concessions from their unions. Similarly, concessions had been granted by workers in hundreds of smaller companies. "Every industrial town in the recession-scarred Midwest probably has some company, large or small, where the workers have agreed to accept cutbacks to save their jobs or even to prevent bankruptcy. ("Concessionary Bargaining," Business Week, June 14, 1982).

This union has been very active in helping to find constructive solutions to economic ills, particularly in the trucking and airline industries. Wage moderation, in exchange for improved job security highlighted the 1982 National Master Freight Agreement negotiations. In addition, numerous trucking firms have negotiated employee stock ownership plans. In the airline industry, over two years ago, the Teamsters Union, the largest at Pan American World Airways, ratified a package calling for a 10 percent wage cut and freeze. In return for those sacrifices by our members, they obtained an employee stock option plan and now own the largest single block of Pan Am shares. Half the wage cut agreed to has already been restored, with the other half due to be regained by the end of 1983. A similar plan recently has been agreed to in principle at Western Airlines. Last year, a stock ownership program was negotiated at financially-troubled World Airways. Those negotiations followed a lengthy battle during which the company demanded massive pay cuts and work rule changes, threatening bankruptcy if it did not obtain its demands. But, once the company was forced to deal with the union in good faith negotiations, a compromise acceptable to both sides was reached. Today, the company is gradually recuperating from its economic woes, under a labor-management climate far more amicable than at any previous time. (See, e.g., "World Airways Wins Concessions by Union," Los Angeles Times, Nov. 10, 1982).

Good faith collective bargaining which gives workers a voice in dealing with financial problems is invaluable because it engenders mutual understanding and assures employees that their employers' problems are real. Such trust is necessary if the parties are to devise constructive measures to resolve economic problems. A

demonstrated regard for employees' interests, through advance notice and frank discussions of the problem, may help avert a bankruptcy. But, even if bankruptcy is inevitable, this kind of participation and information sharing will build trust and help maximize the chances for a peaceful reorganization process. Cooperation with labor during a reorganization can only benefit the company. Assured of labor peace, the company can then approach its other creditors, usually wary of labor unrest, for further relief. Unions can also serve an active role on creditors' committees. Unions can enhance the chances for survival of the reorganized company. (See, "A Louder Union Voice in Settling Bankruptcies," Business Week, Dec. 8, 1980).

As you are undoubtedly aware, the interplay of the collective bargaining system in the bankruptcy context is now before the United States Supreme Court in a case involving a Teamsters Local Union. The case stems from the 1980 bankruptcy filing of Bildisco, a New Jersey building supply company. Even before the bankruptcy, the company unilaterally had ceased making pension and welfare payments required by its collective bargaining agreement with Teamsters Local 408. After the company filed under Chapter 11, it continued to withhold these payments. It also withheld contractually required raises and vacation pay. At no time did Bildisco seek to negotiate with the Union about these contractual changes. The Local Union filed unfair labor practice charges with the National Labor Relations Board. In response, the Company filed with the bankruptcy court a motion to reject the collective bargaining contract. The court granted the motion and rejected the contract.

The *Bildisco* case will resolve two issues which are crucial to whether business will continue to find bankruptcy an attractive way to fight labor. The case tests first whether a company may unilaterally slash wages and benefits after it files under Chapter 11. The NLRB found this to be an unfair labor practice, but the Court of Appeals in Philadelphia disagreed. The Teamsters Local Union, and the International Union as an amicus curiae, argued to the Supreme Court that this conduct was unlawful. The bankruptcy procedure should not be available to immunize unilateral conduct which is clearly unlawful outside of bankruptcy.

The second issue raised in *Bildisco* is under what circumstances a bankruptcy court may authorize the rejection of a collective bargaining agreement. The Teamsters have argued that before contract rejection can be approved a company must first seek to bargain in good faith with the union about needed contract relief. If the negotiations fail, or if the union refuses to meet, then rejection can be sought. However, rejection should then be approved only where the company will collapse and the employees will lose their jobs absent rejection. The Court of Appeals rejected our arguments.

In support of making bargaining prerequisite to contract rejection, we argued, along the lines that I have set forth today, that collective bargaining is uniquely suited to resolving the employer's predicament. Bargaining hopefully will succeed and will avert the need for outright contract rejection. But even if the negotiations fail, mutual trust will have been created. If bargaining succeeds, it will enable workers to retain valuable rights, while giving relief on only the burdensome terms. By contrast, when a contract is rejected all of its terms are eliminated. Workers lose not only strictly monetary items, but intangible benefits such as seniority and pension rights, health and welfare coverage, grievance arbitration procedures, and protections against unjust discharge. The Union loses certain protections of its status, such as union security provisions, which have no bearing on the company's financial condition. The company also loses the no-strike promise, the value of which should not be underestimated in value. Thus, a negotiated compromise, instead of outright contract rejection, benefits both sides, and should be encouraged by requiring bargaining before contract rejection can be obtained. Finally, we argued in *Bildisco* that even assuming bargaining has taken place, rejection should be available only as a last resort if labor costs are the only obstacle to recovery. This standard will protect the unique rights of workers and will discourage the use of contract rejection procedures, and bankruptcy in general, for anti-union or non-economic purposes.

The Supreme Court's decision in *Bildisco* will directly influence the future course of collective bargaining in this country. If labor contracts may be modified or terminated unilaterally when Chapter 11 petitions are filed, and if court approved rejection is easily obtained, then bankruptcy may become an increasingly attractive escape from labor obligations.

We urged the Supreme Court not to participate in the scheme to undermine the collective bargaining system which, we submit, will generate industrial strife. For if the courts permit a strategy patterned after Continental's, the unions and their members will not sit idly by. The prospect for strike action by employees, angry and desperate over the loss of their valuable rights, should not be minimized. Angry

strikes can easily spell the demise of an already ailing company. Legitimate bankrutpcy practices alone take a heavy toll on workers. But abuses will undoubtedly lead to angry worker reaction.

A few examples should demonstrate this. Braniff employees agreed to 10 percent wage cuts to attempt to avoid bankruptcy. Nonetheless, Braniff filed for Chapter 11 relief and immediately laid off all employees. Braniff then obtained court approval to terminate its pension plan, thereby reducing the pension benefits of retirees to one-third or one-half of the levels provided in the contract. Shortly thereafter, Braniff executives obtained so-called "golden parachute" arrangements for themselves, all in the $100,000 range. Also, the bankruptcy court approved the payment of over $2 million in fees to company bankruptcy counsel. In fact Braniff paid $500,000 to labor and bankruptcy counsel by certified check the day before the Chapter 11 petition was filed. In fact, we have observed with some frequency in trucking bankruptcy cases the employment and payment of labor consultants immediately prior to a bankruptcy filing.

These practices, sanctioned by the courts, are likely to provoke workers. This will lead to a return to the situation of the 1930's when judicial intervention in labor disputes was a major cause of social unrest in this country, and which initially stimulated the formulation of our national labor policy and enactment of our labor laws. We will have regressed five decades. The alternative is obvious and far preferable. The collective bargaining system does work and it should be encouraged to work without undue judicial interference. That is the policy of our nation's labor laws (§ 1, National Labor Relations Act, § 2, Railway Labor Act, § 2 Norris La Guardia Act).

III. The Continental Story

Since Continental Airlines is now figured prominently in the news, I would like to relate the history of the Teamsters Union with that carrier and its chief executive Frank Lorenzo. The story relates graphically the difficulties of the deregulated environment, the plight of workers who make this vital industry run, and the inadequacy of the present legal framework to protect employees from victimization.

Frank Lorenzo acquired control of Continental, the nation's eighth largest airline, in late 1981. At the time Lorenzo controlled Texas Air Corporation, the parent company of Texas International Airlines, a union carrier, and New York Air, a non-union spinoff. The Teamsters Union had been certified in May 1980 as the collective bargaining representative of about 1,800 of Texas International's ground employees. The parties entered into a collective bargaining agreement which was to remain in effect until January 31, 1983. In September 1982, Texas International and Continental Airlines announced that effective October 31, 1982 an operational merger of the two airlines would take place. The work forces were to be completely integrated, with all former Texas International clerical and agent employees to become subject to the employment policies of Continental.

Continental's 4,000 clerical and agent employees were unrepresented by any labor organization and worked under terms set unilaterally by management. In other words, the Texas International labor agreement and employee rights secured by it would have no further force for the 1,800 former Texas International employees merged into the Continental operation. The Teamsters Union was notified that effective October 31, 1982, Texas International would withdraw its recognition of the Union and would treat all ground employees of the combined airline as unrepresented by any labor organization.

On October 2, 1982, the Teamsters filed an application with the National Mediation Board seeking a representation election among the clerical, office, fleet and passenger service craft or class of the post-merger Continental. That application is still pending, although the Company recently moved to stay the representation proceeding until it is operating under an approved plan of reorganization. On October 18, 1982, the Teamsters notified Texas International of its intent to negotiate changes in the collective bargaining agreement. Texas International rejected this overture to bargain as an "effort to reopen a closed contract."

Consequently, on October 28, 1982, the IBT filed suit under the Railway Labor Act in the United States District Court for the Southern District of Texas seeking to prevent the imminent abrogation of the collective bargaining agreement. The district court dismissed the Union's lawsuit on January 30, 1983. In its view, the existence of the representation dispute among post-merger employees divested the court of jurisdiction over the contract abrogation and contract validity claims.

We then appealed the decision to the Fifth Circuit Court of Appeals in New Orleans. Last week that court rejected our appeal. While it found that Continental did abrogate an existing agreement, the court held that the mere existence of a dispute

over representation deprived the district court of jurisdiction to consider the contract claim. The court so found even though we sought only to enforce our contract as to the pre-merger Texas International employees and only until the representation dispute was resolved. In other words, under the court's holding, when a merger occurs which makes the employee group previously represented by the Union a minority of the post-merger craft, their collective bargaining agreement may be unilaterally terminated.

As a result, former Texas International employees have lost their contract rights, including their union representation, and the ability to secure redress of their grievances through a neutral grievance procedure. The collective bargaining process was rendered impotent to protect employees from changes in their terms and conditions of employment because, according to the court, the carrier was privileged to repudiate the contract and cease recognizing the union arbitrarily and unilaterally.

There is another important matter worth describing in connection with the Texas International-Continental merger. On October 31, 1982, the effective date of the merger, Continental Air Corporation terminated pension plans covering certain employees of Texas International and Continental. From documents we have obtained from the Pension Benefit Guaranty Corporation, it appears that on January 1, 1982 there were 6,530 active participants in the Continental Air Lines, Inc. Retirement Income Plan. Most of the active participants were nonunion ground employees in the passenger service classification. To our knowledge the company never adopted a proposed new defined benefit plan which it promised to former Continental employees in various filings with the Securities and Exchange Commission.

The company used the "merger" of two of its subsidiaries, Texas International and Continental Airlines, as an excuse to capture pension assets. Thus, the Continental Air Lines Inc. Retirement Plan became a source of cash for Continental Air Corporation and its parent, Texas Air Corporation.

In Amendment No. 1 to Form S-3 filed by Texas Air Corporation with the Securities and Exchange Commission (received February 14, 1983) by the S.E.C. the following appears:

Pg. 4 "Texas Air's consolidated fourth quarter results reflect the sale of an office building by CAL which resulted in a $22,000,000 gain, as well as a $25,500,000 gain from changes in actuarial assumptions and the termination of certain pension plan."

Pg. 8 ". . . Texas Air's results for the fourth quarter of 1982 reflect a gain of $19,000,000 attributable to the withdrawal of $16,500,000 from the CAL pension plan and to the recognition of a $2,500,000 gain with respect to the termination of the TXI pension plan."

"The $16,500,000 received by CAL represents CAL's share of the excess, as of the termination date of the plan's assets over its liabilities . . . The plan had also provided *generous early retirement* benefits, which were discontinued upon *termination* of the plan. A group of employees who are eligible for early retirement has claimed that those early retirement benefits should instead be satisfied through the purchase of annuities." Even with the additional costs of providing the early retirement benefit, the company will still emerge with $10.5 million from the unilateral termination of the Continental pension plan. To our knowledge the Continental employees still do not have any pension plan providing benefits for service after October 31, 1982.

On page 33 of the Form S-1 the company states that a proposed new pension plan (defined contribution) will be implemented to cover "all officers of the Company . . ,; along with substantially all other non-collective bargaining unit employees. . . ." But at least one officer of the Company has a much better pension arrangement.

Mr. Richard Adams (Senior Vice President) is entitled under his employment contract to a total annual retirement benefit . . . equal to 75 percent of his average annual contractual compensation out of the last five years immediately preceding retirement to the extent required to provide the foregoing benefit, the Company has agreed to supplement the benefits payable under its pension plan . . . If Mr. Adams retires at his current contractual rate, his annual retirement benefits will be approximately $126,000.

The generous pension made available to Mr. Adams contrasts starkly with the pension treatment of rank-and-file employees.

We are fearful that similar misfortunes may occur in future merger cases, and in today's deregulated atmosphere, merger activity to prevent insolvency is common. Mr. Lorenzo's record with his employees' unions is not good. From the creation of New York Air as non-union, which the Texas International unions fought strenously, the merger activity and ouster of the Teamsters Union, which we challenged, to the recent bankruptcy filing, layoff of two-thirds of the workforce, and 50 percent

slashing of wages, Mr. Lorenzo has exhibited a flagrant disregard of his workers' rights and a comprehensive union-busting strategy. We predict that his reorganization plans will have no role for unions.

IV. Conclusion

We are discouraged at the apparent lack of safeguards to prevent erosion of the collective bargaining system through the bankruptcy device. Unfortunately, the bankruptcy courts appear to be insensitive to the rights of workers. With few exceptions, they have readily approved contract rejections and sanctioned questionable practices, like those at Braniff described above, which jeopardize funds available for compensating workers.

We are also concerned with the course which the National Labor Relations Board may take in the increasing number of bankruptcy related cases. For example, we are concerned it did not support our position in the *Bildisco* case that bargaining with the union over needed contract relief should be a prerequisite for contract rejection. While it agreed that bargaining is desirable, it disagreed that bargaining should be required. In our view, that is not enough to assure the maintenance of the collective bargaining system. In addition, the NLRB refused to issue a complaint against Cooper-Jarrett, Inc., a liquidating trucking firm. While conceding that the Company had unlawfully refused to bargain with the union, it declined to seek even monetary relief because of the bankruptcy proceedings. We fear that this approach will doom collective bargaining.

While management may rejoice now at their victories, we suggest that the cheering may subside when the economy begins to reel from the effects of an emasculated collective bargaining process. The alternatives to the collective bargaining process are corporate chaos and industrial strife.

The actual impact of these bankruptcies will extend far beyond employee victims and their families. Despite the relative strength of company assets, creditors and suppliers risk losing millions of dollars because of the Chapter 11 filing. Reorganization plans do not pay 100 cents on the dollar. Investors often suffer substantial losses. Accounts payable and other liabilities are frozen until the reorganization is resolved. The effect is that all creditors and suppliers will have to share the burden of the company's anti-union strategy. Finally, we believe that companies who honor their labor obligations will be outraged by predatory business policies of their "bankrupt" competitors. Certainly, spheres broader than just labor will view this as a fraud. As Senator Robert Dole stated after the Manville filing, "America's bankruptcy system can ill afford the additional strains placed upon it by those who would use its protection for shelter against personal or corporate attacks where other remedies . . . would seem more appropriate." (quoted in Wall Street Journal, August 30, 1982).

BANKRUPTCY PROCEEDINGS OF CLASS I CARRIERS SINCE PASSAGE OF MOTOR CARRIER ACT OF 1980

Date of bankruptcy	Company	Status
5-18-82	Akers-Central Motor Lines, Inc	Liquidating.
3-19-82	Boss-Linco Lines, Inc	Liquidating.
8-1-80	Brada Miller Freight System	Liquidating.
1-25-83	Briggs Transportation Company	Operating.
10-7-81	Chief Freight Lines	Liquidating.
12-28-81	Cooper-Jarrett, Inc	Liquidating.
8-21-81	Courier-Newsom Express, Inc	Liquidated.
8-12-81	Fowler and Williams, Inc	Liquidated.
1-31-83	General Highway Express	Operating.
2-9-83	Gordons Transports, Inc	Liquidating.
7-28-82	Hemingway Transport	Operating.[1]
7-15-83	IML Freight	Operating.
7-8-83	Maislin Transport, Inc	Liquidating.
3-2-82	Mid-American Lines, Inc	Liquidated.
1-4-83	Midwest Emery Freight Systems, Inc	Operating.
10-14-82	Motor Freight Express, Inc	Liquidating.
4-26-82	Spector-Red Ball	Liquidating.
11-26-82	Superior Forwarding Co., Inc	Operating.
7-23-80	Wilson Freight	Liquidated.

[1] Operating at a minimal level while liquidating most of assets.

Mr. CLAY. Thank you. Your entire statement will be printed in the record.

Mr. SCHOESSLING. Thank you, sir.

Mr. CLAY. Miss Sand.

STATEMENT OF SUSAN BIANCI SAND, VICE PRESIDENT, ASSOCIATION OF FLIGHT ATTENDANTS, AFL-CIO

Ms. SAND. Good morning, Mr. Chairman, and members of the subcommittee.

My name is Susan Bianci Sand, and I am vice president of the Association of Flight Attendants, the largest flight attendant union in the country, representing 14 airlines and 21,000 members. We also continue to represent the flight-attendant membership on bankrupt airlines, Braniff and Airlift.

I appreciate the opportunity to appear before you this morning to describe our experience with bankruptcies and their impact on our employees and the collective-bargaining process.

Airline employees have borne the brunt already of deregulation by suffering heavy furloughs and accepting significant cuts in salaries and hard-won work rules. They are now afflicted with a round of bankruptcies in the airline industry. My statement will focus on two issues related to this subject.

First, bankruptcies create enormous personal and financial difficulties for airline workers who bear the inequitably large share of creditors' financial burden. Second, the current climate of airline bankruptcies is undermining the fabric of labor relations in the industry as a whole, as has already been testified to here.

Typically, an economically-distressed employer turns to its employees and their unions for financial relief long before it files for bankruptcy. And if the employer is in legitimate economic distress, it usually finds a sympathetic ear. In the past few years, flight attendants and other labor groups on at least a dozen airlines have agreed to freeze wages, work rules and benefits in order to reduce their company's operating costs. Within AFA we have accepted wage cuts and concessions in work rules on carriers such as Republic, Hawaiian, Aloha, Western, Airlift, and Braniff prior to their bankruptcies.

Employees and their unions are very sensitive to the need to preserve the economic viability of their employers and will go to great lengths to achieve that end. One would expect, in an aspect of our national economic policy, not to punish employees for their unions exercising this economically welcome degree of restraint and reason. Yet the contrary appears to be the case.

To understand why, we must consider what other parties are typically doing for—more accurately to—the distressed employer. Suppliers often demand cash on delivery when faced with the possibility of a bankruptcy. Customers often seek their wares or services elsewhere. Secured lenders, while often trumpeting their generosity and deferring scheduled payments of principal, typically extract security provisions and other restructuring benefits. Often, therefore, the only sacrifices are made by the workers, while the secured creditors are busily engaged in protecting, if not enhancing, their economic posture.

This disparity of contributions to the distressed employer would be unfair enough, if that was the end of the picture. However, the situation is exacerbated in the event of bankruptcy, because the impact upon the workers is compounded. And if I may deviate from my statement here momentarily, I would simply say the workers have an investment in the company that they work for and usually have difficulty finding jobs elsewhere, whereas we know that management is somewhat of a revolving door and moves on rather readily in the event of bankruptcy to other high-level positions within the industry.

In the distribution of the pie, already shriveled by the retrenchment that inevitably precedes bankruptcy, the secured lenders are first in line. They get theirs, all of theirs, before anyone else gets anything. Suppliers, swift enough to have converted their accounts to COD prebankruptcy, are in decent shape. And if the operation continues, as the debtor-in-possession they get paid right off the top as claims of administration.

But the workers, who had either surrendered or deferred pay and other benefits, are limited to a $2,000 per person, so-called "priority". The structure is hardly one to encourage respect, and not much of an incentive for workers and their unions to continue to be forthcoming in response to the cries for help.

With Braniff, payroll checks were due the day Braniff filed, but were never delivered. Thus, 1,800 active flight attendants and thousands of other employees were deprived of pay for work already performed. Theoretically, this pay is entitled to a so-called priority status to a maximum of $2,000 per employee. Realistically, however, this priority is met only after the secured lenders and claims of administration have been fully paid—and only if there still is money in the till.

Close to 10,000 creditors are waiting in line for claims in the bankrupt company, Braniff. Practically, this means that a substantial portion of those wages earned by the Braniff workers will never be paid. The flight attendants competing with these 10,000 other creditors have yet to receive a dime of their salaries due. Even when some portion of these wages is paid, it could take years before these checks are actually issued.

Another source of personal impact is the likely cancellation of health and insurance for employees resulting from the employer's failure to pay premiums. In the bankruptcies of Braniff and Airlift, policies were cancelled without employee knowledge, and before bankruptcy petitions were filed. The impact on those who had incurred expenses needs little embellishment.

In addition, there are other grevious consequences for individual employees, such as loss of accrued vacation, loss of seniority rights, failure to reimburse expenses that were already approved by the company and requested by the company.

Some former Braniff flight attendants have accepted jobs at Continental, only to suffer yet another bankruptcy.

As a result of either legislative ambivalence or inattentiveness to detail, the status of the airline collective-bargaining agreement after the filing of the bankruptcy petition is unclear. Despite the traditional specialized concern that the Railway Labor Act pacts be differentiated from other labor pacts, they do not terminate at spe-

cific dates and self-help can only be initiated after an exhaustive process to preserve stability.

Airline labor contracts seem to be confined to the same limbo status as other labor contracts in the bankruptcy setting. The last thing an airline attempting reorganization under the bankruptcy law needs, and the last thing the union workers need, is an unhealthy dose of labor instability. Yet that's exactly what the deregulation laws and the bankruptcy laws seem to prescribe. Even worse, airlines are abusing the bankruptcy system to deliberately create labor instability, even to circumvent the collective-bargaining process. The most blatant example of this is Continental's recent bankruptcy and voiding of the contracts of the pilots and flight attendants in spite of the willingness of those workers to negotiate.

Our experience with Braniff further illustrates the tenuousness of the collective bargaining relationship following a bankruptcy. Last fall, bankrupt Braniff and Pacific Southwest Airlines announced a tentative plan to operate a joint venture using the Braniff employees. After exhaustive negotiations, reducing down to a bare bones agreement between the parties, the end result was that we were unable to conclude an agreement over seniority rights for the workers, for the Braniff workers, who had worked many, many years on Braniff. When the company failed to agree to this provision of seniority rights, they moved right back into the bankruptcy court and asked the judge to void its flight attendant and pilot contracts in spite of our efforts to try to conclude an agreement and to get Braniff flying under the umbrella of PSA.

According to Howard Putnam, Braniff's chairman, abrogation of the contracts was necessary to provide it more flexibility in seeking out other carriers interested in a joint venture. In January, the bankruptcy judge ruled that the flight attendant and pilot contract should be rejected, applying the standards set forth in the 1980 third circuit court *Bildisco* decision, which is currently before the Supreme Court.

Later that month, the bankruptcy court also approved Braniff's new proposal to lease equipment to PSA for operation on former Braniff routes. This proposal included only a vague reference to special consideration for the Braniff workers, but no guarantee of hiring on a seniority basis. This leasing venture was halted by the fifth circuit court on the grounds that Braniff could not transfer its landing slots to PSA.

We did learn from the Braniff bankruptcy experience. We learned that despite efforts by flight attendants and other employees to assist their company by accepting significant salary concessions prior to the bankruptcy, and by renegotiating an even more Spartan contract to support the company's proposed joint venture, our efforts were rewarded by a disregard of our seniority rights and abrogation of our labor contracts.

The Braniff bankruptcy has had a ripple effect, disrupting labor relations at other AFA carriers. Following Braniff's filing for reorganization under chapter 11, labor negotiators for profitable and unprofitable carriers alike referred to the Braniff example as a justification for their extreme bargaining positions. We have seen this effort made at United Airlines, at Piedmont Airlines, at Ozark Air-

lines, and Frontier Airlines. The implicit threat of filing for bankruptcy hangs over every flight attendant at the negotiating table.

On several occasions our employers have used the direct threat of bankruptcy as a blatant bargaining ploy. In December 1982, Hawaiian Airlines announced to its three unions that it would shut down operations on January 1, 1983, if a total of $10 million in concessions was not forthcoming by the unions. Although the company later extended the deadline by 3 days, this left less than a month for the employees to audit the company's books, develop a bargaining position, and conduct reasonable negotiations.

Despite good faith bargaining by the unions which resulted in an agreement on January 5, the company, nevertheless, on January 4, sent out termination letters to employees and canceled some flights the following day. The flight attendants had agreed to accept a $1.5 million share of the concessions, including a 20-percent cut in hourly wages, in return for profit sharing.

Similar economic blackmail has taken place more recently on other airlines. Western Airline employees who have cooperatively provided needed financial relief to the company by accepting pay cuts in recent years, nevertheless received another company ultimatum late this summer. The ultimatum was that it would close down operations and file for bankruptcy if 4 out of 5 of its unions did not agree to a 10-percent cut in wages by September 13.

The unions agreed to accept a 10-percent cut for 1 year contingent upon the implementation of employee stock and profit-sharing plans. More recently, on Frontier Airlines, employees were informed that because Continental had cut labor costs and fares since filing for bankruptcy, Frontier would match its fares and have to effect matching labor costs.

Flight attendants and other employees on Hawaiian and Western have practiced restraint and cooperated by agreeing to necessary financial relief through pay cuts, pay freezes, and work rule changes in previous collective-bargaining contracts. For the companies to then suddenly impose unreasonable deadlines and threaten bankruptcy abuses both long-term labor relations and the bankruptcy system itself.

In yet another case, an airline's implicit threat of voiding its flight attendant contract has permitted it to disregard the agreement. Airlift filed for bankruptcy in June of 1981. In the flight attendant contract, which was signed in July of 1981, the company and the union agreed that should the carrier resume passenger operations, both parties would renegotiate the contract's economic provisions. When the company did resume passenger operations this past summer, we expressed our willingness to renegotiate the contract which would reduce costs for the company while preserving noncost items for the workers. After cursory negotiations, the company began passenger operations without regard to the flight attendant contract, implicitly threatening to legally abrogate the contract.

Bankruptcies disrupt labor relations in yet another way. They strain the resources of the unions representing the affected employees. For the AFA, the Braniff bankruptcy required not only continuing legal costs throughout the bankruptcy, but hundreds of hours of staff time assisting the flight attendants in their bank-

ruptcy claims and providing information on job possibilities or the status of new flight attendant contracts negotiated.

Abuse of the bankruptcy laws to create labor instability is particularly onerous in the airline industry. Unlike industries under the National Labor Relations Act, airline labor negotiations are required by the Railway Labor Act to exhaust elaborate procedures, including mediation and a cooling off period, before the company can invoke unilateral changes in working conditions, or before the union can resort to self-help. These sometimes interminable procedures are designed to minimize the possibility of labor disputes and resultant disruption to the customer.

Recent practices of airline managers to threaten bankruptcy, impose arbitrary deadlines, and to abrogate labor contracts violates the very premise of labor stability which the Railway Labor Act seeks to achieve.

In summary, current bankruptcy laws create tremendous personal and financial loss for the affected workers and treat the employees inequitably relative to the other creditors. The apparent ease with which bankruptcy courts now permit abrogation of collective-bargaining contracts has a devastating impact on aviation labor relations, which are already reeling under the turmoil of deregulation. If courts continue to facilitate voiding their contracts, unions will be encouraged to stop negotiating concessions because they know their contracts will ultimately be rejected.

We urge you to address the inequities apparent in the legal framework designed to deal with the inevitable failures in any system. Individual employees should be fully protected in their wage and benefit entitlement and equity should control the relative interest of all those affected by the bankruptcy of the company. Labor contracts should be preserved in a place during reorganization efforts. We must put a stop to the current abuse of bankruptcy laws to undermine and circumvent our collective-bargaining process.

Thank you for your attention.

Mr. CLAY. Thank you.

Can you describe in greater detail your statement that the current willingness of bankruptcy courts to disregard labor contracts means that you no longer have an incentive to make concessions?

Ms. SAND. Well, I hope that that doesn't come to pass, Chairman Clay. However, it is extremely difficult for us to encourage our workers to take the company seriously when they make threats of economic distress, given the current pattern in the industry. We know on Braniff Airlines, frankly, that regardless of how many concessions we gave Braniff, that company was probably going to go bellyup anyhow. But given everything that has happened since Braniff, it is extremely difficult to hold the workers together and convince them that they should trust the company.

Mr. CLAY. Mr. Duffy, how has the threat of bankruptcy affected your bargaining strategies?

Captain DUFFY. I think it undermines it considerably, Mr. Clay. If we know the next step that the company can take, regardless of its justification, is to move to the bankruptcy court and unilaterally do away with the agreements, it certainly doesn't give us as strong a position at the bargaining table and we think it works

against the collective-bargaining process. You have a very uneven situation there now. The company now can say "you either do it our way or we'll go to court and throw out the agreement and we'll impose the rules that we're trying to bargain with you on now." It's a bad situation.

Mr. CLAY. How will it affect your future bargaining strategies?

Captain DUFFY. I think it gives the companies a considerable leg up at the table. If we know that the process cannot be played out, then the company has a decided advantage in dealing with our negotiating committees. Of course, it undermines our membership as well because if they know the next step will be as what has happened here in Continental, that their wages will be cut in half and these emergency work rules will be imposed upon them, then why should they not just capitulate at the table? That's not what the labor laws intended to happen at the bargaining table.

Mr. CLAY. What monetary concessions and what rule concessions have you agreed to with Continental?

Captain DUFFY. Just to bring you up to the filing, we had the previous year given back to the company about $100 million in concessions, both in work rules and in direct wage cuts, which have resulted in the layoff of some of our pilots. The company, in this current round, had come to us and said, "we need $60 million more". Our bargaining group down there had said up front to them, and in a press release and in a statement to them across the negotiating table, "We will do whatever is necessary to return this company to profitability." We put one caveat on it, and that was, "Open your books to us and let us verify that what you're telling us is true, and not just Continental Airlines, but the parent corporation as well, Texas Air Corp.", because we have found that a great shell game exists in these holding companies, and it's very difficult for us to see what the resources really are because of the ability to flow assets back and forth. But with that one caveat, we said we'll do whatever is necessary.

The next thing we were hit with was a chapter 11 filing, the imposition of emergency work rules, and the cutting of the salaries in half. That is not the collective-bargaining process.

Mr. CLAY. What is the situation with Eastern Airlines? Have you offered any monetary concessions or any work rule concessions?

Captain DUFFY. I would draw a very distinct line between what is going on with Eastern and what we are currently dealing with on Continental. With Continental we have a management that has a record of not liking unions and a record of bad personnel policies. That is not true on Eastern. On Eastern, we are approaching it in just the way we started to approach Continental. We said "Show us your books," and they're in the process of doing that.

We would like to make our own independent evaluation of your financial condition and what you are presenting to us as your financial condition, and after that we'll respond.

Sometimes we are cast in a bad role in this thing because labor costs do represent a significant portion of the operating cost in the airline business. I don't think that's going to change. But we've got a very good history in this business, the employees, of responding

to our company's needs, and that's for a very good reason. As Susan was saying, we are tied inextricably to our companies through our seniority list, and while managements may have the golden parachute and hop from corporation to corporation, we don't. When the company goes, we go.

For that reason, last year we gave the companies back $1 billion in labor concessions in this industry. So I don't think anyone can say we're intransigent. But I think we also have a right to not accept at face value everything the company presents to us across the table because not all the companies are honest with us.

Mr. CLAY. Thank you.

Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

Let me ask about these temporary work rules. As I understand it, your statement indicates you were in negotiations with Continental at the time of the filing. They had made an offer to you on what they wanted in terms of concessions, and the pilots apparently had taken that under consideration; is that correct?

Captain DUFFY. Yes, sir. Well, what they had come to us and said was—this was to the pilots only now—"We need $60 million."

They presented a proposed way to get to that $60 million, but said we'll accept it with some flexibility. We said back to them:

We want to respond to that; we want to do whatever we need to return the company to profitability, but open the books.

Mr. MILLER. What was the next event that took place?

Captain DUFFY. The next event that took place was the chapter 11 filing.

Mr. MILLER. So you had the chapter 11 filing, and the next event that took place after the chapter 11 filing was what?

Captain DUFFY. The imposition of unilateral work rules, which are the harshest I have seen in this industry, and the cutting of salaries by 50 percent—which I will say is worse than the company's proposal to us when they said they wanted $60 million in concessions.

Mr. MILLER. My understanding is that the employees were then sent a letter that outlined the work rules—this is an outline, and apparently this is not the full text of the——

Captain DUFFY. No. They're in a thicker form.

Mr. MILLER. And then the pilots were each told to sign up, if they agreed to work by these temporary work rules; is that correct?

Captain DUFFY. That's correct.

Mr. MILLER. In my meeting yesterday at the San Francisco airport with a number of pilots—not just of Continental but of a number of major carriers—there was concern expressed similar to the concern you expressed this morning about this idea of 16 hours of duty and 8 hours rest, that you could double back on that requirement.

Can you explain what you believe these temporary work rules allow?

Captain DUFFY. Mr. Miller, one of the problems that we had in getting our story out is that people confuse flight time and duty time. The Federal air regulations only speak to time aloft, hard

time in the air. In fact, on about a 3 to 1 average we are on duty, and there is no Federal air regulation as to how long you can be on duty.

I think that is largely because our contracts have specified very hard limits to that, typically 12 or 13 hours, with the possibility to extend for 2 additional hours. But there is a maximum time that you can remain on duty from the time you report until the time you sign out.

The reason for that is, on an up and down series of legs, you spend a lot of time sitting around doing nothing. I mean, 2 hours somewhere, 3 hours the next place, but during that time, of course, you continue to tire from the point that you first signed on. The 8-hour limitation is strictly a time in the air, but the 16 hours that is referred to here was the imposed duty limit by Continental.

This particular situation that I mentioned that happened in Honolulu, the crew had been on duty 15 hours and 30 minutes, and the company tried to encourage them to fly another leg, which would have put them on duty almost 30 hours.

This is significant because back in the thirties we had something going on that was called pilot pushing. Pilot pushing was the ability of management to grab a pilot, pull him aside, and say "You take that leg, you take that airplane, and you go to the next place, or you won't be working for us any more." Our pilot contracts have stopped that. That was the most terrible thing that pilots dealt with. They had the economic push of "you won't be working here any more" versus their own conscience about taking that airplane. Laws should stop that, Mr. Miller. The traveling public should not be faced with that.

Mr. MILLER. As I understand it, at least as it was explained to me yesterday, that's what was accomplished by the contract. The FAA sets out these periods of time, and they had been modified with the contract. I guess what concerns me is the suggestion that, as long as you're within the FAA standards, everything is just fine. But as we have seen time and again, after each tragic occurrence, the FAA standards are modified because they failed to anticipate various conditions that existed at that time, or the requirements of pilots.

I am also concerned, as was explained to me yesterday, the pilots apparently are being taken from Texas International and brought to Continental to fly because of equipment changes. The heavy planes had been grounded. You're flying, what, 727's and DC-9's? You have a number of people in Continental who are either out on strike or not qualified to fly those airplanes, so it brings into concern, as one who spends a great number of hours in the air, about familiarity with airports, routes, and conditions.

When I first came to Congress we had a very tragic episode at Dulles. Later, it was determined that the pilot had very little knowledge of the flight patterns into Dulles Airport and there was apparently cause for some confusion within the cockpit.

Finally, I guess what troubles me is that you have a history of labor negotiations that are built-up into a contract. And that contract according to the law, as I understand the Railway Labor Act, does not really lapse. When the contract date runs out you are forced into negotiations because there is apparently a public policy

perceived that we should not interrupt this commerce, that we should try to get these parties together. And so you go through mediation, you go through a cooling off period, to try to work that out.

But apparently what happened on the 24th was simply that that contract was torn up and these rules that came from out of nowhere, have now been imposed and we're not sure what the status of that is in terms of the flying public. You know, there are sort of presumptions by people who get on airplanes, that there's a senior officer and there's a certain amount of experience and that the attendants have experience—you know, this kind of rotating, you bring people through on walk-throughs and they are given first aid training and they are there as emergency personnel maybe first and foremost as opposed to serving meals.

But as I understand it, again in the attendant field, under the temporary work rules, in fact what we now have is a pool of hourly workers who will be called for duty; if the duty is not performed, they will be sent home and there will be no pay received. They will be paid only for actual flight time, if I read the attendant rules correct. Is that also true?

Ms. SAND. That's my understanding. There is a woman representative for the Union of Flight Attendants from Continental, Congressman Miller, that will be speaking to you later on the——

Mr. MILLER. Well, at the top of the work rules here, where it lays out the schedule of what people will be paid per hour, flight attendants, it's underlined. It says: "The company will pay flight attendants only for what they fly." So apparently if you're called in to work for a 2-hour flight and you drive in, you show up, you wait for your flight, the flight is canceled, one, you will not be paid, and two, you will only be paid for those 2 hours. Is that correct?

Ms. SAND. If you fly.

Mr. MILLER. If you fly.

My other understanding—and I don't know if you can testify to this, Mr. Duffy—is that there has been substantial recruiting of flight attendants, as early as May, to create a pool of qualified people in this labor force at various bases that Continental had. Is that correct?

Captain DUFFY. That's right, Mr. Miller. When the machinists went on strike, as they were getting ready to go on strike, there was some thought that the Continental flight attendants might honor their picket lines. So that management began to recruit a bunch of strikebreakers and had them in reserve. That same pool is the pool that you're talking about.

As you know, Continental management announced yesterday that it was going to hire replacement pilots as well. We have tried to tell the traveling public—Continental management was very big on the fact that "Don't worry, traveling public; these are the same pilots that were in the air before the strike took place" and not to worry. We pointed out at that time that it may have been the same people, but the work rules that they operate under were dramatically changed.

Second, now you cannot be assured who is going to be in that cockpit because if they are going to, in fact, use replacement pilots, they are not the old Continental pilots that provided the safety

standards that the traveling public, as you referred to, were accustomed to when they got on a Continental airplane.

Mr. CLAY. The time of the gentleman has expired.

Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I ask unanimous consent to have inserted into the record this statement. I will not read it.

Mr. CLAY. Yes. Without objection, so ordered.

[The prepared statement of Hon. Marge Roukema follows:]

PREPARED STATEMENT OF HON. MARGE ROUKEMA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. Chairman: I would like to express my appreciation to the witnesses for appearing before us today. Like most Members of Congress, I am an air traveller myself and the recent developments in the industry are troublesome to say the least. Pleased to provide a forum for discussion.

However, we should be aware that, however sympathetic we may be towards their plight, our ability to act is limited, because the Committee holds no jurisdiction over either the Bankruptcy Code or the Railway Labor Act, which governs labor relations in the airline industry.

In addition to hearing from the witnesses today, we are also waiting for a Supreme Court decision in the *Bildisco* case, which should be dispositive of the questions as to the effects of a Chapter 11 reorganization upon collective bargaining agreements. This case may have certian generic principles as relates to collective bargaining rights NLRBA. For now, we will leave that question to the Supreme Court, but I would also emphasize that, in attempting to save failing businesses, the Chapter 11 reorganization process works to the ultimate benefit of the employees if it is successful in that it saves many if not all of their jobs. Clearly, if the business fails, this is disadvantageous to both the employer and the employees.

Such considerations, however, do not excuse an abuse of the Chapter 11 process to escape existing obligations. While I am sure we will hear testimony that addresses the question of whether such abuses have occurred, the ultimate decision can only be competently made by the Bankruptcy Court, which has the ability and the expertise to carefully review the evidence in the matter.

Therefore, the Subcommittee should proceed cautiously in these deliberations in recognition of both the scope of the problems and the limits of this Committee.

Mr. CLAY. In addition, Mr. Miller, did you want your letter and the work rules inserted?

Mr. MILLER. Yes, Mr. Chairman.

Mr. CLAY. Without objection, so ordered.

[The information follows:]

CONTINENTAL AIRLINES,
September 24, 1983.

To: All employees

You are all aware of the large financial losses which Continental Airlines has been suffering—approximately $500 million (before taxes and special items) since 1979, the first year after the passage of the Airline Deregulation Act. Our recent performance has been even more disastrous. Due in substantial part to the IAM strike we lost more than $25 million in July and August (normally our best months).

You are also aware of our efforts to reverse these losses. We recently proposed a massive restructuring of the Company whereby the employees would become its major shareholders and would be the beneficiaries of an extremely generous profit sharing plan. This was part of a program to reduce our annual labor costs by $150 million. Unfortunately the Pilot and Flight Attendant Unions did not accept these proposals.

Had these proposals been accepted, the Company would have been in a position to reverse its pattern of losses and build a highly successful company. Without acceptance of these proposals, there is no future for the Company as presently constituted. And without prompt action, there is a danger that we will run out of cash, thereby drowning our hopes to revitalize the Company.

We therefore have no choice but to seek protection under Chapter 11 of the Federal Bankruptcy Laws. This will be done before the opening of business tomorrow morning. Upon filing of the Chapter 11 petition we will be continuing business as debtor-in-possession. Simultaneously, as debtor-in-possession, we intend to move before the Bankruptcy Court to reject all of our union contracts in accordance with the Bankruptcy laws and, to the extent that it may be deemed a contract, our Employee Policy Manual.

Continental Airlines is NOT going out of business. Initially we intend to fly almost all of our foreign operations and to shortly restore a portion of our domestic operations; our goal is to get back to a full and profitable level of our operations in the near future. However, the terms on which we, as debtor-in-possession, will be offering employment will be vastly different from those in effect prior to the filing of the bankruptcy petition. We must operate with market place labor costs. Those terms are set forth in the attachments to this notice.

Because of the contemplated initial reduction in the size of our operations, we will be required to furlough many of our employees prior to our filing for reorganization. Such furloughs will be made without prejudice to our rights as a debtor-in-possession. These furloughs are effective as of 5:00 p.m. (C.D.T.) September 24, 1983. The furloughs apply to (1) management, clerical, and maintenance employees (unless specifically notified that they are being retained), and (2) all personnel at stations and reservations offices to be closed indefinitely.

Pilots, flight attendants, agents, clerical and reservations personnel located or based at the "open cities" (as shown on Attachment A) will be subject to emergency work rules established by the Company to provide for the wages, hours, and working conditions for these employees. These emergency work rules have been sent to all "open cities" for posting and distribution.

We are determined to become a profitable company which is able to compete in today's deregulated marketplace. With your help we will succeed.

Sincerely,

FRANK LORENZO,
Chairman and President.

CONTINENTAL AIRLINES DEBTOR-IN-POSSESSION FLIGHT ATTENDANT EMERGENCY WORK RULES HIGHLIGHTS

I. Pay and benefits

(A) *Pay rates.* 1st year—$13.00 per hour; 2nd year—$14.00 per hour; 3rd year—$15.00 per hour; 4th year—$16.47 per hour.

The Company will pay flight attendants only for what they fly.

The Company will publish new rates of pay for flight attendants not currently on the active payroll or who do not remain on the active payroll after 12/1/83 and are subsequently recalled.

(B) *Vacation.* 1-4 years of continuous service—1 week; 5-15 years of continuous service—2 weeks; 15 + years of continuous service— 3 weeks.

(C) Pension plans which had previously been in effect for employees under this Agreement will be terminated or suspended. Subject to agreement with the Union of Flight Attendants and approval by the Internal Revenue Service and the Bankruptcy Court, the Company will endeavor to design and implement a program to provide for profit sharing and stock purchase plans.

(D) *Group Insurance.* Modified and requires monthly contribution of $25/$50.

(E) Per diem paid at $1.00 per hour—paid only on trips with a legal rest period.

(F) Maximum sick leave and occupational injury accrual—85 hours—sick leave or occupational injury paid only to a month and pay total of 65 hours for bid run holders, 60 hours for reserves. Flight attendants who are unable to do inflight work due to injury or illness may be required to do ground duties.

II. Work rules

(A) Bids may be built up to 85 hours. Flight attendants required to fly their line—no balancing.

Flight attendants responsible for ensuring that new monthly bid award does not interfere with previous bid line. Bid run holders may have scheduled "R" days.

(B) Rigs used for bid construction only. No pay or credit in actual schedule for rigs or DPM.

(C) Quarterly review concept to make up time lost.

(D) Maximum scheduled domestic duty period of 14 hours maximum of 16 actual hours required. International maximum scheduled duty period 16 hours, 17½ actual hours required.

(E) Company determines crew size.

(F) Company can determine what passenger service duties are to be performed by flight attendants. Not limited to work on the aircraft.

III. General

(A) No severance allowance or required notice of furlough.

(B) Flight attendants pay moving expenses.

(C) All hotels selected by the company.

(D) No uniform cleaning allowance. Continental buys first uniform for new hires. Flight attendants buy replacement items or new uniform if style changes.

(E) Part time flight attendants may be utilized.

(F) Company will determine and publish first flight attendant duties in the flight attendant manual.

(G) Paycheck shortages greater than $50 will be corrected within two (2) days if not due to the flight attendants neglect or mistake.

(H) Suspension of most work rules to enable Company to staff flights during this or other emergency situations.

Flight Attendant Name:
Employee Number:
Senority Number (system):
Date Contacted:
I accept emergency work rules:
I do not accept emergency work rules:
Flight Attendant Signature:
Supervisor Signature:
Accepted by telephone:
Remarks:

Mrs. ROUKEMA. I do appreciate the testimony that I have heard here. Captain Duffy, I'm sorry I was not here earlier to hear your full testimony.

I think it should be noted that there is no direct jurisdiction of this subcommittee on the subject of the National Railway Act or bankruptcy laws, but there are some obvious implications for the generic problems that we face with the National Labor Relations Act. From that point of view, I would like to pursue a couple of things while recognizing that we don't have competency or jurisdiction on bankruptcy.

You have suggested, all three of you in one way or another, that the collective-bargaining agreements have been grossly violated and that, even given the financial distress of the airlines, there should have been an effort made to renegotiate terms of the agreement. But as a practical matter, how quickly could this have been done without jeopardizing the survival of the company, whether it be Continental or any other company? I am concerned that maybe we're getting into a question here not only that is totally impractical, the collective-bargaining rights under those financially stressed conditions, and on the other hand the problem, as Mr. Schoessling stated, a cynical strategy concerning businesses' use of bankruptcy reorganization, which perhaps implies that maybe the bankruptcy thresholds are not at a proper level.

I wonder if you can reconcile from your perspective these problems. It's really a tiger by the tail here.

Captain DUFFY. It is, and in this particular case of Continental—I'm obviously an airline pilot and not an attorney, so that's why I will give you only the judgment of our members, but also the legal judgment that I've been furnished.

Mrs. ROUKEMA. Yes, please.

Captain DUFFY. You've got a company that had $50 million in cash and all of its liabilities current when they filed, with an additional $200 million in receivables, with the backing of the Texas Air Corp., which had even more. So we seriously questioned the precipice that they seemed to be——

Mrs. ROUKEMA. You questioned whether or not they qualify under chapter 11?

Captain DUFFY. Oh, absolutely.

And then second, I think the serious question that has to be answered here, is what happens to the contract from the time of the filing until a ruling is made by some judge, and then what judge that should be—let me just concentrate on that for a minute because that can go on for a long time. What we have had here is the company's ability to use the act and to unilaterally impose an even harsher settlement than it had asked for prior to the filing. That does not put us in an equal position in dealing with them.

Mrs. ROUKEMA. Mr. Schoessling?

Mr. SCHOESSLING. I don't think you become bankrupt overnight. I think the drain comes on the company over a period of time. Of course, in our situation, where these companies have told us about their insolvency, we took a look at their figures and tried to work with them. Many times it was impossible for us to do that, even though they were insolvent, even though they were going bankrupt.

Some of the things that caused our employers—the large trucking company is a little bit different than the airlines. To go out of business was the seriousness, the devastating effect of deregulation of the trucking industry which caused many small companies to start operating and not taking into consideration profit at all, but simply whether they could get a headhaul. Many times they were able, through a broker, an independent owner came into business. He bought himself a truck. He had a down payment and he had some credit. He would buy himself a truck and he would be promised that for perhaps 60 or 90 days he's going to have a contract and he's going to make money and he'll have a good business.

He was mistaken, he was badly informed, because at the end of a period of time—maybe he did have the headhaul and the return and all, but pretty soon he was running out of it. He would get a headhaul and then he would have to go to some broker and take any type of an amount of money to get him back home. He lost money. Sometimes he came home just for the fuel money. We lost many of our large employers who just went out of business because they——

Mrs. ROUKEMA. Isn't that an indictment of deregulation? That's the third leg of this triangle here.

Mr. SCHOESSLING. Even so, we know in the airlines some of the things that caused the problem. When we talk about Braniff, we know what happened with Braniff. It wasn't a world carrier, but deregulation came about and suddenly Braniff decided that they were going to be world carriers. They were going to leave Texas and the little airfields and they became world carriers, starting to fly all over the world. What did they have to do? They had to buy airplanes at exorbitant interest rates, and they asked our people to

take wage cuts. When they asked us to take wage cuts, they didn't put that money back in the business. All they did was to further their price cutting so that they could take the business away from somebody else. So we had an endless chain of operations caused by these companies. They were using our wage cuts to further bankrupt themselves.

Mrs. ROUKEMA. Of course, if it had worked——

Mr. SCHOESSLING. Did it?

Mrs. ROUKEMA. I say, of course, if it had worked, what you're finding at the other——

Mr. SCHOESSLING. Well, we can say now that it didn't work.

Mrs. ROUKEMA. Putting aside the Braniff case, I think the more general questions are what we should be focusing on here today. I don't think we are going to reverse deregulation. The question is, in the deregulation climate, how can we best accommodate the bankruptcy requirements that are legitimate. There are legitimacies——

Mr. SCHOESSLING. That are legitimate?

Mrs. ROUKEMA. That are legitimate, yes; absolutely—not in all cases, but that's for bankruptcy courts to decide; is it not?

Mr. SCHOESSLING. In our situation of companies going bankrupt, as I said at the outset, they want to advance their financial condition, and so do we. We have proven time after time again that if they come and talk to us before they jump into the bankruptcy——

Mrs. ROUKEMA. Let me ask you, practically speaking, though, going back to my first question, how long does that take to——

Mr. SCHOESSLING. It doesn't take too long for either side to know the financial condition, because we, as employees of a given company, are able to determine whether the company is losing or making money.

Mrs. ROUKEMA. But are you suggesting a veto power over the question of chapter 11?

Mr. SCHOESSLING. No; all we say is that——

Mrs. ROUKEMA. Are you, Mr. Duffy?

Captain DUFFY. A veto by the unions?

Mrs. ROUKEMA. Yes.

Captain DUFFY. Certainly not. We think the test——

Mrs. ROUKEMA. What's the test?

Captain DUFFY. We think the test of allowing someone into chapter 11 should be a very stringent one. But second, we think the ability of the bankruptcy courts to throw out the labor agreements is a far stretch of anything that was ever contemplated.

Mrs. ROUKEMA. I think for the record, Mr. Chairman, it should be noted, if it hasn't already been noted prior to my attendance at this hearing, that that issue is before the Supreme Court now in the *Bildisco* case, correct?

Captain DUFFY. Right, and that's—you know, we can't wait for a decision. But, unfortunately, we are confronted with these problems in the meantime and that's why we're here.

Mr. MILLER. Will the gentlewoman yield?

Mrs. ROUKEMA. Yes, I will.

Mr. MILLER. I think that point is what is of concern, certainly to the workers in this industry, and other industries, and I think it should be of concern to this committee. The concern is that you

now have the ability—apparently Mr. Lorenzo feels he does—to run out, file bankruptcy, tear up the union contract, and then run back and hide in the bankruptcy proceedings.

In *Bildisco,* we see this occurred in 1980 and now they're in the Supreme Court in 1983. You're talking about making the workers wait that period of time after an employer unilaterally tears up the contract. What do the workers do in the meantime before they get a ruling while the employer is enjoying the fruits of his unilateral action.

Mrs. ROUKEMA. Well, I'm suggesting that we have to operate under the laws, and there are implications here for the NLRA, but certainly the question of the adequacy of the bankruptcy laws is another issue.

Mr. MILLER. The question is, do the bankruptcy laws preempt the labor laws of this country? You have a body of law that says these people should stay at the table, and one party tears the contract up by using the bankruptcy law.

Mrs. ROUKEMA. We'll know that when the Supreme Court speaks, won't we, and we are a country of laws.

Mr. MILLER. Or we'll know that when these families are broke and out of work and lost their seniority and their jobs.

Mrs. ROUKEMA. Thank you, Mr. Duffy.

Mr. CLAY. Mr. Bartlett.

Mr. BARTLETT. Thank you, Mr. Chairman.

Mr. Chairman, given the fact that this committee has no jurisdiction over either the bankruptcy code or the interpretation by the Supreme Court under the current case that's before it that would settle this, or the Railway Labor Act, which has jurisdiction by Energy and Commerce, I am nevertheless hopeful that this hearing will be useful.

I am hopeful that this hearing will focus on the nature of the problem in the airline industry and in labor-management negotiations, which is an economic problem, and in the losses that airlines and, therefore, employees, have been suffering for the past several years.

I am hopeful we don't encourage a hysteria-based reaction of blaming the sickness on the patient, which I think we're in some danger of doing, because I believe the patient is sick in part because of noncompetitive labor costs and that's why unions have been back in to renegotiations for the last several years—and I commend both labor and management in many situations for those renegotiations.

If I could just for a second focus my questions on some of the economics. The test for chapter 11 should, indeed, be stringent, as Mr. Duffy said. What would you estimate Continental's losses to be this year and then what were they in prior years?

Captain DUFFY. They had lost a considerable amount of money, and as I said, the labor groups kept trying to make adjustments to stem those losses. The management, in turn, kept dropping their fares so that the yields were down and they wouldn't make a profit, and then came back to the labor groups again and said give me some more. We were in the process—and I think this is an important point here. We were in the process of trying to accommodate that when the company took this unilateral move.

You're right, the big problem may be deregulation or the nonprofitability of the industry, or whatever, or maybe those two together. But our point here is, this company had no need to do it. We feel this company is following a carefully laid-out scenario to bust its unions on its property. We think we demonstrated our willingness to cooperate by saying "whatever you need to return to profitability, we will do," and we were in the process of that conversation when they made their move.

Mr. BARTLETT. Mr. Duffy, I wish you would clarify for me your earlier testimony—and I may have incorrectly heard it. I had thought you had said that the union position was "we will do everything that's necessary to save the company, but first you have to open your books," which is a reasonable request.

But second, didn't you say you have to tie it to the parent company, which you do not have a contract with? Was that the other requirement?

Captain DUFFY. What we said was open all the books, because we have found a very free flow of assets between Texas Air Corp., Continental Air Corp., Continental Airlines, New York Air, and if the company is going to come to us with any legitimacy and say it is either give us concessions or we fold the company, we need to see if there has been a moving around of assets to contrive the condition of the company.

I don't think that's unreasonable. We wanted to do it in an expeditious manner. There was no stringing out of the process here. As a matter of fact, we were in midprocess when they pulled the plug.

Mr. BARTLETT. Let me inquire with more precision then, as to your position. Was it your position that you would or would not have required the use of assets of the other companies, which you don't have contracts with, in order to shore up Continental, or did you just want to look at those assets?

Captain DUFFY. No; our main point was we wanted to make sure that what was being presented to us as an operating loss and as a continuing drain of assets from Continental Airlines was not, in fact, a drain into Texas Air Corp. and into New York Air. Those are two different situations entirely. We can't stop that. I mean, one man owns the whole show. We just wanted to see the show.

Mr. BARTLETT. So you would not have in anyway required the use of assets of other companies to shore up Continental in your negotiations?

Captain DUFFY. Well, we never got to see the determination. I will tell you up front that he said he needed $150 million from the entire employee group. I can only speak for the pilots, but I know the flight attendants had already offered him $40 million and he could impose a settlement on the other people, so he would have gotten what he wanted to out of them. And we told him we would do whatever we need to do. So, you know, why go to bankruptcy?

Mr. BARTLETT. On a more generic issue, do you share the concern that many have expressed about the major carriers' labor costs as a percentage of their operating cost as compared to the other low-fare airlines, with Eastern Airlines in the high, for example, of 37-percent labor costs versus Muse Air of 19-percent labor cost? Is that a concern in terms of the viability of your employers?

Captain DUFFY. Mr. Bartlett, we shared that concern to the tune of $1 billion last year. Certainly we have, as the industry has cut its teeth on deregulation, or cut its wrists, really, we have tried to share with management their problems. I will tell you there is a record out there on Republic, on Pan Am, where a sensitive management has come to its employees and they have worked out a sensible arrangement. What we've got here is a harsh management trying to impose union-busting tactics through the use of chapter 11, and that's what we're asking this committee to step into.

Mr. BARTLETT. So if bankruptcy is required, then—you said a little while ago it ought to be a stringent test, and we talked about losses of Continental of up to $150 million perhaps this year, and in the middle of renegotiation—if bankruptcy then, in your opinion, is required to save a company and have it continue to operate, and to save jobs for those remaining employees, then you would see chapter 11 bankruptcy as a useful tool, a productive tool for the employees?

Captain DUFFY. The stringent test, I guess, is my answer. What we've got here is a company that was current, completely current, on its liabilities, that had a wealth of cash reserves and collectable receivables, many from their own subcorporations. So there was no we can't pay the fuel bill tomorrow, and at the very moment they were in the process of getting economic concessions from their employees. So I just don't know what test that we could put out there that would allow this type of activity, or should morally allow it.

Mr. BARTLETT. Mr. Duffy, to switch the subject a bit from Continental—and you make a very persuasive case, incidentally—to switch the subject from Continental to Eastern, which I believe we will have some testimony from later on today, as I understand there is negotiation presently for a 15-percent pay cut that Eastern contends would help make it competitive.

Will the employees be allowed to vote on that pay cut, and should they?

Captain DUFFY. I can only speak for mine. Mine will. We have membership ratification and they will have the opportunity to vote on it.

Just to bring you up to date on where we are on that, we are doing with Eastern exactly what we said should have been done on Continental. Eastern has opened its books to us. We are in the process of verifying what they have told us. And when we get finished with that, then we'll make our response to them. And yes, our people will get to vote. As a matter of fact, they just finished voting about 2 months ago or 3 months ago in approving a significant concession to the contract on Eastern.

Mr. BARTLETT. I know that to be correct.

Do you believe that in cases like that there should be some sort of Federal requirement or fair labor requirement that employees be allowed to vote on a contract by secret ballot?

Captain DUFFY. We have had a mixed bag, I will tell you. We just started membership ratification of contracts back last November, and while I know a lot of other unions have done it for a long time, we are still kind of new at it. So maybe some of the others that have been at it a lot longer can comment with more authority.

We have had a little difficulty, for one thing, if a company comes to you that you've got to move fast. Membership ratification takes a little while for us. It is not something where you can move with great speed. I think that might be a problem. On the other hand, if you've got a leadership that's trying to frustrate a membership, maybe it's a good thing. I think it's going to work well for us, but we're still in the teething stage.

Mr. BARTLETT. My time has expired, but I would inquire whether the rest of the panel would have an opinion on the requirement——

Mr. MILLER [presiding]. The rest of the panel may respond.

Ms. SAND. Congressman Bartlett, we have used membership ratification for 10 to 15 years in our association, and it proves very productive and very fruitful for us because the worker than has the ability basically to exercise their vote pro or con, whatever the proposal is to them. We find it very, very constructive and very fruitful.

Whether there should be national policy on it, I think it should really be left to the individual unions and the leadership to determine that, and the membership influences their leadership accordingly.

Mr. BARTLETT. Mr. Schoessling.

Mr. SCHOESSLING. I would like to say, as far as the Teamsters are concerned, we have always used the membership ratification process, either by open meeting or, generally, by referendum. In the case of Pan Am and World Airways, when we gave them relief, it was done strictly by membership ratification. It worked out very well for both of us.

Mr. MILLER. I think you also had one voted down, right?

Mr. SCHOESSLING. Oh, yes.

Mr. MILLER. So it works both ways.

Mr. SCHOESSLING. But where we have saved the company, it has worked very well.

Mr. MILLER. Mr. Duffy, I guess something bothers me about the process that we see being invoked by Continental. There is no requirement for insolvency under chapter 11—you enter this process only with the requirement that you be in good faith; you need not be insolvent. But what we see happening, at least the facts that have been laid out to date, is that this corporation has manipulated chapter 11 so that it treats its workers differently than any of the other creditors in this process. As I think was outlined in part of the testimony, the other creditors are protected. Determinations will be made.

But with respect to the workers something is terribly unfair, if you have the ability under the bankruptcy proceedings to do that which you would not be allowed to do absent the bankruptcy proceedings—and that is, tear up the contract, to get rid of seniority rights, to get rid of vacation, to get rid of sick leave, to change the hourly wage, to change the work rules and conditions under which people work. If you can tear that up at the very outset of a bankruptcy proceeding, something that the National Labor Relations Act wouldn't allow you to do, something that the Railway Labor Act would not allow you to do, then because you pick up the shield of bankruptcy, you can put the burden of the solvency of the com-

pany onto the workers and onto the workers only. Everybody else stands in their place until a creditors' committee is organized and they determine at what rate they will be paid, whether it's 100 cents on the dollar or whether it's something less than that.

But not with the workers. Your losses have already begun to run. They started to run from the day the temporary or the emergency work rules were set out and implemented. People lost their seniority as of that date; they lost their accrued vacation as of that date; the pension plan was changed as of that date. So the workers, in fact, are being treated very, very differently than anybody else in this bankruptcy proceeding. I think that's not as the American public perceives it, that bankruptcy stays your actions, its a hardship, but you kind of divvie up the assets of the individual and/or of the corporation.

That's not what's happening here. What is happening here is that the workers' assets are being divvied up and everybody else is being held in position. If Continental is as solvent as you suggest, they may very well be able to pay all of their other creditors 100 cents on the dollar and your losses are, in fact, gone, unless the court makes a ruling that this was illegal, that this was improper, that they had no right. But as we pointed out, no matter what happens in the *Bildisco* case, that ruling may not be on point to your situation, so your members, the flight attendants, machinists, and others, will find themselves in the situation of waiting perhaps years to determine whether or not they are entitled to any benefits. If the court rules it was illegal, it may be those damages that puts it into chapter 7.

So now you're supposed to sit down at the bargaining table during this process—as I guess is going on today, right, with Continental there's a meeting?

Captain DUFFY. Yes.

Mr. MILLER. But one party at the table has the shield of bankruptcy and the other party has no rights because what they are essentially hourly workers.

Captain DUFFY. Of course, you have your finger on a key point of the fairness of this whole thing. There is no maintenance of the status quo. The company has no ability to go to its fuel supplier and say we're only going to pay you 50 percent of what we were paying you per gallon and have that backed by the bankruptcy court. But it has the ability to come to its employees and say we're only going to pay you 50 percent of what we were paying you.

Mr. MILLER. But we don't even know if they have that ability, but they've done it.

Captain DUFFY. Unilaterally they've done it.

Mr. MILLER. Right; but there is some question. Obviously the court will make that determination.

Captain DUFFY. We are going to take it on full and strong in the courts, but while we are waiting for the courts to rule, they have it in place. As bad as the money is, the working conditions are worse.

Ms. SAND. If I could just add a comment, I think that it's important from a historical perspective to go back to what you were saying, Congressman Miller, about the laws that govern the collective-bargaining effort. Specifically in the transportation industry, we are governed by the Railway Labor Act. This is a public trans-

portation system and there is a reason why we spend tedious months in negotiations trying to get a contract, because we're trying to not disrupt the commerce and the air transportation system of this country. That's the burden that the workers in the airline industry carry which is different than the workers in other industries. We go beyond the amendable dates of our contract and work under old contract rules.

These laws, the Railway Labor Act and the National Labor Relations Act, were effected in place, in order to retain stability, and were not intended to be abrogated in the middle before the conclusion of the contract. At the request of the employers, management supported the National Labor Relations Act and the Railway Labor Act to keep peace and to avoid any economic threat during the term and the life of the contract, and to be forced to reopen their contract to change the working conditions. And now what the workers find is that management has found another loophole or another threat to come to the table and to load their guns with, and here we stand, if you will, with unloaded guns, while they're on the other side of the table threatening bankruptcy disruption to our lives, as well as the rest of the traveling public.

I think the historical perspective of how we got and how we are supposed to negotiate is very important here. We are willing to negotiate, as Captain Duffy has said, and the Teamsters and the AFA has said. We have negotiated, since deregulation, to deal with the problems of the industry. But the industry has now found a new, clever, and illegal way, in our opinion, to threaten us at the bargaining table.

Mr. MILLER. Let me just summarize, Mr. Chairman, this point. This committee does have jurisdiction over labor-management relations, and working hours and conditions, and we certainly have the imagination to pursue our jurisdiction under those Acts.

But let me suggest that that body of law of collective bargaining is predicated on is some balance between labor and management. What you have here is the introduction of a weapon for which there is no counterweapon on the other side of the table. I think you put it quite aptly. One gun is loaded and the other isn't. It's a sorry situation where we have started to use those kinds of euphemisms to discuss labor-management relations, but I think that points out how serious this is.

You may have a strike, and you may have a walkout, you know, and you may have a lot of things, but there's a balance in that process. There is no provision for employees, who find out that their variable rate mortgage went up, to say to the employer "You must pay me more because I find myself in a set of economic circumstances that are untenable." There is no flip side to this coin.

If, in fact, the bankruptcy laws can override—and that's the issue—can they override the body of labor law in this country, and if they can, I, for one, would strongly suggest that this committee exercise its absolute fullest jurisdiction with respect to that body of labor law, be it the Railway Act, which we do not have, or the expansion of the National Labor Relations Act, and/or a new body of law to address the new rule of bankruptcy in this country.

Mr. CLAY. Let me say to the witnesses in thanking you for your testimony that it's the intent of this committee to do precisely that,

if the courts fail to interpret the law in this area as Congress intended.

Thank you for your testimony.

Mr. SCHOESSLING. Thank you.

Captain DUFFY. Thank you.

Mr. MILLER. The next panel that the committee will hear from will be Mr. William Scheri, who is the representative of the International Association of Machinists and the airline coordinator for that union; Ms. Patricia Fink, who is president of Local 553, Transit Workers Union; and Ms. Claudia Lampe, who is the chair of the bargaining committee for the Union of Flight Attendants.

Will you come forward and identify yourself for the reporter. If you have additional witnesses, would the representatives who brought them please identify everybody at the table for the reporter and for the committee.

Mr. SCHERI. For the Machinists, to my left here is John Vela, Eastern Airlines mechanic, Houston, Tex. I am William L. Scheri, airline coordinator for the IAM.

Ms. LAMPE. I am Claudia Lampe, the chief negotiator from Continental Airlines, and I have with me today Mrs. Karen Bramlitt, who is one of the flight attendants from Continental with 20 years seniority, who will no longer be able to work under the work rules imposed at Continental.

Ms. FINK. My name is Patricia Fink. I am the president of Local 553, Transport Workers Union. I represent the 6,300 flight attendants that work for Eastern Airlines. I have with me a flight attendant, Gert Cowen, and she will be able to testify also.

STATEMENTS OF WILLIAM L. SCHERI, AIRLINE COORDINATOR, INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS, AFL-CIO, ACCOMPANIED BY JOHN VELA, PRESIDENT, LOCAL 2198, IAM, HOUSTON, TEX.

Mr. MILLER. Mr. Scheri, do you want to proceed?

Mr. SCHERI. Yes, Mr. Chairman. Behind me is our attorney, William G. Mahoney, from Washington, D.C. Sitting next to him is a member of our organization and presently out on strike against Continental Airlines, and he's a senior mechanic, and that is Harold Alexander from Los Angeles, who also will be putting forward comments to this committee.

Mr. MILLER. Let me just say that your statements will be included in the record in their entirety, and the extent to which you can summarize would be appreciated by the committee.

Mr. SCHERI. Mr. Chairman, we do have a very brief statement here.

First of all, on behalf of our organization, I want to thank you, Mr. Chairman, and members of this committee, for extending an invite to the International Association of Machinists and Aerospace Workers on this most important subject matter that I believe is the latest gimmick within our industry.

The International Association of Machinists and Aerospace Workers maintains approximately 25 contracts with some 17 major and national air carriers covering the wages, rules and working conditions of airline mechanics and related personnel, flight dis-

patchers, clerical and agent personnel, pursuant to the provisions of the Railway Labor Act.

Our union is the largest union within the air transport industry. We represent in excess of 70,000 members, covering 162 agreements, which takes in the majors, the nationals, commuter carriers, and also the service companies that are attached to the industry.

Until the advent of deregulation, labor-management relations in the air transport industry were quite stable. Since deregulation, that relationship has deteriorated in varying degrees on different carriers because of havoc and turmoil in the industry resulting in the layoff of thousands of employees and the displacement of many additional thousands.

In our organization alone, since the enactment or passage of the Airline Deregulation Act of 1978, presently we have 13,000 members either in a furloughed category, and further, we have witnessed four carriers that have approached chapter 11 or either have gone bankrupt as a result of this act. They are Air New England Airlines, Braniff Airways, Alt Air Airlines, and the present situation of chapter 11 filing on Continental Airlines.

And, relatively recently, a new threat to the employees has appeared on the scene, and it is a threat as well to the very existence of collective bargaining in the air transport industry. It is the utilization by airline managements of the bankruptcy laws to abrogate their collective-bargaining agreement obligations. The managements of certain airlines have either used or are threatening to use these laws in order to reject, as it is called, their collective-bargaining agreements with their employee representatives.

Under the Railway Labor Act, a union must make and maintain agreements with those air carriers whose employees the union is certified to represent. These agreements must be negotiated in good faith, and once executed, the employees, the unions, and the employers—for good or ill—are stuck with them. No union and no individual or group of employees, nor management, can vary the terms or disavow the terms of such agreements without the consent of all parties to them.

Today, however, we find that if a carrier is dissatisfied with its union contract, it need only apply for bankruptcy under chapter 11 of the bankruptcy code and move to disaffirm its collective-bargaining agreements in order to be rid of the obligations they contain. Such carriers would also deprive their employees of their collective bargaining representatives by contending that under chapter 11 they have become new entities with none of the obligations of their precedessor airline except those which may continue, in their view, to be advantageous to them.

As you know, Continental Airlines has done this and Eastern is threatening to do it.

In the case of Continental, IAM's contract was in negotiations—as you well know. Texas International integrated the operations of Continental into TXI and changed TXI's name to Continental. IAM had executed an agreement with Texas International Airlines in 1981—and that contract was still in full force and effect through 1984—and we wished to bring the Continental wage rates into line with industry standards. Continental adamantly refused and insist-

ed upon huge concessions, to which IAM could not agree without rendering its contract virtually worthless. These concessions included the furlough of approximately one-third of our membership on Continental Airlines. And in that figure is 800 being displaced.

Their work, such as commissary work, which we maintained as an organization by our members in Los Angeles, Denver, and Houston, Tex., was farmed out prior to our strike with Continental Airlines to one of the biggest nonunion organizations in this country, the Marriott Corp. Further, our cabin service type of employees, their work has been farmed out to various vendors across this country. Our fuelers, in approximately five different locations on that system, their work has also been farmed out to various service companies, some union and some nonunion. And this was all done prior to our strike, by Continental forcing our membership out on strike, on August 13. We have proof to this effect and we will be arguing our point in our litigation that is presently in the district court in Texas.

Agreeing to these concessions would have meant that Continental employees performing identical work at the same point would have received substantially different rates of pay, or that TXI employees, with whom TXI, now Continental, had signed a collective-bargaining agreement, would have to agree to cut their pay to the Continental level. Eventually IAM was forced to strike.

I would like to point out to you, Mr. Chairman, to you and your committee, that we were trying to get one agreement on Continental Airlines property and for the last 21 years the IAM has had a beautiful reputation in concluding contracts on that property in a peaceful manner. In fact, we have never been in a 30-day countdown under the Railway Labor Act on that property.

Since Mr. Lorenzo appeared on the scene shortly after the acquisition by Continental Airlines, as was pointed out here earlier today, in my opinion he is the No. 1 union buster in this country and trying to create a labor-free environment by negating our contracts and the contracts of other organizations, the testimony that you heard here earlier, from other labor organizations that represent people on that property.

Continental then turned on its flight crews and sought effectively to cut their compensation in half. Failing to achieve its end with the flight crews, Continental jumped into chapter 11 and immediately disaffirmed its labor contracts, but not other contracts that it desired to maintain in order to keep a so-called new pared-down operation going with scab labor. That's why I point out to you, Mr. Chairman, these are the so-called contracts with the vendors, whether they are union or nonunion, they are still in effect.

Just 3 months ago—I'm sorry. Before I get into that, we have also been served—this is the third set of work rules, and the way Continental termed it to me, as the chief negotiator for the IAM last Friday in Chicago, they call them emergency work rules. I would like to point out to the committee that this is the third set that the IAM has received since they forced our membership on strike on August 13.

The first set was presented to the so-called scabs, the new hires and people that crossed our picket lines, on August 13. The second set was revised on September 12. And then, as Mr. Duffy and other

representatives of the unions testified earlier, the latest set came out on September 24 as they filed chapter 11.

This carrier had the audacity to try to get our organization, with our people out in the street for I guess almost 50 days now, or a little better, to try to get this organization to sign an agreement for a low-cost operation, and yet, on the other side of their mouth, they had filed before the bankruptcy court in Texas to negate our contracts. They said, "We must have this agreement from you, Bill, on behalf of your international union."

Well, it was nothing but a ploy—to meet with our union anyway—to set us up, saying they met with the IAM and the IAM was unreasonable.

Well, I have been a rep for many years in this industry and my name will never be affixed on what I call a piece of garbage—excuse my expression—on these so-called emergency work rules that they have enacted with the scabs they have working as ground employees.

Further, and next, just 3 months ago Eastern executed a collective-bargaining agreement with the IAM, which is to continue until at least January 1, 1985. Almost immediately following its execution of that contract, Eastern asked IAM to forego the very wage rates Eastern had just agreed to pay after months of very intensive, arduous negotiations—and this after Eastern employees had taken a voluntary wage cut in 1976 in response to management's pleas to save the airline.

Upon IAM's refusal to accede to Eastern's request this time, Eastern, perhaps inspired by Continental's actions, informed its employees through video tape by its President, Frank Borman, that it might have to use chapter 11 in order to bring its labor costs into line.

That does not amaze me because I was also involved in those negotiations a few months ago, and I heard the same story then that I'm hearing now from the President of Eastern Airlines, Mr. Frank Borman. In our negotiatons, for information to this committee, he said that either he get a laundry list of concessions from our union, and if we did not agree to give him the concessions, he was going to go chapter 11 within approximately 11 to 14 days. For your information, our strike deadline on Eastern was March 23, 1983. We concluded a fair and equitable agreement with Mr. Borman and company and it was so ratified by our membership. Here it is October and the same threat is being placed, not only on the machinist members on that property, but all employees represented by other labor organizations or in a nonunion capacity.

Now in this country we have a time-tested congressional scheme for resolving disputes over the negotiation of labor agreements, and that scheme is called the Railway Labor Act. Air transport employees and unions are bound by that act and until now we thought air carrier managements were also bound by that act.

If Continental, and perhaps Eastern, are successful in using chapter 11 to rid themselves of their collective-bargaining contracts, many other airlines will follow suit; the contracts solemnly executed pursuant to the provisions of the Railway Labor Act quite literally will not be worth the paper they are written on, and the

credibility of management in any proposed undertaking with unions or employees will be nonexistent.

No joint venture can succeed without the mutual trust and the respect of the parties involved. No contract or series of contracts, no law or group of laws, can insure success if one of the two parties involved—in this case airline management—has lost the trust and respect of the other party.

Stability in labor-management relations in the air transport industry will disintegrate if Continental and perhaps Eastern become successful in their latest moves. We will have returned to those unfortunate and sad times before the law required contracts to be honored by those who executed them. We again will be in an era of chaos.

As far as the International Association of Machinists, there was testimony put forward by the Association of Flight Attendants earlier—and I would be remiss if I didn't state that—we totally agree with the statements put forth by that organizations regarding Braniff Airways.

Mr. MILLER. Let me ask you to summarize. We're going to run out of time very, very quickly before the House goes into session.

Mr. SCHERI. One quick last statement, if I may.

The threat of chapter 11 that faced our union in our last round of bargaining—and it started back in October of 1981—Continental was the last outstanding contract from that round of bargaining. I might point out to you, Mr. Chairman, our organization has been threatened with chapter 11 on TWA during the course of negotiations, Eastern Airlines, and now Continental.

I would like to thank you for allowing our comments. If time allows me, I would like to put our rank-and-file members on and give you a true story on their feelings and how it affects them as mechanics on both Continental and Eastern Airlines.

Mr. MILLER. Let me go through the witness list that we have here.

Miss Fink, you're next. The shorter you can keep your opening statements, the more time we will have for questions and for the other witnesses. We would appreciate it.

STATEMENT OF PATRICIA FINK, PRESIDENT, TRANSPORT WORKER UNION LOCAL 553

Ms. FINK. I'll do my best, Mr. Chairman.

The flight attendants of Eastern Airlines are in a unique situation in that we are in the midst of a 30-day countdown under the Railway Labor Act. Mr. Borman's threat to file chapter 11 under the Bankruptcy Act adds a greater peril to our particular negotiations. Unfortunately, since the day Mr. Borman made this threat to the employees, including the flight attendants, we have had little or no progress in negotiations. The negotiations have been going on directly between management and the flight attendants and not with the negotiating team.

I would like to take this opportunity to thank you for allowing me to present to you our concerns and apprehensions over certain events which have recently transpired at Eastern Airlines. These events are likely to have an indelible effect not only upon the

Transport Workers Union of America, who I represent, but on every member of every union that is covered by the provisions of the Railway Labor Act.

Although it is a fundamental principle of collective bargaining that discussions and negotiations between labor and management are to be confined to representatives of each, rather than between management and individual employees. On September 19, Mr. Frank Borman unilaterally gave Eastern employees an ultimatum: Accept substantial give-backs within the next 23 days or Eastern will seek protection of the bankruptcy courts.

As I will briefly describe in my testimony, and hopefully more fully in answer to your questions, Eastern has embarked upon a sophisticated, well-organized campaign to circumvent this fundamental principle of collective bargaining. As a consequence of this campaign, Eastern has been temporarily successful in convincing many employees to accept unilateral company give-back proposals despite the fact that many of those employees have not even had the opportunity to assess the true impact of those proposals.

Ironically, on the very day that Mr. Borman announced that he would take Eastern into bankruptcy unless all employees agreed to immediate substantial give-backs, Merrill Lynch, the prestigious Wall Street brokerage house, issued bullish buy recommendations. Merrill Lynch stated—and I would like to quote:

> We expect the operating results for Eastern to show a dramatic turn for the better very soon. This may only be moderately visible in the third quarter, mainly because Eastern does not have the summertime seasonal peak of most airlines. But it should be very dramatically evident in the fourth quarter, when we expect both an operating profit and net profit large enough to bring the company to essentially a break-even net earnings level for the year 1983.

Merrill Lynch also stated that it expects Eastern to post peak earnings of $4 to $5 per share by 1985-86. It should also be noted that Merrill's recommendation was based on the assumption that employees' salaries would remain at present levels and not substantially cut as proposed by Mr. Borman.

Based upon the differences of view on Eastern's true financial condition, as well as the timing of Eastern's ultimatum, it seems clear on its face that Eastern is using either the imminent threat of bankruptcy or the actuality of bankruptcy as a weapon in its labor relations arsenal.

As you may know, our contract with Eastern expired approximately 18 months ago. Since that time we have consistently bargained with Eastern in good faith in the hope of entering into a new contract. During that time, to further evidence our good faith, our members have continually performed their jobs without the benefit and protection of a current contract in order to avoid any discontinuance or other disruption of service.

Because our members have felt and continue to feel that Eastern was not negotiating in good faith, approximately 2 months ago our members voted, by an overwhelming majority of 97 percent, to authorize their union to call a strike unless a new contract is agreed to by October 12—and this would be the end of the cooling off period under the Railway Labor Act.

Without any fear for the consequences of the obvious use of the bankruptcy laws as a strike-busting tactic, Eastern chose October

12, the very day the cooling off period is scheduled to terminate, as the day that all employees must acquiesce to Eastern's unilateral give-back demands or face chapter 11 bankruptcy.

It is our view that Eastern has, through the very nature and timing of its bankruptcy ultimatum, attempted to unfairly circumvent negotiation with the sole and exclusive bargaining agent for all Eastern flight attendants, and that is the Transport Workers Union.

It is significant to note that these very same practices have been held by the NLRB, as well as the courts, to constitute illegal, unfair labor practices under the provisions of the National Labor Relations Act.

Eastern has utilized virtually every means available to it to make statements on television, radio, and the press with respect to the imminence of bankruptcy unless all employees acquiesce to Mr. Borman's give-back demands. In fact, flight attendants are currently being shown a very slick, well-produced video tape of Mr. Borman almost on a daily basis when they report to work.

In a further effort to persuade flight attendants to put pressure on their union, Eastern has engaged in a campaign involving such questionable practices as: Management preparation of petitions purporting to have been prepared by flight attendants; supervisor notation of the identities of the flight attendants who refuse to sign these promanagement petitions; management arranging for TV interviews of flight attendants who endorse Mr. Borman's proposals; and disseminating false and misleading information with respect to those Eastern give-back proposals.

Moreover, Eastern has systematically prevented the unions from gathering sufficient information to determine the financial validity of statements made by the company. We are aware of at least one other union which has requested permission to inspect Eastern's books and records, as well as Eastern's assumptions that support Mr. Borman's prediction of imminent bankruptcy. Despite Mr. Borman's insistence that immediate action on his proposals is necessary, this request for access to the books has still not been completely granted.

In view of the timing of Eastern's ultimatum, the slick Madison Avenue marketing of Eastern's positions, and the union's inability to review the information necessary to verify or refute Eastern's financial assumptions, Eastern has, in contradiction of all accepted precepts of labor relations, made it difficult, if not totally impossible, for the union to fulfill one of its fundamental roles—that is, disseminating accurate information to its membership.

It is important to emphasize that, unlike all other unionized Eastern employees, our membership still does not have a valid and binding contract. In fact, as I alluded to earlier, we are in what is commonly referred to as the 30-day cooling off period. However, instead of using this 30-day cooling off period as intended, that is, to attempt to reach a compromise agreement through good faith collective bargaining, Eastern has, by raising the threat of bankruptcy, undertaken a program which not only completely circumvents the intent of the cooling off period, which is provided pursuant to the Railway Labor Act, but also, in our opinion, perverts the intention of the bankruptcy laws.

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During this cooling off period our membership has been bombarded with the ridiculous argument that the fate of Eastern's 38,000 employees rests solely on whether flight attendants break rank with their union by demanding an immediate vote on proposals which have not yet even been addressed in the collective-bargaining process.

In order to protect the collective-bargaining process, which is the cornerstone of American labor-management relations, it is our view that steps must be immediately taken by the Congress to ensure that Eastern's unfair labor actions cannot and will not be repeated, either by Eastern or by other similarly situated airlines, and that Eastern will not be able to use the bankruptcy laws solely as a means to avoid its continued obligations to its employees.

I do thank you for your time and attention, and I certainly am available for any questions.

Mr. MILLER. Thank you.

Miss Lampe?

STATEMENT OF CLAUDIA LAMPE, CHIEF NEGOTIATOR, BARGAINING COMMITTEE, UNION OF FLIGHT ATTENDANTS

Ms. LAMPE. Rather than go through a lot of this a second time, I have been in bargaining at Continental for 12 or 13 years, a member of several negotiation committees. I have been flying 17 years, and over the course of my career I have seen bargaining go on for as long as 22 months and for as little as eight days.

What has happened since 1982 from the flight attendant perspective is an effort to come up with concessions in wages and work rules that have been demanded by the company. Each time a request was put on the table, that request was met by the flight attendant group, only to be rejected by management or to have no response at all.

On September 19, in response to the company's demands for a $40 million reduction in wage and productivity concessions by the flight attendants, a proposal was put on the table which complied with what the company had demanded, including 20 percent wage cuts and various other changes in productivity. We were willing to cut salaries anywhere from $200 to $400 a month or whatever was necessary to come up with the $40 million in savings through concessions and work rule changes that were being demanded by the company. Unfortunately, what we were faced with was a bankruptcy one week later, no response to proposals, and in our opinion it wasn't the economic issues that Continental was looking for, or we would have been able to come up with productivity and wage concessions months and months before. What they were really after were the noneconomic labor hits that has, indeed, been reflected in the emergency work rules.

Other than being in total agreement with everything else that has been said here today, that's it.

Mr. MILLER. Can you expand on that last statement of yours, that it was at least your belief it wasn't the economic concessions that they were after?

Ms. LAMPE. We have had so many proposals on the table that provided economic concessions—we have gone from wage freezes to

10 percent cuts, to 20 percent cuts. We have put work rules on the table that would unfortunately furlough anywhere from 300 to 400 people. All of those proposals have been rejected. What we find ourselves faced with in emergency work rules are not only more drastic things economically, but things like absolute loss of seniority, the furlough at whim, transfer by who's most available to the company as opposed to who can transfer according to seniority, and be faced with suspension of retirement plans. We have been faced with direct hits at the union affecting union security, where a portion of the group would pay dues and a portion wouldn't. All of these things as well as some very emotional issues from the flight attendant group that relates to reimposition of wage standards or appearance standards that really aren't in the economic ball park.

Mr. MILLER. Would it be fair to suggest that if all of those changes were made, as they are temporarily made in the emergency work rules, that there wouldn't be much reason to have a union?

Ms. LAMPE. That's correct.

Mr. MILLER. If you were outside of wages and hours, then the rest of this really goes to the status and the existence of what the union can provide its workers in noneconomic bargaining.

Ms. LAMPE. The company has had full knowledge for 2 years that wages and work rules are something we will negotiate over, that we are more than willing to provide whatever is necessary to get through these tough times. What we aren't willing to provide is the complete destruction of the union, of seniority, and of all the rights that flight attendants have worked so hard to acquire.

Mr. MILLER. What is the impact of the loss of seniority in the flight attendant structure?

Ms. LAMPE. Well, what it does—the woman who is with me today has been flying 20 years. She has two children and her income is used to supplement half the family's income. What her inability to exercise that seniority does, it, in effect, means she resigns or she uproots her family and moves them to a new city where she might be able to see them, if she's lucky, maybe 8 days a month, provided she gets out of this 24-hour-a-day reserve pool where she is entitled to call the company once a day to get a release to go to the grocery store.

Mr. MILLER. Do you want to comment on that, ma'am? I guess it's you we're talking about.

Ms. BRAMLITT. That's right. It's all true.

Mr. MILLER. Would you identify yourself again for the committee reporter?

STATEMENT OF KAREN BRAMLITT, FLIGHT ATTENDANT, CONTINENTAL AIRLINES

Ms. BRAMLITT. My name is Karen Bramlitt, and I have been a flight attendant for Continental for 20 years now. When he called for the chapter 11—after 14 years all we have really going for us is seniority because there are no other pay raises after that. So when he called the chapter 11, I was informed by the company that all seniority was out. I would be making $13 an hour; that's 70 percent less than I was making before—that I would be on a 24-hour call,

that I had to be at the airport within 2 hours. Well, I live in Albuquerque and I commute to Denver. That was just impossible.

The other work rules they have placed on us and want us to follow are outrageous. Our rest periods have been cut down. The main public does not realize that we do work a very hard 8-hour day. We might be on duty for 16 hours now with this new work rule. We could fly—I think it's 8 hours, hard hours—that's block to block, while you are in the air—and then they can give you as less as 8 hours rest time in between, starting the whole process over again. That includes the 8 hours that would be on travel from the airport to the hotel, your eating time and sleeping time. That is impossible to do in 8 hours, and then go ahead and work the whole trip over again.

Mr. MILLER. So the historic position of a flight attendant with seniority being able to bid routes, being able to bid work schedules and time, that was all vitiated with the emergency work rules; is that correct?

Ms. BRAMLITT. Yes. it's out the window. I usually bid——

Mr. MILLER. What about your accrued vacation?

Ms. BRAMLITT. That is gone, too. My retirement. I was going to be eligible for retirement in 1 year, and that is out the window.

Mr. MILLER. Am I interpreting this correctly at the top, that under the temporary work rules you will be paid only for that time that you fly?

Ms. BRAMLITT. Correct.

Mr. MILLER. So if you're called to the airport and you show up and the flight is delayed for several hours, and you're waiting to make that flight, you will not be paid for the time in which you're waiting at the airport for that flight?

Ms. BRAMLITT. That's right. We are just paid our hard flying time, and that's while we are in the air and not while we're sitting around or transferring or saying goodbye to the passengers or checking our emergency equipment before our preflight check. We are not paid for that. It is just a straight $13 an hour. We could be on duty up to 16 hours and be paid actually for maybe 6 hours of flying time.

Mr. MILLER. So you basically are put in the position at this point of being in a labor pool as an hourly worker, much like a worker who is referred out of a hiring hall to many employers; much like a carpenter or a steamfitter. You go out and you work in different jobs and you are paid for that period of time.

So if we carry this policy to its conclusion, we will simply have a pool of workers that will show up—and it won't make any difference if you work on Eastern or Braniff or TWA or United. You show up and you get paid your hourly rate and you're off. That's kind of the conclusion of this process. If the other airlines follow this route, we'll have a very large pool of people competing for reduced numbers of jobs and that will be it.

I think that's kind of a historic change from the public relations image of what the job of flight attendants is, their loyalty to their companies, and how they make this company so appealing to fly. I think it's a far different cry from the one that's envisioned in these work rules.

Ms. BRAMLITT. Not only will we be in a pool of workers to fly, we will also, in the new work rules that were imposed on the flight attendants who are flying now, we can do other services, too, such as ticket counter, other services that were not in our original job description. There has been no rate of pay listed for that. It's not flying time. It's ground time.

Mr. MILLER. Is that the $7.50 an hour, an agent time or——

Ms. BRAMLITT. I don't know.

Mr. MILLER. You haven't done that yet, right?

Ms. BRAMLITT. No.

Ms. LAMPE. No, I think that will be jobs done free of wages. You know, we'll just volunteer to go out and bus bags and take tickets.

Mr. MILLER. It's sort of the California image of a "touchy-feely" corporation here. [Laughter.]

Ms. LAMPE. In addition to that, there are a lot of proposals in the emergency work rules about job sharing. The implication of that is, the people who do job sharing will not even have the ability to have what few benefits are left in the emergency work rules. That job sharing is just some yet-to-be-determined salary and no benefits at all.

Mr. MILLER. Mr. Clay?

Mr. CLAY. Thank you, Mr. Chairman.

The witness for the Air Line Pilots Association stated that Continental had refused to open their books. Do any of you have any specifics regarding the financial health of either Eastern or Continental?

Mr. VELA. Mr. Chairman, my name is John Vela and I am president of Local Lodge 2198 in Houston. I am not a full-time staff member in our union, in the Machinists Union. I did serve on the negotiating committee in our last round of bargaining at Eastern, which lasted from October of 1981 through March of 1983, and during that period of time we had some consultants that was given privy to look at Eastern's book and their corporate board meetings minutes, et cetera, et cetera.

One of the things that they found out was that Eastern has a history of not showing anything in their books. It seems like if they want something they will save up for it, and particularly I'm talking about a purchase of the Braniff routes in South America. During that course of when they purchased those routes in South America, Eastern mysteriously came up with $30 million just like that. During that time, we were in the midst of negotiations and all during this negotiation process we had heard they didn't have a dime and that they couldn't concede to any of our proposals on the table. In fact, they were asking us for pay concessions of 10 percent on our old contract and using the threat of bankruptcy and using the threat of—we met in New York at 10 Rockefeller Center and we met with 23 of the major lenders of Eastern, and during that meeting the chief financial officer of Eastern Airlines, Mr. Yeoman, told us just as we were going to walk out of that meeting, he says before we fly back to Miami I want to drop a little bomb on you. He said I'm going to ask you people through Duane Andrews, who was senior vice president of labor relations, that you're going to have to take a 10 percent cut in the money that you're making right now.

At that point in time Eastern Airline's machinists union was 21—it took a 21 percent increase up front in our negotiations to bring the machinists union up to where the industry was at that point in time. So for a period of 2 years we were 21 percent behind the major trunk carriers in this industry represented by the machinists union. Not only that, we were contributing 3½ percent of our money in a variable earnings program that was negotiated back in 1977.

But to answer your question, yeah, they opened the books to us, but like I said, the accounting procedures that this company incorporated showed that this money had nothing on the books. But yet, mysteriously, they can buy routes that cost them $30 million, mysteriously they can buy a terminal in Houston, Tex. that cost them $8 million, and another $5 million to renovate. They are now building a major control center in Houston because Houston is becoming one of their hubs, a major control center with all digital computerized TV monitors for inbound flights, outbound flights, not only for our flights but for our connecting routes with Metro and our carriers that feed Eastern Airlines in Houston, Tex. So, you know, the problem that I see and the problem our members see is one of credibility.

Someone said here there should be a test—I believe it was Captain Duffy—that there should be a test in filing chapter 11. Well, to me, maybe I'm naive, but when you're financially ill, be you a separate person or a corporation, you show signs of being financially ill—you can't pay your bills, you're behind, all of these things. At Eastern Airlines, I don't see that. All I see is expansion, expansion, and expansion, a continuation of a duplication of management. Management admitted to us across the bargaining table they were duplicated to the tune of $40 million. There's a $40 million saving we could put back in the treasury right there.

Mr. CLAY. What I have been hearing all day is that the laws that were enacted to protect the workers in the collective-bargaining process are either not being enforced adequately or end runs are being made around them, such as going to the bankruptcy court.

The attitude that exists today—and I think it has been getting worse for about 14 or 15 years—is definitely antiunion. Quite definitely we have seen a lack of enforcement of the laws that were intended to protect the workers of this country.

Would you recommend to this committee that we start looking seriously at perhaps repeal of labor laws in this country and go back to where we were before the mid-thirties? I could see that you might if you're not going to be protected by the Government, and certainly the courts have been a part of this process. If you did what Continental did, you would be before a court within a matter of hours, injunctive relief would be granted, and you would either be fined substantial amounts of money or put in jail.

Mr. VELA. Absolutely. Someone said here today that we're a land of laws and we abide by those laws and we try to do that. Our union, the machinists union, and Eastern Airlines went into negotiations under section 6, openers under the act, under the Railway Labor Act, sat in negotiations across a bargaining table, through mediation, through supermediation, through a proffer of arbitration, through a count-down period, through the trauma right to the

last minute of getting an agreement right before our first strike deadline, taking that agreement out and giving our membership an opportunity to either accept or reject that agreement, which they rejected overwhelmingly, we went back into what we call super-mediation right down here on K Street at the National Mediation Service, we got an agreement out of this carrier. This carrier told us they would not give us any more. We had our facts in line. Our requests were not out of line. Obviously, the company thought that because they gave us exactly what we were asking for. We thought we had put this thing to bed. In a matter of a few weeks they were right back.

Let me tell you one of the things that happened, so this committee and the people in this room are set straight. One of the things that happened was that we offered the company an amendment to the old VEP program, the variable earnings program, which was nothing but a giveaway. That returned nothing to the employees in our union, to the machinists union. We offered Frank Borman in negotiations, through his company negotiators, a 5-percent investment bonus agreement. We offered them 5 percent. We had clearance from our membership. That 5 percent investment bonus agreement would be paid interest at 10 percent a year. That would have generated quite a substantial amount, millions of dollars, back into the corporate treasury, and we put no strings on that. They could buy airplanes, they could purchase properties, they could pay their bills, whatever it had to be.

The corporation, the board chairman, and the president of Eastern, denied the 5 percent and he pushed it back down to 3½ percent. Shortly after we ratified this agreement, he came to our chief negotiator, my president, and general chairman of my district, and said "We need an additional supplemental increase in the IBA." We were all locked in at 3½ percent, which we are committing right now out of our salary. Those increases could be as high as 25 percent. We have machinist members on Eastern Airlines that are contributing 25 percent of their weekly salary to the corporation for 10 percent interest.

You know, it comes to the point where our membership says "How much does this guy want? Does he want us to work for free? Is that the thing?" I don't know. You know, there's dedication and there's deducation.

Mr. CLAY. Thank you, Mr. Chairman.

Mr. MILLER. Mrs. Roukema.

Mrs. ROUKEMA. I have no questions.

Mr. MILLER. Mr. Bartlett.

Mr. BARTLETT. There are several other unions that are represented here today. I inquired of the pilots union earlier as to the exact agreement or offer or request that the unions had made to Continental in terms of requiring that the assets of other companies be used in negotiating the union contract with Continental. I wondered what the positions of each of your unions was.

Did you agree that the assets of the other companies would not be used and not be considered, or did you hold that out as something you thought should be done?

Mr. SCHERI. First of all, Mr. Congressman, on behalf of the IAM, we haven't really had that much of an opportunity to get into true

negotiations with Continental Airlines. It has been from day 1, for the last 23 months, ultimatums trying to be served upon this union.

As far as our organization, if we ever got into those types of spirited negotiations, he's sitting on Texas Air Corp., as we well know, with several holding companies attached thereto. I believe Captain Duffy pointed out here that there's a big switch right now of finances going across these corporations. So really, as a negotiator on behalf of IAM, we believe that our people should be receiving an industry rate on that property.

Whether you know it or not, our Continental Airlines mechanic was only making $13.45 an hour. Our Texas International mechanic, as of I guess the start of our strike, was only making $16 an hour under that agreement. There was two rates of pay on that property. We were trying, to reach an industry settlement, which is not unrealistic in my opinion, because there's an average rate of around $17.50 in this industry. So I really don't care how he gets his money within that corporation. The only thing I'm saying is that he ought to be dealing with us straight up rather than running to chapter 11 and cry poverty like he is, because I don't believe he's got poverty going at this point and trying to negate our contracts and create a labor-free environment.

Mr. BARTLETT. So, Mr. Scheri, you would have required that he use the assets of the other companies to negotiate your contract? That's my question.

Mr. SCHERI. Well, I guess a quick example, OK? I have just come through TWA negotiations a few months ago. They were claiming to our union that they were ready to go chapter 11, reorganization and all that. They did not have any money to pay our retroactivity. Once again, it was a contract we were negotiating over a period of 18 months. I am quite sure, knowing TWA, they went back to TW Corp. and got that money within house because they did meet an industry standard within our union.

Mr. BARTLETT. It's OK if you just tell me yes.

Mr. SCHERI. I'm sorry.

Mr. BARTLETT. Is it "yes"?

Mr. SCHERI. Yes; if he was moving assets and trying to conclude a fair and equitable agreement with our union.

Mr. BARTLETT. Do the other unions have a position on that?

Ms. LAMPE. As to the flight attendants, what we are interested in is this line of credibility—and I don't mean a credit line. One of the things the flight attendants are examining in this collective-bargaining process is we sort of agree that we aren't going to get into the books, either, and whether that is important to us at this point isn't the issue. We will accept on face value the fact that there is some financial difficulties with the company. It's apparent in the entire industry.

What we find hard to accept is if, indeed, there are some financial problems, and if, indeed, for 2 years we have been trying to give them wage cuts, where the flight attendants are willing to give economic concessions, where they will take cuts in salaries and change work rules, and yet those are rejected. You wonder just how desperate the corporation is when the collective-bargaining process breaks down and we're in a situation where we're trying to

give it to them, instead of as a traditional labor organization has done for bargaining in years, take it away, the credibility becomes a very big question.

Whether that would be answered for me if I saw the books or not, I can't tell you.

Mrs. ROUKEMA. Would the gentleman yield?

Mr. BARTLETT. Yes.

Mrs. ROUKEMA. Are you suggesting by that statement that there was some kind of a grand design by the company to not grant concessions and to ultimately break the union? Is that your intimation?

Ms. LAMPE. All I can tell you is after the fact, that every sign I have seen points in that direction.

Mrs. ROUKEMA. Could it not also be that they were in good faith trying to save both the airline and the benefits that the union workers had already negotiated? Is that not also a possibility?

Ms. LAMPE. I think that that's a possibility, but when you look at the records——

Mrs. ROUKEMA. Let me just say, I didn't ask any questions before because I really have a genuine sympathy for those people who are dealing with the Continental Airlines situation. However, what I have heard here with respect to Eastern has disturbed me greatly because it seems to me the people at the table here will not really open their minds to the problem as it presents itself and that there is a distinction between policies that are designed to provide survivability for both employers and employees and those policies that may be union busting. I just think some of your accusations have been rather loosely put together and they're kind of disturbing because I think there is a distinction between union busting and policies that are established in good faith for purposes of all the employees as well as the survivability of the company.

Thank you.

Mr. SCHERI. Mr. Chairman, could I give a comment back to the Congresswoman, if I may?

Mr. MILLER. It's Mr. Bartlett's time. Do you want to——

Mr. BARTLETT. For a brief response, yes, sir.

Mr. SCHERI. I guess maybe I used the word "union busting" in here, and I meant it as an individual. It is not meant very loosely. I have been around this industry and in figuring out company officials I deal with, I believe that Mr. Lorenzo was going down this track from day one with these unions——

Mrs. ROUKEMA. I made the distinction between the Continental question and the Eastern.

Mr. SCHERI. I'm sorry. OK, excuse me.

Ms. FINK. I would like to comment——

Mr. BARTLETT. Reclaiming my time for just a moment, I think the gentlelady's point was the confrontational style that we seem to see, perhaps on both sides. But as I understand it, Mr. Scheri, your union is out on strike against Continental, is that what you said?

Mr. SCHERI. Yeah, we're on a legal strike since August 13.

Mr. BARTLETT. Wouldn't you think that would add to the massive losses that Continental has already had, or, in fact, are the replacements for you—you said something about the vendors, outside con-

tractors, handling those jobs. Are they so much less costly that Continental makes more money? Are you adding to Continental's losses or profits by being out on strike?

Mr. SCHERI. I think you've got both situations going. As I said earlier, they subcontracted out to union and nonunion, and I guess when they go to a nonunion type of company the rates of pay are lesser than what is in our agreements. Of course, they eliminated *x* number of classifications from our book, a total of 800 jobs.

Mr. BARTLETT. So you're saying your strike helped the company and it had less losses, or are you——

Mr. SCHERI. I'm saying we were forced into strike. We were trying to negotiate, Congressman, and they would not ever let us negotiate. They did all this stuff prior to August 13, farming this work out to various carriers and so forth, and nothing but ultimatums to our negotiating committee for 23 months.

Mr. MILLER. The gentlemen's time has expired.

Mr. Packard.

Mr. PACKARD. I have no questions, Mr. Chairman.

Mr. MILLER. Mrs. Roukema, did you want time now to ask questions?

Mrs. ROUKEMA. No, thank you. I think there has been clarification on the point that was of concern to me.

Mr. MILLER. Miss Fink, you had some other people with you. Do they have statements that you want to put in, or did they have statements they desire to make?

Ms. FINK. No; we have a flight attendant here who is available to answer any questions you may have.

I was going to make one comment. There have been some differences of opinion in the actions of management at both Continental and Eastern. As I stated earlier, the flight attendants are in negotiations and we have not yet played out the process under the Railway Labor Act.

On September 19, when Mr. Borman gave us this ultimatum, under the Railway Labor Act we had until October 12 to negotiate a fair and equitable contract. By Mr. Borman placing that demand on the table before our negotiating team, it hindered our process and hindered our progress. What has been circulated among our flight attendants by management is just Mr. Borman's demand for his wage concessions, which has been circulated through all other employees. But management has failed to circulate to those same flight attendants the current table demands by the company. Should the flight attendants accede to Mr. Borman's current demands without benefit of a fair and equitable contract, we would be giving up so much more than any other group on the property. This threat of the bankruptcy has been used to almost destroy the collective-bargaining process.

Earlier last week we offered major concessions to the carrier and they rejected them. Those chose to negotiate directly with the employee and not to negotiate with the negotiating team. It is this threat of the bankruptcy that looms over us and looks to destroy the entire collective-bargaining process in this country.

Mr. PACKARD. Mr. Chairman, may I ask one question?

Mr. MILLER. Mr. Packard.

Mr. PACKARD. In regard to the threat of bankruptcy, do you feel that it is being illegally used and illegally administered, or are they acting within the bounds of the existing bankruptcy laws? If so, then are you recommending that there be changes in the bankruptcy law to accommodate your concerns, or that there is illegality that needs to be policed?

Ms. LAMPE. I think all I can do is sort of respond to what Captain Duffy already said today, as well as how the flight attendants at Continental perceive this. It appears to us, based upon a hindsight of the bargaining that has gone on, and the fact that all of the employees at Continental had already committed to come up with concessions to reduce costs, that 1 week later, when the company went into the bankruptcy court and filed chapter 11, that there seems to be some sort of an abuse. The fact that we were threatened with bankruptcy if we didn't come up with concessions, and then people come up with concessions, you wonder if the bankruptcy proceedings in this case really aren't to accomplish what we are saying here today, to abrogate the contracts.

It is difficult for us to know at this point whether the bankruptcy proceedings have been abused or not, since that whole area of litigation is still a gray, murky area. We don't know. But we certainly question, in reviewing the conduct of Mr. Lorenzo over the past several months, that that, indeed, is what is happening.

Mr. CLAY. Will the gentleman yield?

Mr. PACKARD. Certainly.

Mr. CLAY. I don't know what the position of the labor unions are, but the position of the chairman of this committee is that we don't need any changes in the bankruptcy law; we just need the courts to interpret the law as the Congress intended for that law to be interpreted. That was to provide assistance to companies who were experiencing extreme financial distress. In this case, it's apparent that Continental has more assets than liabilities, and I don't know how anybody can define that as being under extreme financial distress.

Mr. MILLER. Thank you very much for your time and your testimony this morning.

Excuse me. Mr. Scheri, do you have an additional witness?

Mr. SCHERI. Yes, sir; I do have a Continental mechanic here that came in from Los Angeles. and hopefully you would allow him to testify.

Mr. MILLER. Fine. I didn't know that. I didn't know he was here to testify. I thought he was here to answer questions.

Mr. SCHERI. You might have misunderstood me. I thought I made that statement earlier.

Mr. MILLER. Would you identify yourself again, sir?

STATEMENT OF HAROLD ALEXANDER, SENIOR MECHANIC, CONTINENTAL AIRLINES

Mr. ALEXANDER. Yes, sir. I am Harold Alexander and I am a mechanic at Continental Airlines, and have been for 17 years. I am currently one of the mechanics out on strike.

When we went out on strike, we did not, in our opinion, have the opportunity to accept anything. There was a wage offer for $16, but

on the other hand, they took away everything else we ever had, such as seniority, vacations, holidays. They cut down to 5 holidays a year from the standard 11. They took away our right to have moving expenses, if you moved from one city to another. There wasn't anything there, you know, for us to accept. So after the strike hit, we had some of our own people cross the picket lines and those people went in for the $16 rate and they did lose all of their seniority. After that, under one of their new work rules, they went down to $10 an hour, and some of those employees have been transferred to Denver, as an example, and after they went to Denver and Continental filed the chapter 11, they were terminated and they had no way to get back to Los Angeles, which is where their main base was. Several of them are junior employees and they had families, wives and children, and they have all been drastically affected.

Also, Continental failed to pay the employees their last 2 weeks pay, and then even asked them to continue to stay on work after that. So we are experiencing, I guess what you want to call the hard knocks. We know what it's like to be out there with no job and no prospect of having a job.

Mr. MILLER. Was the payment of your last 2 weeks wages, was that conditioned upon your agreement to stay on?

Mr. ALEXANDER. You mean after the strike hit? All they told the people was we don't know if we're going to pay you or not. You know, you can stay on if you want to, and they were picking and choosing who they wanted to keep, obviously.

They told the employees that anyone who stayed would have to go through a new physical examination. So any of the employees we had there, which there was a number of them that have had problems over the years, 10, 15, or 20 years, where you had on-the-job injuries, where one man had a brain tumor and he had that removed and he was partially paralyzed, he had been working there for about 10 years, all those employees can never get a job anywhere. They will all be on the welfare rolls, or unemployment, or whatever.

So we experienced the real hard knocks out there, the ones where the employees were really getting hurt. Your unemployment lines are going up and your welfare is going up.

Mr. MILLER. Mr. Clay.

Mr. CLAY. No questions, Mr. Chairman.

Mr. ALEXANDER. The last point on that was they notified everyone, the ones that are working plus the ones that went out on strike, both, that our pension was canceled. Now you're talking about people that have 30 years with the company, 35 years with it, and nothing to look forward to.

Mr. MILLER. Thank you very much for your testimony. It is rather incredible that an airline that at one time was the trendsetter in the industry, and was looked upon as the best-managed company in the entire industry—as somebody said yesterday, they were the Delta of their day—now is engaged in this kind of activity with apparently little regard for the well being of its employees, past or future, in terms of these stories on health insurance and pensions. It is very, very unfortunate.

Thank you very much.

Mr. ALEXANDER. One last closing point. We had two employees that died of heart attacks within the first week after the strike hit. Those employees, originally the company said they would pay the death benefits on them, and those checks bounced. So the widows even had to bury their husbands without any money.

Mr. MILLER. Thank you. Thank you very much for your time and your testimony.

Mr. CLAY [presiding]. Is there a representative from Continental Airlines in the room today? Is there a representative from Continental management? [No response.]

Well, I would like to state for the record that the committee did invite representatives from Continental. Initially they agreed to come. Subsequently, they informed us that they would not be here. I think it is quite odd that their representatives are seen constantly on talk shows, television and radio talk shows, on national TV networks, at press conferences, et cetera, but can't find the time to come before this congressional committee.

Without objection, I would like to insert in the record the letter that we wrote to Mr. Frank Lorenzo, president of Continental Airlines.

[The letter follows:]

COMMITTEE ON EDUCATION AND LABOR,
SUBCOMMITTEE ON LABOR-MANAGEMENT RELATIONS,
Washington, D.C., October 3, 1983.

Mr. FRANK LORENZO,
President, Continental Airways, Inc., Washington, D.C.

DEAR MR. LORENZO: As you know, the Subcommittee on Labor Standards and the Subcommittee on Labor-Management Relations will have a joint hearing to examine the effect of the use of chapter 11 bankruptcy proceedings on collective bargaining and the stability of industrial relations in the United States. Among the issues which the Subcommittees will examine will be recent events involving Continental Airlines and the recent and current negotiations at Eastern. This hearing will be held in Room 2261 of the Rayburn House Office Building on Wednesday, October 5, 1983.

The Subcommittee staff has been in touch with Clark Olmstad of your Washington office who had said originally he would testify at the hearings but subsequently indicated he would not be able to do so. As was stated to Mr. Olmstad, you or a representative of your choosing is welcome to testify at the hearing. I believe, as does Chairman Miller of the Subcommittee on Labor Standards, that the Subcommittees' examination of these important questions affecting not only the airline industry, but collective bargaining generally, should be an even handed and objective one; which can be best accomplished by hearing from management and labor, as well as from leading academic observers of this issue.

Should there be any questions concerning this hearing, or the details of your appearance before the Subcommittee, please feel free to have someone on your staff contact Fred Feinstein, Chief Counsel to the Subcommittee, at (202) 225-5768.

Sincerely,

WILLIAM L. CLAY,
Chairman.

Mr. CLAY. Is Mr. Morton Ehrlich, senior vice president-planning for Eastern Airlines, in the room?

Mr. EHRLICH. Yes, Mr. Chairman.

Mr. CLAY. Mr. Ehrlich, without objection, your statement will be included in the record at this point and you may proceed as you wish. You will be reading the Borman statement?

Mr. EHRLICH. Yes. What I would like to do is read parts of Colonel Borman's statement and then make myself available for whatever questions the committee may have.

Mr. CLAY. Very good.

STATEMENT OF MORTON EHRLICH, SENIOR VICE PRESIDENT—PLANNING, EASTERN AIRLINES

Mr. EHRLICH. Certainly we welcome the opportunity to participate in these hearings. Colonel Borman would have been here if we hadn't had a few other activities going on in Miami.

Our situation is not greatly different from that of a number of other major airlines. No organization or group of people or single person is responsible for the plight of the airline industry. The fare structures, routes, labor contracts, and capital structure of Eastern and many other carriers were all largely based upon an artificial environment created by years of Government regulation. The effect of deregulation has unquestionably been traumatic.

Eastern's financial performance has deteriorated substantially since 1979. For example, Eastern lost almost $253 million during the period from January 1980 through June of this year. I might add that during this same period the industry successfully finessed itself into about a $2 billion loss.

Many of the factors underlying Eastern's financial performance are not subject to its control. The depressed economy, high interest rates, salary and wage expenses, lower than anticipated growth in traffic, rising fuel costs and intense competition, including fare wars resulting from deregulation, have all interacted to affect adversely the financial condition of many of the major airlines, including Eastern. In addition, a number of factors have particularly affected Eastern in recent periods:

One, the airline industry has not really felt the benefits of a slowly recovering economy.

Florida vacation traffic has been less than expected.

Fuel prices have increased dramatically over the last few years, and fortunately they have come down somewhat during the last year.

A labor contract Eastern was forced to sign last spring rather than suffer a strike—and corresponding adjustments for other employees—increased our costs well beyond any increase in revenue.

Significant fare wars and discounting have increased each period since deregulation, and have very significantly depressed revenue.

To date, we have been unable to convince our employees' representatives of the need to make the concessions that we have requested of them.

Eastern has no intention of trying to become a low fare, minimal service airline, or of engaging in union busting to get there. Eastern must, however, reduce its labor costs in order to preserve the jobs of its over 37,000 employees.

The wage and work rule concessions that Eastern has proposed are not onerous when viewed in any realistic light. For example, even after the 15-percent pay reduction plus work rule changes that Eastern has proposed to our employees, they will still be taking home a larger pay check than they did on January 1 of this year. Since deregulation, the take-home pay of Eastern employees will have increased at a rate of approximately 7 percent per year, even after taking into account the proposed 15-percent reduction.

Wage and benefits have increased at a rate well above the rate of increases in cost of living. Even after the proposed reduction, the average Eastern employee's pay and benefits will be in excess of $39,000 a year.

Mr. Chairman and members of the committee, we think the concessions we have requested from our employees are necessary to continue Eastern as a viable airline and to preserve the jobs of our employees. Our noncontract employees agree, and about 97 percent have voted in favor of our wage reduction program. I might add, in spite of what you have read in the newspapers, and perhaps heard today, we continue to be optimistic that our unionized employees will also agree.

If we are unable to obtain the necessary agreements, however, Eastern faces very few alternatives. Continued operations without wage reductions will simply result in continually staggering losses and ultimate financial failure. The alternative is refuge under chapter 11 of the bankruptcy code to protect our assets, to maximize the return to our creditors and shareholders and to preserve the jobs of our employees. This step is a last resort and one that we hope we do not have to take. I can assure you that we do not view chapter 11 as a panacea wherein Eastern could obtain instant relief by ridding ourselves of unions.

We understand the focus of this joint hearing is upon the effect of chapter 11 on the collective-bargaining process and whether the possible ability of an employer to reject a collective-bargaining agreement in chapter 11 gives the employer an unfair advantage.

Let me inject a note of economic reality. If the contract in question is truly burdensome and an employer in chapter 11 cannot obtain relief from it, the likely result is failure. The employer is gone, the jobs are gone, and the contract is automatically rejected. We have been advised by counsel that, while collective-bargaining agreements may be rejected in bankruptcy, the courts will subject such a decision to the most careful scrutiny and will permit rejection only after a balancing of the equities.

We are advised that the law in the circuit in which we are located, in Miami, makes it clear that use of bankruptcy as a mechanism for the sole purpose of escaping a union contract is simply not permitted. We have every intention of following the law.

However, any situation with a business in financial difficulty involves a number of other parties, shareholders, bondholders, and creditors. These parties also have rights and we intend to do our best to protect them as well as to preserve the jobs of our employees. In short, Eastern will not file a chapter 11 petition as a strategy. If we file, it will only be because we have no alternative.

We thank you for soliciting our views and wish to assure the subcommittee of our desire to exhaust every avenue to achieve a negotiated resolution with our unions which in our opinion will insure the continued viability of Eastern Airlines and, most importantly, the preservation of in excess of 37,000 jobs.

[The prepared statement of Frank Borman follows:]

PREPARED STATEMENT OF FRANK BORMAN

Thank you for inviting me to appear before the Subcommittee on Labor Standards of the House Committee on Education and Labor. Eastern does face a financial

crisis caused in substantial part by its heavy burden of debt, severe operating losses, and a level of labor expense which I believe excessive for a Company operating in a deregulated industry. In light of this crisis, I am unable to appear at the joint hearing due to matters which require my presence at corporate headquarters in Miami. I have asked Mr. Morton Ehrlich, Senior Vice President-Planning, to appear at the joint hearing to represent Eastern and to make this statement on my behalf and to respond to your questions.

Eastern's present situation is not greatly different from that of a number of other major airlines. No organization or group of people or single person is responsible for the plight of the airline industry. The fare structures, routes, labor contracts, and capital structure of Eastern and many other carriers were all largely based upon an artificial environment created by years of government regulation. The effect of deregulation has been traumatic.

Eastern's financial performance has deteriorated substantially since 1979. For example, Eastern has lost over $252.6 million during the period from January, 1980 through June, 1983. Many of the factors underlying Eastern's financial performance are not subject to its control. The depressed economy, high interest rates, salary and wage expenses, lower than anticipated growth in traffic, rising fuel costs and intense competition, including fare wars resulting from deregulation, have all interacted to affect adversely the financial condition of many of the major airlines, including Eastern. In addition, a number of factors have particularly affected Eastern in recent periods:

(1) The airline industry has not really felt the benefits of a slowly recovering economy.

(2) Florida vacation traffic has been less than expected.

(3) Fuel prices have increased dramatically over the last few years, although they have come down during the last year.

(4) A labor contract Eastern was forced to sign last spring rather than suffer a strike (and corresponding adjustments for other employees) increased our costs well beyond any increase in revenue.

(5) Significant fare wars and discounting have increased each period since deregulation and have very significantly depressed revenue.

(6) To date, we have been unable to convince our employees' representatives of the need to make the concessions that we have requested of them.

Eastern has no intention of trying to become a low fare, minimal service airline or of engaging in "union busting" to get there. Eastern must, however, reduce its labor costs in order to preserve the jobs of its 37,000 plus employees. The wage and work rule concessions that Eastern has proposed are not onerous when viewed in any realistic light. For example, even after the 15 percent pay reduction plus work rule changes that Eastern has proposed to our employees, they will still be taking home a larger pay check than they did on January 1, 1983. Since deregulation, the take home pay of Eastern employees will have increased at a rate of approximately 7 percent per annum compounded even after taking into account the proposed 15 percent reduction. Wages and benefits have increased at a rate well above the rate of increases in cost of living. (Even after the proposed reduction, the average Eastern employee's pay and benefits will be over $39,000 per year.)

Mr. Chairman, we think the concessions we have requested from our employees are necessary to continue Eastern as a viable airline and to preserve the jobs of its 37,000 employees. Our non-contract employees agree and some 97 percent have voted in favor of our wage reduction program. We are cautiously optimistic that our unionized employees will also agree.

If we are unable to obtain the necessary agreements, however, Eastern faces very few alternatives. Continued operations without wage reductions will simply result in continually staggering losses and ultimate financial failure. The alternative is refuge under Chapter 11 of the Bankruptcy Code to protect our assets, to maximize the return to our creditors and shareholders and to preserve the jobs of our employees. This step is a last resort and one that we hope we do not have to take. I can assure you that we do not view Chapter 11 as a panacea wherein Eastern could obtain instant relief by ridding ourselves of unions.

We understand the focus of this joint hearing is upon the effect of Chapter 11 on the collective bargaining process and whether the possible ability of an employer to reject a collective bargaining agreement in Chapter 11 gives the employer an unfair advantage. Let me inject a note of economic reality. If the contract in question is truly burdensome and an employer in Chapter 11 cannot obtain relief from it, the likely result is failure. The employer is then gone, the jobs are gone, and the contract is automatically rejected. We have been advised by counsel that, while collective bargaining agreements may be rejected in bankruptcy, the courts will subject

such a decision to the most careful scrutiny and will permit rejection only after a balancing of the equities. We are advised that the law in the circuit in which we are located makes it clear that use of bankruptcy as a mechanism for the sole purpose of escaping a union contract is not permitted. We have every intention of following the law. However, any situation with a business in financial difficulty involves a number of other parties, shareholders, bondholders and creditors. These parties also have rights and we intend to do our best to protect them as well as to preserve the jobs of our employees.

In short, Eastern will not file a Chapter 11 petition as a strategy; if we file, it will only be because we have no alternative.

We thank you for soliciting our views and wish to assure the Subcommittee of our desire to exhaust every avenue to achieve a negotiated resolution with our unions which will ensure the continued viability of Eastern Air Lines and the preservation of 37,000 plus jobs.

Mr. CLAY. Thank you.

Mr. Ehrlich, in your testimony you mention a number of things, including fare wars resulting from deregulation that have interacted to affect adversely the financial conditions of the airline industry, including Eastern.

Did your company support deregulation?

Mr. EHRLICH. No, sir, we did not. For the 3 years prior to the passage of the act in 1978, I think it's fair to say that Eastern Airlines and Colonel Borman were in the forefront of the fight against deregulation. It was a very simple matter, in our opinion, that the implications of deregulation were vast. We were an industry that went through many years of regulation and whatever we were, we were. We had our contracts, we had our cost structure, we had our equipment programs and so on. But once deregulation impacted the industry, where entry and exit were free, pricing regulations were nonexistent; what is happening today is precisely what we expected to happen.

The most amazing thing about it is that we can look at—this is a long-winded answer and I hope you don't mind——

Mr. CLAY. No, go right ahead. I would like to establish a basis for us going back to regulating the industry.

Mr. EHRLICH. I was reading a prospectus of a new airline that has been formed out on the west coast. They talk a great deal about their new equipment and so on, and then there's a long section that they pride themselves on. That is the relationship of the existing trunk carriers' operating costs to what their operating costs will be. Then they hone in specifically on labor costs. The most amazing thing about it is that the relationship of the established trunk carriers—and we could use this average, and it's subject to review—but it will be about 9 cents a mile that it would cost us to produce an average seat. These new airlines, the airlines that did not exist prior to deregulation, are talking about costs per mile of 6 cents or less. This new airline is talking about costs per mile below 5 cents.

Now, when you're in a situation where some of your competitors can sell a seat and make a profit at a price that is below your operating cost, you immediately have a structural problem within the industry. This is precisely what we're involved in.

Now, I would dare say that it's perfectly logical for us to expect "well, what have you as management done?" We can go through an endless litany of the kinds of things that Eastern Airlines has proposed to its lenders, we haven't paid dividends in years, we have

constantly stretched out our debt, and we have renegotiated some of our terms, we extended the delivery dates of some of our airplanes, and on and on and on. These are all subject to verification and I can make the facts available to you.

We do believe we have totally exhausted the alternatives that are available to an established trunk carrier and are absolutely convinced that the negotiating process, the collective-bargaining process, is precisely the way Eastern Airlines must proceed if it's going to continue to be a viable, economic entity. The day that this airline slips beneath the waves will be a day in infamy.

Mr. CLAY. How do you answer the statement made earlier by one of the witnesses, that when you sit at the collective-bargaining table today, management has a gun that's loaded and labor has a gun that's unloaded? Do you think that management ought to be able to sit at that table and tell the labor unions "you take it or else we'll go to court under chapter 11"?

Mr. EHRLICH. Well, I assume—I wasn't here, but obviously that was said.

I'm not so sure it's a question of a loaded gun or an unloaded gun. I think we both have a loaded gun, and what we're looking at in this environment is we have a headache as an industry, perhaps a migraine, and we're looking to solve our migraine headache by taking a shotgun rather than extra strength——

Mr. CLAY. Who has the shotgun?

Mr. EHRLICH. We both do. We both do. The objective of the management of this airline and of this industry is to preserve jobs. Now, nowhere in any of the proposals that we have currently made are the salary rates below what our employees were earning at the first part of the year. As I have said, we have had a 7-percent compounded interest rate in our wage rates.

We recognize that Eastern is 50 years old, that Captain Eddie Rickenbacher founded the company. We have had a long period of positive labor relations. And God knows, since we went into the trauma of 1975 and 1976, our employees have stood with us. They have hung with us year after year after year. They have sacrificed. They have taken 3½ percent wage programs; they have taken wage freezes. In a few years, as strange as it may sound, we actually paid them back more than they gave.

The world changed in 1978 and we were forced to change with it. We each have a loaded gun. And unless we work together and not go to the edge and allow ourselves to get pushed off, this airline is just doomed to failure.

Mr. CLAY. Did Eastern grant a 16-percent pay increase this year to its employees?

Mr. EHRLICH. Yes, sir. What we have done, as a result of the collective-bargaining process in the early part of this year, we have, in essence, increased our wage and salary benefit expense by approximately $200 million this year. At the same time, we were successfully able to reduce our payroll by about 2,800 people. So our wage and salary costs went up $200 million, our payroll went down by 2,800. So we did grant these increases.

What we have attempted to do—and no one is arguing that the position that our machinists union has taken was terribly inappropriate from an equity point of view. For many years they sacrificed

and they continue to sacrifice. The wage and salary contract that was negotiated brought Eastern Airlines machinists up to industry averages. That's all it did. It didn't take them very much beyond it. The flight attendant proposal is sitting out there—and we obviously do have a difference in terms of where we are—brings them up to industry averages.

The problem is that the industry has been split wide apart and we have one part of the industry, the traditional carriers, whose cost structure and debt structure was formulated under regulation, and another part of the industry whose cost structure was formulated under deregulation. It isn't that Eastern's wage and salary structure is out of line with the traditional carriers; it's that the traditional carriers' wage and salary structure is out of line with reality.

Mr. CLAY. Mr. Miller.

Mr. MILLER. You concluded negotiations earlier this year, and you granted a pay increase to the machinists; is that correct?

Mr. EHRLICH. Yes, sir.

Mr. MILLER. And you are currently in negotiations with flight attendants?

Mr. EHRLICH. Yes, sir.

Mr. MILLER. You made a corporate decision that you could not take a strike by the machinists; is that correct? Mr. Borman's testimony which you read said you were forced into an agreement.

Mr. EHRLICH. Well, let me explain the logic behind that. We had negotiated with our machinists group for a long time. Both sides of the negotiations will tell you it was very heated, very arduous, and very precipitous in character. It became obvious to us that we were facing a strike.

Now, during the final days of those negotiations I think both parties to the negotiations did concede and a lot of things were taken off the table on both parts, both management and labor, in an effort to come to a collective-bargaining agreement. We were also convinced that if we did not come to an agreement, we were faced with a strike.

Now, we have the ability, at least for a very few days, to determine how much cash we have in the bank. We did not feel, although we would have tried very hard to fly through a strike, that we could endure a strike much longer than about 10 to 12 days. Our cash would simply run out. We felt that the strike would be longer than that.

Mr. MILLER. So your conclusion was that this was not an agreement that you would have liked to have signed but you were forced into signing this agreement?

Mr. EHRLICH. The alternative was far less palatable in the short run. We said at the time we couldn't afford it. We hoped we could. We thought we would buy some time, hoped the economy would improve, hoped the fare wars would abate, and none of those things has happened.

Mr. MILLER. Now you get a second cut at that contract. In chapter 11, you get a second cut. You get to decide, and apparently the decision is solely yours, whether or not you want to use chapter 11 and treat that contract in the same manner that Continental

treated the binding contract that it had as a result of collective bargaining?

Mr. EHRLICH. No, sir, I wouldn't call it a second cut.

Mr. MILLER. You don't have that option?

Mr. EHRLICH. I wouldn't call it a second cut.

Mr. MILLER. What would you expect to do with that contract if you go into chapter 11?

Mr. EHRLICH. Well, what we're trying to do right now——

Mr. MILLER. What do you do with the contract?

Mr. EHRLICH. May I answer the question?

Mr. MILLER. Yes.

Mr. EHRLICH. What we're trying to do right now is to avoid chapter 11. Chapter 11 is not the answer, in our opinion, to the salvation of Eastern Airlines or for this industry; in fact. Our efforts today and what we proposed to our employees are a matter of public record and I can make that available to you. We hope we can avoid chapter 11. We do not feel that we have to deal with voiding or busting our contracts.

The problem that we're facing, sir, is that as time passes, and as this industry sinks deeper and deeper into the red ink—and most of us are—and as our bookings slowly but surely are vanishing, the situation is getting worse and worse.

Mr. MILLER. Let us suggest that had the industry turned up, had there been a faster increase in the economy, whatever it is that affects the airline industry, and you became very profitable, if the union chose to reopen that contract, that option would not have been available to them. If they chose to strike under that contract, that would not have been available. You would have been in court getting a restraining order. So, in fact, you do have a second cut at this contract. In fact, what you have done is you have agreed to a contract, knowing that you may not have to live by the terms of it, because you have an additional weapon in your arsenal, and that is chapter 11.

Now, in the middle of negotiations with the flight attendants, the spector of chapter 11, as raised by Continental Airlines, is now introduced into those negotiations. So, in fact, what has really been done is the negotiating ability of the union is dramatically restricted, because either you mean what you say or you don't, and if you do, there is nothing to negotiate about, because you assert that you can implement these changes after chapter 11. Apparently those negotiations broke down to such an extent that now you have inserted this in the middle of a 30-day cooling off period.

Mr. EHRLICH. Mr. Miller, I honestly cannot agree with your premise, because you're assuming——

Mr. MILLER. Perhaps correctly.

Mr. EHRLICH [continuing]. Perhaps correctly, in your opinion, that there is a deep, dark conspiracy in the minds of the management of Eastern and perhaps others who might unfortunately follow, that we're going to take the path of busting our contracts. We do not have to take the path of busting our contracts. We have proven conclusively that we don't have to get our fare structure right down to the rock bottom to where some of these new airlines are. We compete with them every day. We charge higher fares than they do. We provide a better product, or a different product—

we think a better product—than they do. What we are offering each of ourselves—and that is both management and labor—is perhaps a second cut within the contract itself, because we're trying to protect jobs.

Mr. MILLER. Exactly my point.

Mr. EHRLICH. Each of us. They have the opportunity to pursue it, and we have the opportunity to pursue it, and God help us if we can't come to an agreement that avoids going to the courts. Because as I said before, that will be a deep, dark day.

Mr. MILLER. I suggest to you that under the confines of that agreement, or under the confines of this arrangement, they do not have the opportunity to pursue it, because you have the last word. On the terms of collective bargaining, historically the last word is reserved to both parties, if you will. In this case it is not, because if it is not your terms, there will be no agreement, there will be chapter 11. So we are not discussing the employees' terms at this point; we're discussing your terms. And Mr. Lorenzo of Continental Airlines showed it was his terms or no terms, and chapter 11 provides that protection for him to do that without respect to what the other protections of labor law are.

I suggest it looks very much like the employees of Eastern are being maneuvered in very much the same fashion and they can make that decision.

Mr. EHRLICH. Mr. Miller——

Mr. CLAY. The time of the gentleman has expired.

Mrs. Roukema.

Mr. MILLER. I would like to have a response.

Mr. EHRLICH. May I respond to that?

Mr. CLAY. Yes, please.

Mr. EHRLICH. The employees of Eastern Airlines or any corporation do have the opportunity to respond, because it is highly questionable whether an airline can, in fact, operate under chapter 11. Whether the world is willing to recognize it or not, in 1978 we became a commodity business. That means it goes to the lowest cost producer unless you can establish a difference.

Now, we have not suggested busting the contract; I am not intimately aware of what rules Continental is trying to operate under. I do know the rules that we have imposed, or asked for. I do know the problem that we're facing. We do believe that we can ride through these turbulent times. I'm not sure it's not going to get worse. God hope it will get better. But the truth is they do have the opportunity by simply saying "no dice."

Now, when they do that, I'm not sure there's going to be an airline, because we're not sure whether the marketplace is going to fly an airline that's in chapter 11. There are an awful lot of seats out there. So they have every single opportunity to make a determination of their own as to what their future will be. I can assure you that in talking to our employees it's a terribly heart-rendering story, and when you look at the terror in people's eyes, of living in uncertainty and just a cross section of life, it's terrible.

But the fact of the matter is this industry has changed, and the truth is that the management of Eastern Airlines has no intention, today, tomorrow, or on October 13, to participate in busting union contracts.

Mr. MILLER. Let me suggest that you are recreating the exact atmosphere that has been used historically in this country in tough economic times, with a surplus of labor, to drive down wages and hours and conditions for the working people in this country. You are engaged in the identical same process. Your statement just now came to me, that "they can take it or there will be no company," it is no different than the video tape message from Mr. Borman or the statements to the press, that it's this or bankruptcy. That may or may not be the case, but that is the presentation and the rules by which your employees are now forced to——

Mr. CLAY. The gentleman's time has expired——

Mr. EHRLICH. Mr. Miller——

Mr. CLAY [continuing]. And your time has expired.

Mrs. Roukema.

Mrs. ROUKEMA. Mr. Ehrlich, perhaps you could help us understand a little bit about the situation that you're in with respect to the bankruptcy procedures and how you got there.

Is it not correct that the contention of your company, rightly or wrongly, is that in order to avoid some kinds of penalties to your employees last year, you did negotiate those contracts in good faith and, against your better judgment, settled at a higher rate; is that not correct?

Mr. EHRLICH. Yes.

Mrs. ROUKEMA. Is that not part of the public record, that there were tortuous negotiations last year?

Mr. EHRLICH. Yes, on both sides, and what you just said is a matter of public record.

Mrs. ROUKEMA. Now, understanding the deregulated climate in which we are operating, and in consideration of the fact that you are now faced, as you have said, with "this is the last time that we can face the question of bankruptcy or no bankruptcy"—is that the position of your company?

Mr. EHRLICH. No. The position of——

Mrs. ROUKEMA. What is the position of your company?

Mr. EHRLICH. The position of our company is that we believe that if we could get our employees—if our employees will agree to the wage and salary program that we have put forth—that this will allow us to continue to operate as a reliable airline——

Mrs. ROUKEMA. No, what I'm saying is you can no longer continue under the present rules and regulations.

Mr. EHRLICH. No, we cannot.

I would like to make one other thing clear, if I may.

Mrs. ROUKEMA. Please do.

Mr. EHRLICH. Our employees over the last several years have constantly cooperated. Our employees, as far as we're concerned, as far as management is concerned, our flight attendants, our machinists, and our pilots are the best that there is. They have got the spirit to make Eastern work——

Mrs. ROUKEMA. Then let me ask you this question. How do you, as management, account for the seeming lack of communication or break down of credibility that occurred here between you and your employees at this particular point in time?

Mr. EHRLICH. When our machinist contract was concluded in the spring, we said at the time that it was a contract that we could not

afford. We hoped, based upon our expectations for the economy and our bookings, and what we thought revenue might look like, that perhaps we bought some time, that perhaps there was a tailwind and the economy would improve and the contract would not be as financially onerous as we thought it might be. As a practical matter, what has happened is that the fare wars have continued and that our expectations for traffic, for revenue, were not met.

So it is perfectly understandable that employees, our lender groups, our own board of directors, certainly all of the analysts around, are amazed at how in the world can you do what you have done, go back to your employees, get some concessions from them, and then go back again. The reason for it is very simple. The world is highly uncertain, and in the early part of August—we saw a bit of a problem in July, but it wasn't as terrifying as it is now—and in August, as the industry tried to raise fares, the marketplace responded in a rather negative manner and bookings started to collapse. We didn't expect them to collapse. We hoped they would be maintained.

Now, what has happened, very simply, is that a contract that was agreed to against our stated preferences, where we thought we would buy time with the help of the economy, we simply bought less time than we thought we had. So it's a very uncertain world——

Mrs. ROUKEMA. I understand your position, but it seems to me what the employees have been saying here is that they wanted to look at the books—isn't that one of the contentions?

Mr. EHRLICH. Yes; and they are available.

Mrs. ROUKEMA. And they are available. Then, can you tell us something about the threshold level? How do you come to the determination that unless these concessions are made that you will reach the threshold level for chapter 11, and why don't they believe you?

Mr. EHRLICH. Well, we have made our books available, we made them available in the past. We have made them available today. We have made them available to Mr. Usury, who was called in as an outside consultant. We have made them available to the pilot union, to the IAM, and whoever else, the organized groups or unorganized groups, who cares to look at them. Because the truth is there.

The threshold level was really based on our expectation for the balance of the year of what our revenues would look like. Now, we honestly believed, based upon bookings and the fares out there, that our revenue level would be approximately $120 million higher for the fourth quarter than it now looks like there will be. That was not apparent in May. It was not apparent in June. It really wasn't apparent in July. The world, under deregulation, has become supercharged and highly unpredictable.

Now, if anyone wants to challenge the accuracy of our revenue and our profit projections, all I would say is that they have not been accurate and the reason for it is on the cost side, as far as profit was concerned, we signed a labor contract we couldn't afford, and acknowledged that at the time. On the revenue side, the market simply has not reacted to the economic recovery.

Mrs. ROUKEMA. What kind of jeopardy or problems are you bringing upon yourself if, in fact, you do file chapter 11? What I'm getting at is that metaphor of the loaded gun. Are you really sitting in clover with a chapter 11 over your head?

Mr. EHRLICH. No; of course not. It's one of the most dread prescriptions that you could ever look for. It is not the panacea that people claim it is. We don't want to do it. We simply do not. Even the mere threat of bankruptcy is affecting our bookings. The industry has 40 or 50 percent of its capacity available in an instant's notice. We have been told by the Civil Aeronautics Board that airlines have already petitioned in terms of our international routes, that if we should not be operating, they stand ready, willing, and able, without a miss of a heartbeat, to fly those routes.

So, as soon as the financial integrity of an airline is jeopardized, and is unfortunately made public because we're a public company, it does terribly damaging things to our revenue base and our booking space. It has got to be resolved. If anyone in this room thinks that the management of Eastern Airlines will find the solutions under chapter 11 more palatable than the solutions under this wage program, they're sadly mistaken.

Mrs. ROUKEMA. Thank you very much.

Mr. CLAY. Mr. Bartlett.

Mr. BARTLETT. Thank you, Mr. Chairman.

In listening to your testimony, Mr. Ehrlich, and to the testimony for this morning's hearing, it seems to me that several things come out pretty clear. That is, as we look at the economics of the industry, the fact is that if your union contracts are noncompetitive with your competitors, either by wages or productivity or by the threat of strikes that hang over your head, if that is noncompetitive and your costs are noncompetitive, then you would be out of business. If you can't compete, you will not only be out of business, there will be no company and there will be no jobs, and instead of a 15-percent pay cut your employees will face a 100-percent pay cut.

Mr. EHRLICH. Yes, sir.

Mr. BARTLETT. And the other fact that comes out—and I'm glad you finally said it—bankruptcy is not a very pleasant medicine. Bankruptcy, by any other name, is forced by the circumstances, and it is not in any way fled to as some sort of a nice thing to do, but it's a catastrophe for the employees and the employer, and it is caused by the inability of that company's structure to compete in the marketplace.

Is that essentially the message that you would bring us today?

Mr. EHRLICH. Yes, sir, without question.

Mr. BARTLETT. You couldn't have said so better yourself. [Laughter.]

Mr. EHRLICH. Let me make one other point, if I may.

Our industry, as I said before, is broken into several groups, some you might call the high-cost airlines and some you might call the low-cost airlines. Sure, we would like to be a low-cost airline, but we're not going to take that step to get us there because we're convinced that the step you must take is not going to be nearly as successful as to try, in fact, if even remotely successful, as opposed to trying to deal with our existing cost structure, to just ride through this problem.

Now, there are several airlines of the established carriers that are as close, if not closer, to the brink than we are. They have said so before. Many of them have got the wage programs; many of them have not. But the truth of the matter is, a commodity business that has been in existence for a long time under protection became a commodity business with simply no protection. The business will go to the low-cost operator unless you can create a product differential, which we are attempting to do.

Mr. BARTLETT. Then, in addition to the product differential, is it part of your strategy, in order to survive, that you must reduce your labor cost down from what had been reported in the press as 37 percent——

Mr. EHRLICH. Yes, sir.

Mr. BARTLETT. Is that the highest in the industry or one of the highest?

Mr. EHRLICH. The industry average runs about 38 percent. I would say it's the average of the established prederegulation carriers.

Mr. BARTLETT. Do you believe Eastern will be able to survive if you stay at that 37 or 38 percent?

Mr. EHRLICH. Without question, we will not.

Mr. BARTLETT. You will not be able to survive. That's what this is all about, trying to survive for your employees.

Mr. EHRLICH. That's what it boils down to.

Mr. BARTLETT. I had one other question as far as the specifics of the proposal that you offered your employees, which has, admittedly, an unpalatable 15-percent pay cut to it.

When you offered that, did you ask for the union to submit it to your employees for a vote, for a secret ballot, so that they would be allowed to vote on it? Did you ask for that, and what was the response?

Mr. EHRLICH. Well, what we did was we first apprised our labor groups, both union and nonunion, of the extent of the problem and how it came about. We told them that we would come up with a recommended solution for each of the groups and hoped that they would consider it favorably. About 3 or 4 days later we did precisely that.

Now, we recognized that what we were looking for was the solution to a dollar problem, a dollar magnitude problem. Different employee groups have different employee needs, and what we did was—there's a part of that program, the 5-percent part of it, that in effect says if there's a better way to do it—it does not have to come out of salaries—perhaps it could come out of productivity, you tell us how this can be done. Let's get committees together, both management and the employee groups, and let's work at this problem. If, in fact, we are successful and do make a profit, we've got profit sharing in that program from the very first dollar of profit. We recognize that you can't be all things to all people. People closer to the individual situation perhaps have better solutions. What we were trying to deal with was the situation of equity and that's why all of our wage and salary programs were then canceled so that everyone was brought up to 100 percent of their salary of record and taken down from that level in a reasonably equitable manner.

Mr. BARTLETT. If I could interrupt, because my time's about up. Would you urge that this proposal be submitted to the employees for a vote, or how do you believe the employees should have a chance to respond to your proposal?

Mr. EHRLICH. Well, we asked our nonrepresentative group, 16,000 employees, to vote individually as they may. We told each of our employees and the leaders of our organized groups that it had to be all groups or nothing.

Now, through the process the leaders, the duly elected leaders of their groups, make that determination. They can decide whether it should go out to their employee groups or not. We cannot insist that that be done, nor are we insisting that it can be done. It is not within the realm of law and opportunity on our part.

Mr. BARTLETT. Has it been done, or will it be done? Do you know?

Mr. EHRLICH. Up to this point we have done it to our noncontract group. I heard Captain Duffy say that in all likelihood it will go forth to our pilots. The published statements of our machinist unions and TWU have been that they will not submit it.

Mr. BARTLETT. I would take one issue with you, and that is, I agree that you can't insist, but I do think that the employees have the right to vote on the proposal which affects their jobs and their futures and their careers and their airline.

I thank you. I yield back the balance of my time.

Mr. CLAY. We, certainly, want to thank you for your testimony.

Mr. EHRLICH. Thank you for the opportunity.

Mr. CLAY. Mr. Miller.

Mr. MILLER [presiding]. Next the committee will hear from Mr. Vernon Countryman, who is a professor of law at Harvard University.

Welcome, Mr. Countryman, to the committee. I understand you do not have a prepared statement.

Professor COUNTRYMAN. I do not have, Mr. Chairman. I was summonded down here on rather short notice. I think I can——

Mr. MILLER. All right. You may proceed in the manner in which you are most comfortable. We have been trampling all over your jurisdiction here and your expertise, and I think it would be most helpful, to the extent you can, to respond to the remarks made here this morning with respect to bankruptcy.

STATEMENT OF VERNON COUNTRYMAN, PROFESSOR OF LAW, HARVARD UNIVERSITY

Professor COUNTRYMAN. I would like the record to show that if I'm an expert on anything it is bankruptcy, not labor law or the state of the economy.

The basic problem we have been considering this morning, I think, in terms of what the bankruptcy law provides, is that chapter 11 of the Bankruptcy Act is designed to permit a financially troubled corporation to reorganize its capital structure. It includes authority in the bankruptcy court to approve the rejection of executory contracts, not just collective-bargaining contracts, but all executory contracts, if necessary, to an effective reorganization. Precisely what the standards should be for the bankruptcy court to

apply in making that determination, whether this is the proper case to reject, is the issue that is now before the Supreme Court in the *Bildisco* case, to be argued next Tuesday.

I believe and hope that the decision should be that a company properly in reorganization cannot reject a collective-bargaining contract unless it persuades the court that it will be absolutely unable to reorganize unless that is done.

I will not predict that that will be the standard the Supreme Court will adopt. Indeed, given its record lately, I will not predict that it won't adopt more than one standard. But I do hope it adopts a very rigid standard.

But that is for a company properly in reorganization in chapter 11, because its purpose is to reorganize its capital structure. A company is not properly in chapter 11 if its sole purpose is to reject its collective-bargaining contracts. In the entire history of our bankruptcy system, under the old act and under the new one, we have had only two cases where the bankruptcy court was persuaded that the sole purpose of the employer of coming into a reorganization proceeding was to reject its collective-bargaining contracts—one case under the old act and one very recent one under the new Bankruptcy Act. In both instances, the court held that that could not be done and refused to approve the employer's request for permission to reject the collective-bargaining contract.

Mr. MILLER. Was that request specifically made by the company?

Professor COUNTRYMAN. By the employer. That is the procedure when a company is properly in chapter 11. It must apply to the court for permission to reject the contract, something that has been done in the cases——

Mr. MILLER. That was the only request made in those cases?

Professor COUNTRYMAN. Yes.

Now, all indications that I have been able to see from Continental indicates that its only purpose in filing in chapter 11 is to get rid of these collective-bargaining contracts.

Mr. MILLER. How do you draw that conclusion?

Professor COUNTRYMAN. The repeated statements of President Lorenzo which appear almost daily in the newspapers are solely to that effect. I received from executive vice president Bakes a copy of an affidavit which he tells me was attached to the chapter 11 petition. I read it very carefully and all it talks about is rejecting collective bargaining——

Mr. MILLER. Wait a minute. This is somewhat central to the issue that we have in hand here.

Professor COUNTRYMAN. Yes.

Mr. MILLER. The affidavit you have was attached to what, again?

Professor COUNTRYMAN. To the chapter 11 petition which Continental filed—so Mr. Bakes tells me. I don't know Mr. Bakes. He sent me this affidavit with a covering letter which said he had seen I had said in the newspapers that it was not proper to use chapter 11 to reject collective-bargaining contracts, solely to reject collective-bargaining contracts, and since he was a graduate of that small school on the River Charles, where I work, he thought I might be interested in his affidavit.

Mr. CLAY. Who is Mr. Bakes?

Professor COUNTRYMAN. Mr. Bakes is the executive vice president of Continental Airlines.

Mr. MILLER. And your testimony to us is that the affidavit discusses simply the question of the abrogation of the contract?

Professor COUNTRYMAN. Yes, sir, not a thing about reorganizing the capital structure.

Mr. MILLER. So your conclusion is based upon the statements of Mr. Lorenzo that have been reported publicly, assuming they're accurate, and the affidavit which accompanies the petition for chapter 11 and from these, you conclude that the only purpose of Continental (Bankruptcy) Airlines' petition is to abrogate the labor contracts?

Professor COUNTRYMAN. That's the only purpose I can find. Now, I don't pretend that my determination is conclusive——

Mr. MILLER. I understand.

Professor COUNTRYMAN. That will be a determination for the bankruptcy courts. But it all points in one direction so far.

If the court should determine that that is the sole purpose of the chapter 11 petition, I believe the chapter 11 case should be dismissed for cause. It can hardly be the Federal policy of this country on the one side, as evidenced in the National Labor Relations Act and the Railway Labor Act, to which Continental is subject, that all terms and conditions of employment should be resolved by collective bargaining, but as evidenced by the Bankruptcy Act, that if the employer does not like the result of collective bargaining, he can drop by the bankruptcy court and reject that result in the form of——

Mr. MILLER. So, in fact, this is an extra measure that is available—we don't know yet, depending on what the court rules—but it is possibly available to the employer that is not available to the employee.

Professor COUNTRYMAN. That's true. As a practical matter, theoretically a single employee could go into bankruptcy and reject his employment contract, but it's never been done and probably never will be.

Mr. MILLER. Let me ask you something that troubles me, both in the Continental case and in the testimony of Eastern. And that is, currently, certainly with Continental, we see the filing of the bankruptcy petition, followed immediately by the publication, then the immediate implementation of the new work rules. My understanding of bankruptcy—and I could clearly be wrong—was that bankruptcy put a freeze on the various positions of all the parties. Then classifications of creditors are set up and people were put into various positions with respect to the petitioner.

Professor COUNTRYMAN. There is nothing in the Bankruptcy Act which relieves an employer immediately on the filing of a chapter 11 petition that leaves him free unilaterally to change the terms and conditions of employment. He is still subject to, in the case of Continental the Railway Labor Act, in the case of most employers, the National Labor Relations Act, and he will commit unfair labor practices or violate the Railway Labor Act, if and when he unilaterally changes the terms and conditions of employment.

Mr. MILLER. Then what you're suggesting is that the actions by Continental and Mr. Lorenzo in this case may very well, in fact, be illegal?

Professor COUNTRYMAN. Yes, sir, I am.

Mr. MILLER. The issuing of the emergency work rules may, in fact, have no force and effect at all?

Professor COUNTRYMAN. I am, indeed. All the——

Mr. MILLER. What's the remedy for the employees?

Professor COUNTRYMAN. An action under the Railway Labor Act, in the case of Continental, against Continental.

Mr. MILLER. How does that stand, if you argue—Obviously, Continental would argue—that the bankruptcy stays—law suits?

Professor COUNTRYMAN. Bankruptcy does not stay the exercise by any governmental unit of its police or regulatory authority. It stays creditors from foreclosing on lands or pursuing their claims. But there is an exception in the automatic stay, for the exercise by any governmental unit of its police or regulatory authority. There are decisions already under that automatic stay section in the new Act holding that the National Labor Relations Board is covered by that exception and may continue to press charges against the debtor employer who is now in bankruptcy. There are no cases yet under the Railway Labor Act.

Mr. MILLER. So that they don't have the right to engage in unfair labor practices, nor do they apparently, from what you just said, have the right to unilaterally tear up the contract, which they have done?

Professor COUNTRYMAN. That's right. All they have the right to do is to ask the bankruptcy court to allow them to reject the contract. Both in the case of Continental and Wilson Foods they have not waited for that. They filed the petition and immediately unilaterally changed the working conditions.

Mr. MILLER. Mr. Clay?

Professor COUNTRYMAN. I know what their theory is going to be. They hope they can later persuade the bankruptcy court to approve the rejection and then they will argue that the rejection operates retroactively back to the date of the filing of the petition. Other employers have sold that notion to a couple of lower Federal courts, but I believe it's a misinterpretation of the Bankruptcy Act.

Mr. CLAY. Mr. Countryman, you heard the witness from Eastern Airlines?

Professor COUNTRYMAN. I did.

Mr. CLAY. Would you care to comment on Eastern's proposed use of the Bankruptcy Act?

Professor COUNTRYMAN. Well, I was taken particularly by his idea, as he expressed it, that Eastern was not disposed at all to use the threat of bankruptcy as a strategic tool. Why did they raise it in the negotiations with the unions if they would not use it as a strategic tool? I have no idea whether they really plan to try chapter 11 or not, but it sounded to me like it was being used as a strategic tool.

Mr. CLAY. Thank you.

We have a vote on the floor.

Mr. MILLER. Yes. Unfortunately, we have a vote.

If they are allowed to proceed in the manner, am I correct in assuming that this class of creditors, if you will, because under the work rules employees have lost their vacation time, they have lost pensions, or theoretically have, and compensation for the period of time that some of them may be working now—that they are really in a different position than everyone else in the bankruptcy?

Professor COUNTRYMAN. Well, there are other people on executory contracts who may find themselves in a similar position. If the court does approve the rejection of the contract, that would give the other parties and unsecured creditors claim for their damages, which they might get 7 cents on the dollar. So, in effect, the other party to the executory contract, whether it's a collective bargaining contract or any other one, is left in a very unenviable position, that's correct.

Mr. MILLER. Thank you very much. I think it was beneficial having you here listening to the witnesses and answering back and forth. Unfortunately, we're going to have to go off to vote.

Thank you very much.

Mr. CLAY. That concludes the hearing.

[Whereupon, at 1 p.m., the subcommittees were adjourned.]

APPENDIXES

APPENDIX 1

CONTINENTAL AIRLINES,
October 19, 1983.

Hon. WILLIAM L. CLAY,
Chairman, House Subcommittee on Labor-Management Relations, Washington, D.C.

Hon. GEORGE MILLER,
Chairman, House Subcommittee on Labor Subcommittee on Labor Standards, Washington, D.C.

DEAR CHAIRMAN CLAY AND CHAIRMAN MILLER: I want to thank you for the courtesy extended by both of you in meeting with Mr. Lorenzo and myself on October 6, 1983. Enclosed please find copies of testimony being submitted in response to your invitation. This testimony relates to your October 5, 1983, Oversight Hearing On Effects Of Bankruptcy Actions On The Stability Of Labor-Management Relations And The Preservation Of Labor Standards.

The testimony provides the respective Subcommittees an overview of the problems faced by Continental; I urge that it be studied carefully. I would only specifically draw your attention to 2 facts. First, Continental attempted to negotiate wage and work rule concessions from its unions for 2 years without their yielding concessions that would save Continental. Second, when Continental's Board of Directors met on September 22, 1983, to assess its situation, the cash position was such that if Continental were to pay salaries, debt service, pension contributions and some back payments to vendors, the company could have been out of cash by September 30, 1983. Keep in mind that Braniff's cash got too low and it has yet to operate 16 months after it entered Chapter 11.

If you have any questions concerning this testimony, please do not hesitate to contact us.

Sincerely,

CLARK H. ONSTAD.

TESTIMONY OF CLARK H. ONSTAD, VICE PRESIDENT—GOVERNMENTAL AFFAIRS, CONTINENTAL AIR LINES, INC.

Mr. Chairman, Members of the Subcommittee, I serve as Vice President, Governmental Affairs, Continental Air Lines, Inc. and as Vice President, Texas Air Corporation, the majority shareholder of Continental Airlines. Prior to assuming my present positions in October of 1982, I served as Chief Counsel to the Federal Aviation Administration from 1977 to 1981. I have also been in private practice for a number of years specializing in aviation law. Prior to the practice of law, I served three years as an economist for an aviation consulting firm.

The Subcommittee has expressed interest in the airline industry's labor-management relations. Perhaps the most expeditious way to treat this complex subject is to concentrate on four areas. The first is to illustrate that the current unrest stems from a number of factors, many of which predate airline deregulation. The second consists of a brief description of the situation facing Continental Airlines at the time the petition for reorganization was filed on September 24, 1983. The third area encompasses the actions Continental management has taken since filing the petition for reorganization as well as the response of the unions. And, the fourth is a sketch of the type of labor-management relations being established for new Continental.

There are two points which I want to stress before going into detail. The decision to file for reorganization was a painful judgment from the perspective of all Continental employees. However, the choice was between ceasing as an ongoing business in the relatively near future, which would have put 12,000 people out of work, and saving 4,200 jobs with the strong potential to reestablish lost jobs at some future time. The second point is that Continental simply could not pay its bills and continue operating. Attached to the Petition for Reorganization is a 212 page list of creditors to whom Continental owed money at the time of the filing. Management had an obligation to the stockholders, creditors and employees to try to preserve as much of the estate as possible and the only available relief was voluntary reorganization under Chapter 11 of the Bankruptcy Code.

We fully recognize that this assessment will be tested, as it should be, in the courts; however, we are confident this conclusion will be sustained.

I. CURRENT LABOR-MANAGEMENT TENSIONS HAVE MANY DEEP ROOTS

Technology is a fundamental source of current tensions. From its inception until the mid-1970's, civil aviation has benefitted from quantum leaps in technology. At first it was ever faster propeller driven equipment, then it was the advent of the jet and finally the introduction of the wide-bodied aircraft. Each of these technological innovations contributed to gains in productivity. Under a

regulated environment, management was not compelled to discipline the collective bargaining process by corrolating increased labor cost with increased productivity. As the Civil Aeronautics Board Staff has pointed out in a study entitled, "Competition And The Airlines" (December 1982), labor benefited greatly by the productivty gains brought about by capital investments. The Study concludes:

> "Pilots have succeeded in capturing a considerable share of the cost savings created by these technological advances, and as a result, pilot costs have not fallen as much as technological change would have allowed. These gains come not only from high pay but also from changes in work rules that increased the required number of employees" (p. 113).

In fact, the same study documents that labor cost increases in the trunk segment of the airline industry exceeded labor cost increases for the manufacturing section of the economy for every year between 1957 and 1981. Parenthetically, while Continental has not had time to make this calculation, it would be interesting to determine the reduction in airline fares that would have occurred between 1957 and 1981 had airline labor cost increases been equal to the labor cost increases experienced by the manufacturing sector of the economy. This number could well have been in the billions of dollars of consumer savings.

Since the advent of the wide-bodied jet however, there have not been any quantum leaps in technology nor are any expected. This then changes one element of the labor-management equation and decreases the flexiblity in todays environment.

The second factor and one which is clearly allied to the first is deregulation. As we saw previously, wages rose steeply in the airline industry under regulation and continued after deregulation due to the multi-year nature of collective bargaining agreements. Both labor and management knew when bargaining in a regulated environment that whatever was agreed to would be automatically passed on to the consumer by the Civil Aeronautics Board. Once that security blanket was removed by deregulation, real tensions began to be observed.

The third fundamental factor placing a strain on labor-management relations is the confluence of airline capacity commitments and deregulation. Airlines typically order aircraft based upon an expected useful life of at least 15 years. The notion of airline deregulation became serious in 1978 and the event was upon the industry in 1979. But yet, the industry had previously made major equipment acquisition decisions based upon a wholly different set of assumptions. The net result has been that the major carriers were caught with too much excess capacity. Excess capacity when combined with the generally decreasing amount of discretionary income for the average household, has been a principal driving force behind the fare wars which have substantially eroded the financial viability of the carriers.

The fourth factor encompasses the repeated shocks this industry has experienced. These events include:

a. The rapid escalation of fuel prices; in 1979, fuel accounted for approximately 20% of the industry's operating

costs. Within 12 months, fuel had become 30% of airline costs due to events in the Middle East.

b. The recent recession.

c. New, low cost, low priced competition spawned by airline deregulation. In the first quarter of 1983 for example, the average annual compensation paid to employees of the "major and national" carriers was $42,000 compared to $22,000 for the new domestic jet airlines.

d. The PATCO Strike--which by the way is the biggest calamity ever visited upon an industry from the failure of government's services for which the industry has not sought nor received compensation.

e. The grounding of the DC-10's.

f. The restructuring of major carriers after deregulation because the deployment of people and assets that grew up under regulation was not suited to a deregulated environment; and

g. The industry has lost $2.2 billion between 1979 and June 30, 1983. This has had a severe impact upon access to the capital markets. With the exception of a period which ran from approximately October 1982 to May 1983, these markets have generally been closed to the airline industry.

It can also be pointed out that tensions have emerged from the fact that Congress deregulated price and routes in 1978 and left labor relations under the rubric of the pre-derequlation era. Labor-management relations are still governed by the National Railway Labor Act which was passed in 1926 and made applicable to the airlines in 1936. This statute presupposed a regulated, monopoly kind of service. By contrast, other non-regulated industries are governed by

the National Labor Relations Act which was designed to govern labor-management relations in the free market. The practical effect of continued regulation under the National Railway Labor Act and the policies of the National Mediation Board has been to frustrate both management and labor's attempts to grapple with the difficult choices before them.

The post deregulation era has also been the battle-ground for the issue of cockpit staffing for new generation jet aircraft. ALPA bitterly protested the FAA's determination that the new generation of jets can be flown with the same degree of safety using a 2 person instead of a 3 person cockpit crew. In 1981, a Presidential panel decided this issue in favor of a 2 person cockpit crew.

A final source of tension which cannot be over-looked are the changes which have occurred in the capital structure of the airline industry. Since losses began mounting in 1979, management has attempted to offset the impact by selling assets. There are many examples of this but perhaps the most well known are Pan Am's sale of the Pan Am building in New York and its sale of the Intercontinental Hotel chain. Continental has likewise been forced to sell assets. These sales have ranged from aircraft, such as DC-10's and DC-9's, to an office building to a cargo facility in Honolulu. In addition to reducing the asset base by selling assets to raise cash, the airlines have seen net worth plumet, loan covenants breached and, as alluded to previously, with but one period of notable exception, great reluctance on

the part of the captial markets to fund continuing airline losses. Thus, for most airlines, operating capital has become relatively scarce.

It is also useful to look at overall employment levels in the airline industry in order to understand the dynamics which are at work. Air carriers who held CAB certificates employed 335,000 persons in 1978. Post 1978 employment for all certificated carriers reached a high of 361,000 persons in 1980 and by the end of 1982 totalled 330,000 or only 5,000 persons less than in 1978. (Statistics are as of December 31 for each year) The numbers for 1982 include employment at 98 certificated carriers as contrasted with approximately 40 certificated carriers in 1978. What these statistics would tend to indicate is that while their may have been dramatic employment changes at some carriers, the growth in the industry since 1978 has tended to maintain total employment at close to 1978 levels.

This overview demonstrates that both management and labor are confronted by their greatest challenges and hence, unprecedented tensions are coming to bear on the relationship. Continental believes in attempting to work these matters out in the collective bargaining process. Both Continental and Texas International Airlines which has been effectively combined with Continental have a long history of working with the unions through collective bargaining. The problem that confronted both management and labor at Continental is that the collective bargaining process did not work despite

continued, repeated efforts since 1981 to reach agreement with our unions on a cost structure that would ensure Continental's survival in an ever increasingly competitive world. In the end, the rapidly dwindling cash supply of the company caused Continental to have to set a last deadline which the unions did not meet.

II. CONTINENTAL WAS IN AN UNTENABLE POSITION AT THE TIME IT FILED FOR REORGANIZATION

In order to appreciate Continental's position at the time it filed for reorganization, it is important to focus on the history of labor negotiations and the financial position of the company.

Continental's current management saw in 1981 that the company's cost structure must change if it was to turn its large losses into profits. Discussions were begun in 1981 with all unions in an effort to reach agreements on appropriate cost reductions. It was not until September 1982 that agreement was reached with any of the unions and this agreement was with ALPA. ALPA's concessions were very significant. However, it should not be overlooked that even then ALPA was advised Continental would probably require more concessions in the relatively near future. In fact, discussions on this subject began the next month, in October, and negotiations began in January with ALPA. Negotiations with ALPA, allowing for various lapses, lasted into the summer with no conclusion. Efforts to achieve concessions from the International Association of Machinists (IAM) and the Union of Flight Attendants (UFA) were continual from 1981 forward with no result.

While the negotiations were ongoing, Continental's financial condition deteriorated.

Between 1979 and June 30, 1983, Continental lost $472 million before taxes and special items. July of 1983 produced a loss of $8.0 million, August $17 million and September was shaping up to a $24 million loss thus bringing cumulative losses at Continental to over $500 million.

Stockholders equity in 1979 totalled $288.6 million and by the end of August 1983 was $931,000. Preferred share holders have a claim of $44.7 million and thus, common stock holders equity was a minus $43.8 million.

These losses and lack of stockholder equity must be viewed against the fact that between the first quarter of 1982 and June 30, 1983, Continental had raised $109 million in cash from sale of assets, $114 million from debt and equity financing and $24 million from other sources for a total of $276 million. This is a remarkable feat given the state of the financial markets and the depressed status of the used aircraft market. Beyond this, the Texas Air Corporation, Continental's major shareholder, had made available over $80 million dollars between June 1981 and June 1983 to Continental and, to Texas International Airlines which was combined with Continental.

As of the end of August, the company had lost $108 million in 1983 alone with, as previously noted, a projected loss of $24 million in September bringing the nine month total losses to $133 million.

Cash was tight and growing tighter. In June, Continental had $89 million in cash of which $58.7 million was available after allowing for float of restricted cash. By the end of August the $89 million had shrunk to $62.2 million and the $58.7 million had dissipated to $27.7 million. In addition, Continental was in default under the terms of its major loan agreements.

On August 13, 1983, the IAM struck the company.*/ IAM did so after rejecting a contract offer which would have increased the mechanics wages by 20% or $6,000 dollars in return for a 20% increase in productivity. In the first day of the strike Continental operated 85% of its pre-strike schedule. Over time that schedule reached 100% of pre-strike capacity. Unfortunately, the IAM strike and the preparations for that strike were very costly.

Continental's management knowing that the capital markets were closed and, that asset sales were not a readily available solution, decided that it had to continue with a renewed sense of urgency to obtain cost concessions from its workforce.

When Continental went to the workforce for wage concessions on August 31, 1983, management was acutely aware of the lack of cash and the experience of past labor negotiations. Past experience as to the workings of the negotiating process is extremely relevent to this situation. In 1982,

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*/Communications between Continental and its employees related to the IAM strike are attached as an appendix.

Continental management and ALPA spent six months in negotiating a new collective bargaining arrangment. However, because of work rules and seniority it wasn't until five months after the agreement was signed that the cost reductions began to show up. The reason is that with increased productivity, Continental needed fewer pilots. This meant that a DC-10 captain could bump to a 727 captain. The 727 captain could then bump elsewhere. All of this bumping required retraining at company expense and it was a lengthy process.

As to the flight attendants union, Continental had likewise sought concessions from that union beginning in 1981. As of August 31, 1983, the Union of Flight Attendants and the company had not been able to reach accord on a single cost saving measure.

When the request for concessions was made, the three principle organized groups at Continental -- the pilots, the flight attendants and the mechanics -- were making as follows:

- The average Continental pilot earned $89,400 per year (including benefits) for only approximately 51 actual "hard hours" of flying per month (about 11 days on duty per month). A Continental Airlines DC-10 captain earned $138,600 per year (including benefits) for the same amount of work.

- The average Continental Airlines flight attendant earned $37,300 per year (including benefits) for only approximately 55 actual "hard hours" of flying per month.

- Mechanics (other than newly-hired mechanics hired to replace striking mechanics) at Continental Airlines earned $16.00 per hour for an average of $39,300 per year (including benefits).

In its most recent round of negotiations on the subject, in September 1983, Continental proposed a total labor cost savings (compared to May 1983) of $150 million annually. Of this amount, $20 million had been obtained from the mechanics (most of this had already been obtained as a result of the wage and work rules implemented since the strike). An additional $30 million was to come from non-organzied groups composed of management itself and the agent and clerical group. The agent and clerical group promptly and overwhelmingly voted to accept the requested pay reductions.

From the pilots and the flight attendants Continental asked for annual compensation and productivity concessions worth $100 million -- $60 million from the pilots and $40 million from the flight attendants. Despite the magnitude of these concessions, the pilots and flight attendants would still have been compensated at a level significantly higher than those available in many new entrant airlines including Muse Air, Peoples Express and the "new" Braniff".

Included in Continental's proposal was a profit sharing and stock ownership plan which, insofar as Continental was aware, would have been the most generous in the industry. The plan would have paid over to all employee (other than officers) 25% of Continental's profits (before taxes and certain other items) beginning with the very first dollar of

profit earned. Additionally, the employees would have been the largest single stockholder group as owners of 35% of Continental Airlines (on a fully diluted basis) under the stock ownerhip provisions of the plan. Under the plan employees (other than officers) would receive 12 million shares of Continental common stock (one-third of these shares would have been donated by the Texas Air Corporation and granted to employees as a bonus with the remaining 8 million being made available pursuant to a stock option providing for the grant of options with an exercise of 85% of the volume Continental common stock at the time of the plans implementation). A combination of the profit sharing plan and 35% employee stock ownership would have given the employees more than a 50% interest in the profits of Continental.

Management also offered a plan to insure participation in the affairs of Continental including a proposal to elect one representative of the employees as a director of Continental Air Corporation and a proposal to establish a management council whereby representatives of employees and management can meet on a periodic basis.

Continental was forced by its cash position to set a deadline of September 19 for a response to this proposal. In the interim, the company spared no effort to convince its pilots and flight attendants to participate in the cost reduction program. These efforts included a detailed presentation by the company's Chairman to the leadership of both

unions; a series of employee meetings in which the Chairman and/or President of the company explained the company's needs and the programs to its employees and answered questions; phone campaigns aimed at contacting as many individual pilots and flight attendants as possible; and numerous mailings to all pilots and flight attendants.

In taking its program to its pilot and flight attendant groups, management encountered widespread understanding of the economic realities confronting the company. For example, the following table shows the tally of telegrams received by the company:

	For Participating in the Cost Reduction Program	Against Participating in the Cost Reduction Program
Pilots	275	19
Flight Attendants	708	53

Unfortunately, ALPA did not respond by September 19 and UFA submitted an offer that was substantially below what was necessary. Adding to the problem was the fact that Continental's request for $150 million in concessions and the ensuing emphasis on this subject causeed travel agents to begin booking away from Continental with ever increasing frequency as rumors of bankruptcy spread. Since travel agents supply over 60% of Continental's business, this was a serious development.

Continental's management attempted to negotiate throughout the rest of the week to no avail. When the Board

of Directors met on Thursday, September 22, 1983, to consider the cash position of the company, the situation was bleak. If Continental were to pay salaries, debt service, pension contributions and some back payments to vendors, the company could be out of working capital by September 30. There was no ability to bring vendor payments current.

On Friday, September 23, 1983, Continental representatives met in Houston with the ALPA Negotiating Committee for Continental Airlines. During this meeting, Continental still hoped to receive ALPA's counterproposal to Continental's proposal of August 31. No such counterproposal was forthcoming. During the meeting, ALPA representatives were advised of Continental's desire to arrange a negotiating session for Saturday morning, September 24. Larry Baxter, the Chairman of the ALPA Master Executive Council at Continental responded that he saw no urgency and indicated that the earliest he would be available was Monday. He was advised that his reaction was incredible in light of Continental's prior representations to ALPA that immediate and drastic action was necessary to save Continental from disaster; he thereupon agreed to meet personally with Continental representatives, but failed to appear for the meeting.

The Chairman of the ALPA negotiating committee was contacted later on September 23 and advised that a Chapter 11 Petition was a real and immediate possibility. He was requested to meet for further negotiations on Saturday morning, September 24. The leadership of the UFA was similarly requested to meet on Saturday morning. ALPA finally responded

at approximately midnight on Friday, September 23, and advised that they would not meet on Saturday. ALPA then sent a telegram to Continental which was totally unresponsive to Continental's repeated statements as to the urgency of the problem--especially in light of the fact that ALPA had now been advised that bankruptcy was an imminent possibility. UFA also declined to meet on Saturday.

Based on all the circumstances related in this testimony the Board of Directors made the decision to seek reorganization under Chapter 11 while some cash assets still existed thereby offering the chance of saving approximately 4,200 jobs and the opportunity to regain financial strength and potential for growth and employment.*/ It was also known to the Board that, because Braniff filed for voluntary bankruptcy without sufficient cash resources to immediately resume services, Braniff was still not flying after 16 months in Chapter 11.

III. EVENTS SINCE CONTINENTAL FILED FOR REORGANIZATION

The first objective of Continental as debtor in possession was to keep as much of the airline operating as possible and thereby save as many jobs as possible, maximize revenues for renewed operations and Continental sought to minimize passenger inconvenience. Toward this end, Continental maintained all of its international services and only shut

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*/A more detailed discussion of Continental's pre-petition situation is contained in the attached Affidavit of Philip J. Bakes, Jr., Executive Vice President.

down its domestic system for 2 days. On Tuesday, September 27, Continental began to bring up the domestic system with limited service to 25 cities, down from 78 cities before the filing for reorganization. In the meantime overhead, which includes management resources, was reduced by 65 % and the workforce had been stabilized at 4,200, down from 12,000. Continental began service offering $49 fares on any nonstop segment for the first 4 days of service and $75 thereafter until October 22. The public response was excellent. On Thursday, Continental was contacted by the telephone company and requested to hold a press conference to urge the public to call their travel agent. The reason for this request was that Continental's reservation services received 1 million phone calls that day, 60% looking for seats and 40% seeking information. Since that time, Continental's bookings have been exceedingly strong.

From the outset Continental attempted to work with the unions under the difficult circumstances of the bankruptcy.*/ The afternoon of the filing, Continental sent a letter to all its unions reflecting the bankruptcy filing and the position Continental would have to take on labor issues. Continental indicated in its letter that it would not assume prior labor agreements, but that it continued to recognize its existing unions as the collective bargaining representatives. Immediate negotiations were requested on a set of

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*/The letters between Continental and ALPA referred to in the following pages are attached as an Appendix to this testimony. Letters to the other unions are similar, if not identical in content.

proposed emergency work rules to be implemented for the limited international operations which Continental desired to continue uninterrupted. Continental also requested immediate bargaining on a new agreement pursuant to Section 6 of the Railway Labor Act, 45 U.S.C. §156. Continental enclosed a proposal for a new Agreement with ALPA, based essentially on the contract recently signed by ALPA for the "new" Braniff, which was also the subject of Chapter 11 proceedings. Continental further assured ALPA that it would accept continuation in a new Agreement of such standard prior clauses as the grievance-arbitration system and union security provisions.

Continental also sent a contract to UFA which was based upon the contract the Association of Flight Attendants had signed with "new" Braniff.*/

On Monday morning, September 26, the Chairman of ALPA's negotiating committee, was again advised of Continental's desire for immediate negotiations on the emergency work rules. ALPA did not respond. On Tuesday evening, September 27, Continental again requested ALPA to resume negotiations, suggesting Wednesday, September 28 at 2:00 p.m. That same day, Continental filed with the Bankruptcy Court a Motion to reject the ALPA collective bargaining agreement as an executory contract pursuant to Section 365 of the Bankruptcy Code, 11 U.S.C. §365.

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*/For the sake of brevity, further reference is generally limited to ALPA when the context is the repeated exchange of communications.

On Wednesday morning, September 28, Continental's Vice President for Personel sent a telegram to ALPA which read as follows: "I repeat my request for immediate negotiations on emergency work rules. Again, please contact me immediately to arrange for negotiations.". ALPA responded to the September 28 telegram on the same day by stating that ALPA representatives were unable to meet on Wednesday or Thursday, September 28 or 29.

Upon receipt of ALPA's letter, a Continental representative promptly placed a call to ALPA's offices to schedule negotiations. An ALPA representative called back again at approximately 3:00 p.m. Thursday and advised that ALPA would not be available at all for negotiations, but that he would call early on Friday morning, September 30.

On Thursday, September 29, Continental learned ALPA had announced to the press that it was calling a strike against Continental at 2 a.m. C.D.T., Saturday, October 1. Despite Continental's repeated requests for emergency negotiations, at no time had any ALPA representative agreed to meet or negotiate with Continental Airlines prior to ALPA's strike call.

On Friday morning, September 30, ALPA finally agreed to meet with Continental. Continental met with ALPA representatives at a meeting which commenced at approximately 1:30 p.m. and adjourned after multiple recesses, at approximately 9:30 p.m. At this meeting, for the first time in recent Continental labor relations, Robert S. Savelson,

attorney for ALPA-International, was present and served as chief spokesman for ALPA. Mr. Savelson indicated he was speaking for the Continental pilots as well as for the International. Members of the Continental Pilots Negotiating Committee also were present but were virtually silent.

Mr. Savelson began the September 30 meeting by setting forth four "preconditions" that Continental would have to accept before any new collective bargaining agreement could be reached. These were (1) the Scope clause (which defines the work covered by the Agreement) would have to remain the same as that in the prior contract; (2) the seniority system had to remain the same; (3) the provision in the Emergency Work Rules allowing Continental to make unilateral changes had to be deleted; and (4) Continental would forego the right to reject the new agreement in any bankruptcy proceedings. Continental representatives accepted these preconditions with two minor exceptions: 1) They stated that while they agreed with the concept of seniority, the extensive seniority system of the previous agreement would be subject to negotiation insofar as necessary to find modifications or alternatives to the provisions for costly and time-consuming pilot training which occur in connection with increases or decreases in flying on various types of aircraft, and 2) they indicated that while Continental would readily agree to renew the existing Scope clauses, no representative of Texas Air Corporation was present to affirm TAC's agreement to renewal of a prior Scope letter

binding TAC. Continental's spokesman further indicated that this item would likely be satisfactorily resolved if all other issues were resolved.

At the September 30 meeting, ALPA representatives asked questions about the Emergency Work Rules but refused to make any proposals of their own, even when asked by Continental to do so. When Continental asked if ALPA would accept the wages and work rules which ALPA had recently agreed to for the pilots of bankrupt Braniff Airways, Continental was told that these terms would be unacceptable to Continental pilots.

During the September 30 meeting Continental indicated its desire to avoid a strike. Despite these statements, ALPA representatives made no acknowledgement of an imminent strike threat and did not offer a single alternative or suggestion that might help avert the strike.

At 2:00 a.m. on October 1, 1983, ALPA joined by UFA went on strike. Morning edition newspapers carried an ALPA advertisement relating to the strike. Pickets appeared at 7:00 a.m. at Houston Intercontinental Airport Terminal C carrying large signs. Continental believes that the signs and advertisements were prepared and placed prior to the commencement of "negotiations" on September 30, 1983.

The first post-strike negotiations were held on October 6, 1983. Prior to this negotiating session Continental again asked ALPA to submit a proposal responding to the company's proposals. ALPA refused to state whether

it would submit a proposal. At the meeting, ALPA again failed to set forth a proposal or counterproposal on any issue. At this meeting, Continental representatives presented an elaboration and clarification of the Emergency Work Rules and written information on group health insurance and the profit sharing and stock ownership plans. ALPA made no proposals of any type. The meeting lasted less than two hours, including multiple recesses. ALPA asked for another meeting the next day, October 7. Continental representatives asked if ALPA would have a proposal but, ALPA declined to answer.

On October 7 Continental representatives met with the same ALPA representatives for several hours. Once again, ALPA representatives failed and refused to make any proposals. At the conclusion of this meeting, Continental representatives indicated they would not continue to meet in the absence of meaningful discussion, negotiations or counter-proposals from ALPA.

It was not until Friday, October 14, 1983, that ALPA presented a counterproposal and it called only for a temporary 7% pay cut that would mean senior captains temporarily reduce their salaries to $100,000 per year. ALPA's proposal would provide pilots a projected retirement of $60,000 to $100,000 per year; and, it would guarantee senior captains a salary of over $115,000 per year by 1985 plus profit sharing and stock plans which could raise that figure to more than $150,000 per year. Continental rejected this proposal.

Upon commencement of the October 1, 1983 strike, ALPA instituted a number of strike-related activities, including acts of physical violence and intimidation against pilots failing to honor the strike call and attempting to report for work at Continental facilities. These actions are, in part, the subject of an antitrust suit filed by Continental against ALPA.

Since commencement of the strike on October 1, ALPA has threatened to impose union fines in excess of $10,000 and discipline on pilot members who failed to honor the strike. Moreover, ALPA has induced pilots who wish to fly to join the strike by "extraordinary" strike benefits ranging from $3,800 to $2,800 per month; this amounts to more than Continental is able to pay these pilots.

The recent events have been related in detail to illustrate that Continental is committed to recognizing ALPA and its other unions as the lawful bargaining agent. Management has simply been compelled by market forces to reduce costs across a broad spectrum which includes labor. I would point out in this regard that management has not been immune. Mr. Lorenzo reduced his salary from $257,000 per year to $43,000 per year from all corporate sources. He has committed to maintain that salary level until Continental becomes profitable. Overall, management has been greatly affected by the 65% reduction in management head count, a 15% pay cut, a benefit package reduction (all Continental employees now receive the same benefit package) 7 day weeks

and 12-16 hour days. In fact, several vice presidents are no longer with the company having chosen not to remain with Continental under the circumstances.

IV. CONTINENTAL HAS IMPLEMENTED PAY AND WORK RULE POLICIES THAT ARE RESPONSIVE TO TODAY'S ENVIRONMENT

Continental has embarked upon a program to provide its employees the same kind of program that was offered before the Chapter 11 filing. Texas Air Corporation has donated 1 million shares of Continental Airlines Corporation common stock to be distributed free to all of the employees who work the month of October. A profit sharing plan and an employee stock ownership plan have been announced and, Continental is formulating means by which all employees can make an input to the corporate decision making process.

With regard to union employees, Continental has adopted compensation and work rule packages which are very competitive in today's environment. Table I shows that, for example, Continental's compensation and work rule package for pilots meets or exceeds the contract ALPA signed with "new" Braniff this past June. Equally significant, Continental's proposal exceeds the compensation and work rule packages of the average new airline.

Continental's initiatives are subject to bankruptcy court approval. However, they clearly demonstrate an intention to treat our workforce in a fair and reasonable manner.

TABLE I

NEW CONTINENTAL'S CURRENT PILOT CONTRACT MEETS OR EXCEEDS THE PILOT CONTRACT RECENTLY SIGNED WITH NEW BRANIFF AND IS BETTER THAN CONTRACTS OFFERED BY CERTAIN OF CONTINENTAL'S COMPETITORS

	New Continental	ALPA/ Braniff Agreement	Average New Airline
Salary-- Captain:	$43,000	Up to $43,000	$28,000 to $43,000
Pilot Officer:	$28,000	$26,500-$31,500	$15,000 to $28,000
Benefits:	Group Medical Life Insurance. Company Paid Short-Term Disability Plan. Up to 3 Weeks Vacation Per Year	Same Same Up to 2 Weeks Vacation Per Year	Same Same Average 2 Weeks Vacation Per Year
Profit Share:	15% to 25% of All Earnings, Before Tax to Employees	10% of Earnings Before Tax After 1st $30 Million of Profit	Varies Substantially
Stock Ownership:	Pilots Share in Distribution of 1,000,000 Free Shares Granted to All Employees. Plus Option to Buy 1,000,000 Shares	None	Varies Substantially
Work Rules:	1,000 Hours Maximum Flight Time Per Year	Same	Same
Maximum Scheduled Duty Period:	14 Hours	Same	Same
Other Work Rules:	More Conservative Than Federal Regulations	Varies	Varies
Average Time Off Per Month:	14 Hours	Not Yet Applicable	Varies 8-14

V. THE FACTS DO NOT SUPPORT EITHER THE CHARGE OF IMPROPER USE OF THE BANKRUPTCY LAWS OR UNION BUSTING

There have been many irresponsible allegations made about Continental's situation since it filed for Chapter 11. Much of this is quite surprising in light of the fact that Continental's financial plight was made known to its employees in detail before the filing. Continental, which was a $1.5 billion corporation, simply could not sustain itself; it was a financially disabled corporation. We have provided an overview of Continental's financial situation in this testimony and you can be assured that Continental's finances will be gone over in minute detail during the course of the bankruptcy proceeding.

The charge of "union busting" is equally spurious. Continental has made it's recognition of the unions as the lawful bargaining units abundantly clear. Had Continental been set to engage in the alleged type of activities, Continental would have trained several hundred pilots before hand. Continental did not do this but rather continued to try to negotiate with ALPA. Continental also went through its active and its furlough lists to attempt to find pilots who would work in the face of ALPA's attempts to further disable the company and adversely impact those ALPA members who continue to work. Continental has only recently begun to hire replacement pilots in an effort to maintain and expand its schedules.

The question might be raised as to what about the replacement of the mechanics in August after the IAM

strike and what about the fact that Continental trained 700 flight attendants before the IAM strike? The answer to both of these questions is straightforward. Faced with a strike where the IAM was asking for a 36% pay increase for virtually no increase in productivity, Continental was forced to replace those IAM members who did not return to work when requested to do so. Remember that Continental offered the mechanics a 20% increase in pay for a 20% increase in productivity.

In the case of the flight attendants, they threatened prior to the IAM strike that they would not cross the IAM picket lines. Accordingly, Continental was forced to bear the added expense to train potential replacements.

Continental's option was to shut down the airline for an extended period of time, perhaps permanently since Continental's traffic would soon fall off as winter approached. The position of the company received tremendous support from its employees as evidenced by the fact that 56% of the IAM mechanics crossed the picket line and, all pilots and flight attendants reported for work.

Finally, if in fact, Continental were engaging in the kind of activities alleged, certainly the IAM strike provided plenty of opportunity to file for Chapter 11 with substantially more cash in hand. But what the company did was to fly through the strike in yet another effort to save Continental. It was only after all efforts at negotiation had failed and cash was running out that the petition for reorganization was filed.

V. CONCLUSION

There are no villians in the story of Continental's failure. Both the unions and management were confronted with factors they had not experienced before and which ultimately defeated them. There are legal mechanisms in place that will protect the interests of all concerned.

At this point, Congress should let the established processes work their way; the courts are time tested at solving thorny factual situations such as this. Beyond this, one can only devote all efforts toward rebuilding Continental as an airline that provides value to the consumer and to its shareholders, increased jobs and fair working conditions to its employees. Other companies have successfully reorganized after similar traumatic events. We at Continental are dedicated to making this a successful reorganization.

APPENDIX A

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS

In re	:	Case No.
CONTINENTAL AIRLINES CORPORATION,	:	
CONTINENTAL AIR LINES, INC.	:	Tax I.D. Nos.
TEXAS INTERNATIONAL AIRLINES, INC. and	:	95-38055221 84-0177270
TXIA HOLDINGS COPORATION	:	74-1619420 74-2001401

CORRECTED AFFIDAVIT

STATE OF TEXAS)
: ss.:
COUNTY OF HARRIS)

PHILIP J. BAKES, Jr., being duly sworn, deposes and says:

1. I am Executive Vice President and a director of Continental Airlines Corporation ("CAC"), Continental Air Lines, Inc. ("CAL"), and Texas International Airlines, Inc. ("TXI") and a Vice President of TXIA Holdings Corporation ("TXI Holdings") and as such submit this affidavit in connection with the voluntary petition of CAC, CAL, TXI and TXI Holdings.

2. Each of CAC, CAL, TXI and TXI Holdings maintains business offices in this district at 2929 Allen Parkway, Houston, Texas 77019. CAC, TXI and TXI Holdings are Delware corporations and CAL is a Nevada corporation.

3. CAL and TXI are wholly owned subsidiaries of CAC, a company approximately 91% of the outstanding common stock of which is owned by Texas Air Corporation. Since October, 1982, CAL and TXI have operated as a single integrated airline under the name "Continental Airlines"; prior to that time, they conducted their separate businesses under the names "Continental Airlines" and "Texas International Airlines," respectively. (References hereafter in this Affidavit to the "Company" and to "Continental Airlines" mean the integrated operation resulting from the combination of the operations of CAL and TXI.)

4. TXI Holdings is a subsidiary of TXI which owns various assets, including five aircraft and related engines, which it leases to TXI. The financing which enabled TXI Holdings to acquire these assets was provided, directly or indirectly, from unrelated third parties.

5. As of September 1, 1983 Continental Airlines operated 108 aircraft and was the eighth largest passenger airline operation in the United States (as measured by revenue passenger miles). Its principal business is the transportation by air of persons, property and mail in scheduled and charter services. Continental Airlines also engages in the business of contract aircraft maintenance and provides training and ground handling services for other air carriers.

6. As of September 1, 1983 Continental Airlines served 77 airports in the continental United States, with principal hubs in Houston and Denver. Continental also provides service

between the continental United States and Mexico, Venezuela, Hawaii, the South Pacific, Australia and New Zealand. Under the name "Continental/Air Micronesia," the Company provides service to the Western Pacific.*

7. No case under the former Bankruptcy Act or under Title 11 of the United States Code ("Bankruptcy Code") is currently pending by or against CAC, CAL, TXI or TXI Holdings.

8. In 1978, the Airline Deregulation Act of 1978 (the "Airline Deregulation Act") was passed. This Act radically changed the nature of the domestic airline industry. Prior to the effectiveness of the Airline Deregulation Act, airlines were assigned fixed routes and the number of competitors on each route was severely limited. Also, fares were subject to rate regulation, one of the purposes of which was to assure that carriers made a reasonable return on their investment. Thus each airline faced few competitors, none of whom was free to compete in terms of price.

9. Airline employees were particular beneficiaries of the regulated environment and most airline labor organizations vigorously opposed deregulation. Because of the limited competition and rate regulation, airlines were able to pass on labor cost increases to their passengers. Conversely, because of the large amount of lost revenues occasioned by strikes, airline managements had little incentive to resist vigorously union demands for higher

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* Pursuant to a corporate restructuring, these foreign routes are to be served by separate, wholly-owned subsidiaries.

wages and more restrictive work rules. The result was that airline employees, as compared to employees in other industries, received very high salaries for, in many cases, far less work than a normal forty hour work week.*

10. This competitive situation was completely changed by the Airline Deregulation Act. The concept of fixed routes was abandoned and each airline was free to fly wherever it wished throughout the United States if it could secure the necessary landing rights. Not only did the already-existing airlines take advantage of this new freedom but, more importantly, numerous "new entrant" airlines began operation. These new entrant airlines have drastically lower costs, especially labor costs, than the major air carriers such as Continental Airlines and are able to, and do, offer service at fare levels which Continental Airlines cannot match without incurring large losses.**

11. In addition, the elimination of rate regulation has led to wholesale price discounting, much of it in response to the very low fares being offered by the new entrant carriers. Over the past two years this has been exacerbated by the substantial amount of industry overcapacity due, in part, to the severe nationwide recession. An

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* Consumers were, of course, the class that was hurt by airline regulation. They paid for the high salaries paid to airline employees by high fares and, in many cases, less convenient schedules.

** Because established airline wages were so much higher than what marketplace rates would have provided, these new entrant airlines had no difficulty attracting qualified personnel at a fraction of the rates paid by the established carriers.

indication of this increased price competition is the percentage of passengers flying on discount tickets; for Continental Airlines the relevant figures are shown below.

Year	Percentage of Discount Tickets
1979	43.1%
1980	54.8
1981	74.2
1982	85.4
1983 (first 7 months)	89.7

12. As a result of these developments, the airline industry has experienced record operating losses since deregulation, as shown below:

Year	Total Operating Profits (Losses) (000's omitted)
1979	$ 199,055
1980	(221,615)
1981	(454,770)
1982	(733,435)
1983 (first 6 months)	(550,000)

Source: Air Traffic Association

Even long profitable carriers, such as Delta Airlines which reported a net loss of $86.7 million for the fiscal year ended June 30, 1983 -- its first annual loss in 36 years -- have been severely affected by the market forces let loose by deregulation.

13. For Continental Airlines the shock of deregulation has been particularly severe. Losses (before taxes exclusive of gains from sales of assets and from other non-recurring items)

from January 1, 1979 through June 30, 1983 have been $471,900,000, and these losses have been accelerating as the table below shows:

Year	Losses as defined above (000's Omitted)
1979	$27,600
1980	73,100
1981	135,800
1982	135,500
1983 (first 6 months)	99,900

July and August results showed substantial losses, even though the summer peak traffic. Partially as a result of the strike discussed later, the Company will show losses (before taxes) of $8.0 million in July and approximately $18.0 million in August.

14. By August 31, 1983 CAC's net worth had been reduced to pactically zero. CAC, CAL and TXI expect to be in default under all of their major loan agrements at the end of September.

15. In an attempt to deal with the competitive forces unleashed by deregulation, Continental Airlines has extensively revamped its operations in order to create a defensible "hub and spokes" system built around the Houston and Denver hubs. (In fact according to the Civil Aeronautics Board, Continental Airlines has since deregulation revised its route structure more extensively than any other airline. On September 1, 1983 fully 99% of the Company's domestic flights fed into the Houston or Denver hubs.) Although the restructuring has been costly -- among other things it required the Company

to seek to establish a market presence in numerous new locations in an attempt to obtain passenger "feed" for its hub operations -- it was a necessary exercise. CAL as it existed when the Deregulation Act was passed could not have survived in the deregulated marketplace since its route system at that time was heavily dependent on point-to-point operations that were subject to severe competition and largely indefensible.

16. Despite this largely successful route restructuring, Continental has not been able to operate profitably since deregulation. There are at least three reasons why:

(a) It has an extremely competitive route structure. In part this competitive situation is a function of the growth of the low-cost airlines referred to above. Because of their low costs, these airlines are able to operate profitably with very low fare structures and so they continually gain market share at the expense of the higher cost carriers such as Continental Airlines. The recent announcement by People Express, one of the most cost-efficient and price competitive airlines, that it will enter the

Houston - Newark market with six daily flights, is dramatic confirmation of this trend.*

(b) Continental Airlines, like many other airlines, derives about 60% of its traffic from travel agents who use computerized reservations systems to book flights. These systems are in the overwhelming number of cases controlled by United Airlines or American Airlines and are systematically programmed with a substantial bias in favor of the owner-airline. The result of this bias, as United and American freely admit, is that the owner-airlines gain a substantial amount of traffic that would otherwise go to other airlines. These computerized reservations systems also allow their owners to have access to proprietary marketing information of the user airlines and to suppress or obstruct dissemination of promotional fares or schedule changes sought to be instituted by user airlines. The overall effect of the computerized reservations services is to give the owner-airlines an enormous advantage vis-a-vis those airlines, such as Continental Airlines, which are dependent upon the service.**

(c) Continental Airlines is saddled with extremely high labor costs which are a relic of the pre-deregulation period. This subject is discussed in the following paragraphs.

See following page for Footnotes * and **.

Footnotes from Page 8.

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* People Express will offer unrestricted one-way fares between Houston and Newark of $99 ($69 in certain off-peak hours). By contrast, before People Express' entry into the market, Continental Airlines' standard one-way coach fare was $320 and its Super Saver fare (which applied to only a limited number of seats and was subject to several restrictions requiring, for example, a seven day advance purchase) ranged from $139.50 to $159.50.

** The Civil Aeronautics Board has recently announced an Advance Notice of Proposed Rule Making to consider rules to deal with this matter and the Justice Department is presently conducting an investigation to determine whether these systems have been used in a manner which violates the antitrust laws.

17. The three principal organized groups at Continental Airlines are the pilots, the flight attendants and the mechanics. Each of these groups is highly compensated:

- The average Continental Airlines pilot earns $89,400* per year (including benefits) for only approximately 53 "hard hours" of flying per month** (about 11 days on duty per month). A Continental Airlines DC-10 captain earns $138,600 per year (including benefits) for the same amount of work.

- The average Continental Airlines flight attendant earns $37,300 per year (including benefits) for only approximately 55 "hard hours" of flying per month.

- Mechanics (other than newly-hired mechanics hired to replace striking mechanics) at Continental Airlines earn $16.00 per hour for an average of $39,300 per year (including benefits).

18. In addition, the work rules (also a relic of the pre-regulation days) applicable to the pilots and flight attendants (and the work rules that were applicable to the mechanics until August 13, 1983) are extremely onerous to the Company.*** As a result, the Company has hundreds more pilots and flight attendants than it needs.

See Footnotes *, ** and *** on following page.

Footnotes from Page 9.

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* All earnings figures (except hourly figures) include fringe benefits.

** The pilot and flight attendant contracts permit somewhat more flying than indicated in the text, but restrictive work rules contained in the contracts have inhibited the Company's ability to achieve these theoretical maximums (which, in any event, are significantly below the comparable figures in the "low cost" competitive airlines). The figures in the text exclude the very liberal vacations provided to the pilots, flight attendants and mechanics. A pilot with 12 years of seniority is entitled to 30 vacation days per year; a flight attendant with such seniority, 25 days; and (during the period that the IAM contract was in force) a mechanic, 30 days. (Mechanics now receive a maximum of three weeks vacation a year.) Moreover, by judicious bidding of their flight assignments, flight attendants can increase substantially their amount of paid vacation time. For example, if a flight attendant bids a four day flight assignment one day of which conflicts with his or her scheduled vacation, he or she is not required to fly any of the four days but is paid for all of them.

*** Once again, the comparison to "low cost" competitive airlines is instructive. The Company believes, based on conversations with the appropriate executives at the airlines in question, that Muse Air pilots flew, on average, 85 "hard hours" a month in the 1st quarter of 1983, a People Express pilot, 75 "hard hours" a month, and a Southwest pilot, 74 "hard hours".

19. In addition to causing the Company to employ more people than it required, these work rules also severely hamper the Company's ability to manage its work force and in numerous cases either cost the Company substantial sums or force it to offer a less attractive product. For example, pilots are, in many circumstances (depending upon scheduled report time), not allowed to make more than a maximum of four to six landings in any duty period and are required to have a minimum of 10 hours and 45 minutes of rest in between duty periods. These restrictions, which substantially exceed applicable FAA regulations, inhibit management's ability to use its work force and equipment productively. Moreover, pilots are generally not willing to waive these restrictions to avoid inconveniencing passengers. If a flight scheduled to arrive in the evening is more than one-half hour late, the trip the next morning will be delayed. In a hub and spoke system this delay will ripple through the system causing further delays. Another example (among many that could be cited) of the unreasonable nature of the pilot contract is its handling of furlough pay. When a pilot is furloughed, he receives, as furlough pay, as much as five months' salary in a lump sum. If, as recently happened, a change in the marketplace requires recall of the furloughed pilot in less than five months' time, the pilot begins drawing his full salary as soon as he returns to work but does not have to return any of the furlough pay he previously received and immediately is eligible for full furlough pay benefits should he again be furloughed.

20. The flight attendants' contract is, if anything, more onerous than the pilots' contract. For example, flight

attendants are able to take vacations which will conflict with a small portion of the trips they bid. This enables them to drop the entire trip because of, for example, a one day overlap and yet get paid for the entire trip. Similarly, flight attendants can bid trips so that the end of the month trip and the beginning of the next month trip conflict; once again the flight attendant is able to drop an entire trip (not just the part that overlaps) and, in some cases, be paid for the entire trip. Or, if the first leg of a trip is cancelled, the flight attendant has no obligation to join the trip in progress (even though the Company would be willing to "deadhead" the flight attendant to the trip's overnight destination). In some cases, the flight attendant gets paid for the entire trip even though he or she has flown none of it. (These provisions are onerous to the Company even in those circumstances where the flight attendant is not paid for the missed trip because they increase the number of "reserve" flight attendants the Company must employ.)

21. The combination of these two factors -- high levels of compensation and restrictive work rules -- produced an intolerable situation at Continental Airlines, especially in comparison to the low cost airlines with which it competes. In 1982, Continental Airlines' labor costs were 33% of its total operating costs. The comparable percentages for Southwest Airlines and Muse Air, two of the Company's principal competitors, were 26.2% and 12%, respectively.*

See Footnote * on following page.

Footnote from Page 11.

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* Airline costs fall into three categories -- labor, fuel and all other (e.g., landing fees, advertising). Since several carriers have more fuel-efficient planes than does Continental Airlines, the comparison based on labor costs as a percentage of total costs may understate the extent to which the Company's labor costs exceed those of some of its competitors. With more fuel-efficient planes, Continental Airlines' labor costs would be an even larger percentage of its total costs. This is confirmed by looking at labor costs per available seat mile ("ASM"). Here the relevant figures for 1982 show an even sharper disparity: Continental Airlines - $.0251; Southwest - .0156; and Muse Air - .0070. It is true that new entrant carriers tend to contract out more of their work than do the established carriers, thus to some extent distorting the figures in their favor. According to a recent publication by the Air Transport Association derived from data filed with the Civil Aeronautics Board, the figures are as follows:

Labor As A % Of Operating Expense

5 New Entrant Carriers	-	18%
"Majors and Nationals"	-	37%

Labor Plus Outside Services As A % Of Operating Expense

5 New Entrant Carriers	-	29%
"Major and Nationals"	-	41%

On the other hand, by contracting out their work, the new carriers eliminate the substantial capital, overhead and materials costs borne by the established carriers in doing work in-house. (Figures in this Affidavit showing labor costs, by specified carrier, are derived from published compilations of data filed by the respective carriers with the Civil Aeronautics Board.)

22. Had Continental Airlines been able to reduce its labor costs to 19% of its total operating expenses (the average percentage for Southwest and Muse Air), it would have made $71.3 million in 1982 (excluding the effect of sales of assets and other non-recurring items) instead of losing, as it actually did, $135.5 million.* Continental Airlines' high labor costs made the difference between losses and profits.**

23. Since October, 1981, Continental Airlines has been engaged in intensive contract negotiations with the International Association of Machinists (the "IAM"). The Company offered substantial wage increases to many of the IAM-represented personnel (mechanics working on 727 and DC-10 aircraft would have received an immediate 20% wage increase), but required offsetting productivity increases. Management believed that this offer was extremely generous for a company in the financial condition of Continental Airlines and repeatedly urged its IAM-represented personnel to vote in favor of the offer. Nevertheless, on August 8, 1983 the Company was informed that the union members had rejected its proposal; and on August 9, 1983, this was confirmed by the IAM negotiating committee at a meeting held between the Company and the union at the offices of the National Mediation Board. In light of this fact and the Company's deteriorating financial condition, the Company informed the IAM that it was withdrawing the rejected offer. On August 13, 1983, IAM-represented personnel struck the airline.

See following page for Footnotes * and **.

Footnotes from Page 12.

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* Similarly, had Continental Airlines been able to reduce 1982 labor costs by $.0138 (which it would have been able to do had its labor costs been at the average of the 1982 labor costs per ASM of Southwest and Muse Air), it would have increased its 1982 results by $266 million -- turning a $135.5 million loss (before taxes and special items) into an $130.5 million profit.

** Of course, some other airlines also have very high labor costs. However, as the previous discussion indicates, many other airlines are losing enormous sums of money and, in fact, many of them are in serious financial difficulty. Other airlines, such as US Air, face little competition in a large number of their routes and so are able to charge much higher fares than Continental Airlines. Even Eastern, for example, a reportedly financially weak carrier, also has unique advantages such as its Atlanta hub (which was developed prior to deregulation) and its extensive and protected foreign route system. United Airlines and American Airlines are able to survive despite high cost structures because of their large traffic base, economies of scale and the additional traffic which they garner because of the biased computerized reservations systems which they control. United and American are also renegotiating their labor contracts with the goal of changing the wages and work rules for new hires so that, over time, they will have labor costs which are comparable to those of the new entrant carriers. United and American have such substantial resources that this gradual approach is at least a conceivable strategy for them; for Continental Airlines, it is not. And the parent company of one airline -- Frontier which is one of the Company's major competitors in Denver -- has recently announced plans to start a non-union airline at that hub which would have much lower labor costs than both Continental Airlines and Frontier itself and which would compete with the Company on many of its most important routes. It also should be stated that the Company has not been as effective as it would like to have been at increasing revenues, and the Company has begun the process of re-evaluating its marketing strategy. But no management can overcome the handicap of operating with labor costs that are dramatically higher than those of some of its major competitors. So while the Company intends to continue to devote considerable efforts to revenue enhancement programs, it remains true that dramatic cost reductions are a necessary pre-condition for success. Conversely, with lower costs Continental Airlines would have the freedom to compete more effectively with other low-cost airlines such as Southwest and Muse Air. In addition, a lower cost structure would allow the Company to finance the acquisition of additional and/or more fuel efficient aircraft (thereby enabling the Company to obtain economies of scale should it determine that it is desirable to do so).

24. In deciding not to meet the union's demand for wage increases that would have cost the Company $26.3 million over the remaining 17 month term of the proposed new contract (with no meaningful productivity improvements)* management knew it was taking a substantial risk. Nevertheless, management really had no choice if it intended to establish the long-term viability of the Company. As indicated earlier, major competitors of the Company have substantially lower labor costs than the Company. In the face of this harsh economic reality, it simply made no sense to increase the wage differential between the Company and these competitors.

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* The costs of acceding to the IAM demands would, in reality, have been even higher than this amount because if the Company did make these concessions, equity would have required that comparable concessions be made to the Company's 5100 non-organized agent personnel. Such concessions were estimated to be worth an additional $18.9 million over the period that the IAM contract would have been in effect. Also, in management's judgment, it would have been impossible to convince the pilots and flight attendants to reduce their compensation if the Company were simultaneously to agree to a large IAM increase. Although these effects are necessarily difficult to quantify, the Company estimated that they would have been very substantial. Moreover, the IAM proposed contract would have lasted only 17 months at which time the Company -- if it were still in business -- would have found itself facing the same bargaining situation as before the IAM strike except that it would have been starting at a significantly higher base. Considering all of these factors, the Company estimated that the total cost of accepting the IAM proposal over the next three years would have been approximately $200 million.

25. In one sense the strike was a failure for the IAM because over 56% of the IAM-represented mechanics crossed their own union's picket lines and reported to work. As a result, Continental Airlines was able to fly essentially all of the flights which it said it would at the beginning of the strike. Nevertheless, the strike, as expected, did serious damage to the Company:

- In the period prior to the strike, and during the strike, the Company undoubtedly lost a substantial number of bookings due to fears that the Company would not be able to continue its operations.

- For the first 6 days of the strike, the Company was forced to cancel 15% of its operations, and for the next 13 days, the Company was forced to cancel 7% of its operations. The Company was not, however, able to reduce its overhead by corresponding amounts and so the revenue loss associated with the strike had a direct impact on the Company's net results.

- During the strike, the union distributed leaflets such as those attached as part of Exhibit A to prospective passengers at Continental Airlines' major terminal facilities and mailed letters such as those attached as part of such Exhibit to travel agents throughout the country. The fact that these documents were replete with inaccuracies (see the letter from Continental Airlines' president to William Wimpinsinger, the union's president, attached as Exhibit B) did not make them any less damaging.

- The need for greatly increased security and increased subcontracting of work which would normally have been done by the Company's own mechanics as well as the hiring of standby replacements for flight attendants (who at one time strongly indicated that they would honor the IAM picket line) all greatly increased the Company's costs.

26. Loads since the strike began on August 13, 1983 have been disappointing. For the 30 days since the strike, system-wide loads were only 54.7% -- approximately 3% less than the corresponding period of the prior year despite the improved economic conditions in 1983 as compared to 1982. Yields (i.e., average fares) in this period were higher than for the corresponding period in 1982, but this was not nearly enough to offset the lower loads and the lost revenue from curtailed operations.

27. The large losses experienced in July and August (which management projected would continue) and the increased entry into its route system by low-cost carriers made it even more imperative that Continental Airlines promptly reduce its labor costs. The Company therefore developed a dramatic, company-wide program for (a) major cost reductions while (b) at the same time offering to its employees, through a combination of a profit sharing plan and stock ownership plans, a more than 50% interest in the profits of the Company.

28. The Company proposed total labor cost savings (compared to May 1983 levels) of $150,000,000 annually. Of this amount, $20,000,000 would have been obtained from the mechanics (most of this had already been obtained as a result of the wage and work rule changes implemented since the strike). An additional $30,000,000 was to come from non-organized groups comprised of management itself and the agent and clerical group. The agent and clerical group promptly and overwhelmingly voted to accept the requested pay reductions.*

29. The pay cuts imposed on management and agent and clerical personnel were only the latest in a series of sacrifices borne by these groups. In early 1983, the Company furloughed approximately 25% of management personnel and 12% of its agent and clerical personnel. This affected more than the people furloughed; the remaining personnel were subjected to severe work strains. The Company was convinced that there was no way that management and agent and clerical personnel could be asked to make all of the sacrifices necessary to ensure the Company's solvency and that, if the Company were to avoid bankruptcy, the pilots and flight attendants would have to participate. Moreover, previous pay freezes and increases in work load had already cost the Company competent management personnel which it could ill afford to lose.

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* Average annual compensation for Continental Airlines' agent and clerical personnel is $28,800 (including benefits). This is also an above-market rate. In addition, the Employee Policy Manual applicable to these employees provides, among other things, unusually generous vacation and severence benefits.

Since management personnel are not paid at higher-than-market rates, this is not surprising. On the other hand, even after the proposed reductions, most pilots and flight attendants would not have left the Company because they would still have been paid at higher-than-marketplace levels.

30. From the pilots and the flight attendants the Company asked for annual compensation and productivity concessions worth $100,000,000 -- $60,000,000 from the pilots and $40,000,000 from the flight attendants.* Despite the magnitude of these concessions, the pilot and flight attendant jobs would still have remained very desirable ones. The average Continental Airlines pilot would still have earned total annual compensation (including benefits but excluding any profit sharing) of approximately $60,000 per year and the average Continental Airlines flight attendant would still have earned total annual compensation (similarly computed) of $25,900. These figures would have placed the pilots in the top 4% of all wage earners in the country and the flight attendants in the top 30%. More significantly, the pilots and flight attendants would still have been compensated at levels that were significantly higher than those available at many competitive airlines including Muse Air and the "new" Braniff, as the table below shows:**

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* The Transit Workers Union represents about 40 flight dispatchers and ground instructors. The group agreed to wage, benefit and productivity changes which reduced their overall compensation by more than 25% from previously existing levels.

** The figures in the text exclude fringe benefits.

	Company Proposed	Muse Air	"New" Braniff
Pilots	$50,900	$31,800	$33,700
Flight Attendants	21,500	13,000	16,800

31. As indicated earlier, a part of the Company's proposal was a profit sharing plan which, insofar as the Company was aware, would have been the most generous in the industry. The plan would have paid over to all employees (other than officers) 25% of the Company's profits (before taxes and special items) beginning with the very first dollars earned.* Continental Airlines believes that had it obtained the cost reductions it was seeking, it would have had an excellent chance of becoming a very profitable airline and that, therefore, the proposed profit sharing plan would have made a meaningful contribution to its employees.

32. In addition, the Company proposed an extraordinary stock ownership plan to its employees -- one which would have made them the owners of 35% of Continental Airlines (on a fully diluted basis). Under the plan employees (other than officers) would receive 12 million shares of CAC common stock; one-third of these shares would have been granted as a bonus (i.e., without the necessity of the employees paying anything for the shares) and the remaining

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* By contrast, many profit sharing plans share profits only after the company has earned a certain amount. This is in order to be sure that the capital invested in the business has a chance to earn an adequate return prior to any sharing of profits. As indicated in the text, this feature was not part of Continental Airlines' proposal which started sharing profits with the first dollar earned.

two-thirds would have been issued pursuant to a stock option plan providing for the grant of options with an exercise price of 85% of the value of CAC common stock at the time of the plan's implementation. In addition, employees would have had until March 1985 to choose whether to exercise their stock options and employees who elected to exercise their options would have had two years to pay for the stock pursuant to a payroll deduction plan which the Company was willing to implement. Additional details of the proposed stock ownership plan are contained in the press release attached as Exhibit C.

33. The stock ownership plan described in the previous paragraph was intended to give Continental Airlines' employees a degree of employee ownership unmatched by any other airline in the world. Moreover, since two-thirds of the shares which, assuming full implementation of the plan, would have been owned by the employees were shares which were originally owned by Texas Air Corporation, the net result would have been that the employees would have been the largest single stockholder group, owning approximately 500,000 more shares that Texas Air Corporation.

34. The combination of the 25% profit sharing plan and the 35% employee stock ownership plan would have given the employees a more than 50% interest in the profits of Continental Airlines.

35. In addition, management offered a plan pursuant to which employees would have been ensured of having a greater voice in the affairs of the Company. This plan included:

- a proposal to elect one representative of the employees as a director of CAC; and

- a proposal to establish a management council whereby representatives of the employees and senior management would meet on a periodic basis.

36. The Company spared no effort to convince its pilots and flight attendants to participate in the Company's cost reduction program. These efforts included a detailed presentation by the Company's Chairman to the leadership of both unions;* a series of employee meetings at which the Chairman and/or President of the Company explained the Company's need for the programs to its employees and answered questions; a phone campaign aimed at contacting as many individual pilots and flight attendants as possible; and numerous mailings to all pilots and flight attendants. Examples of material mailed to the pilots and flight attendants are attached as Exhibits D and E.

37. In taking its program to its pilot and flight attendant groups, management encountered widespread understanding of the economic realities confronting the Company. For example, the following table shows the tally of telegrams received by the Company:

	For Participating in the Cost Reduction Program	Against Participating in the Cost Reduction Program
Pilots	275	19
Flight Attendants	708	53

* Attached as Exhibit F is the text of the presentation to the pilots.

38. The pilot and flight attendants unions also indicated that they realized that the Company needed substantial relief from its current labor contracts. For example, the pilots' union's Master Executive Council passed a resolution stating that the union leadership had determined that "it is in the best interest of all Continental pilots to participate in a further cost reduction program to allow Continental Airlines to compete profitably in today's marketplace ...." Similarly, the flight attendants' union sent the Company a telegram stating: "[The Union] recognizes that the Companies [sic] economic situation is serious...."

39. Despite these sentiments, the Company was unable to conclude an agreement with either group. Initially, leadership of the pilots' union actually refused even to meet with the Company -- allegedly on the ground that they were dissatisfied with the composition of the Company's proposed negotiating team (which consisted of the Chairman of the Board, a Senior Vice President and two Vice Presidents). When a meeting finally took place, the union negotiators stated that they were not empowered to accept the Company's proposal and had no counterproposal to offer. The Company did meet with the leadership of the flight attendants' union who presented a proposal purporting to represent concessions in excess of those requested by the Company. However, when the Company attempted to analyze this proposal it was able to price out only approximately $35,000,000 of the alleged $42,000,000 of proferred concessions and it determined that these concessions were worth only about 60% of the amount claimed

by the union. Moreover, the union's proposal failed to respond to the Company's proposal for a lower rate of pay for new-hires and returning furloughees and was conditioned on the negotiation of a merged agreement for the DC-9 and 727/DC-10 flight attendants. This latter point was especially significant because the 727/DC-10 agreement contained, as indicated above, numerous extremely onerous work rules which were both costly in themselves and which severely impacted the Company's ability to manage its workforce. In this connection, and in response to the union's proposal, the Company offered certain modifications to the 727/DC-10 agreement which would have made it sufficiently palatable to form the basis of a merged agreement. Nevertheless, the Company was unable to reach agreement with its flight attendants' union.

40. Management determined that the Company's deteriorating financial position required decisive, definitive and immediate action. It was for this reason that the Company established -- and repeatedly emphasized -- a deadline in its negotiations with the unions. Previously, negoitiations without a deadline had dragged on for months. Nevertheless, in an attempt to get an agreement, the Company continued negotiating with both the pilots' and flight attendants' unions past the deadline.

41. On September 22, 1983, the Company's Board of Directors met and instructed the Company's management to make one last effort to achieve the necessary savings. The Company met with the pilots' union leadership on Friday, September 23rd and received no commitment but instead

a list of demands for information that inherently could not have been provided in the short time left to the Company. The Company attempted to set up another meeting with the pilots' union leadership on September 24, 1983 but the union representatives refused to meet. A meeting with the flight attendants' union leadership was arranged for the morning of September 24, 1983, but at the last moment the union leadership cancelled the meeting.

42. Finally, time ran out. Management became convinced it could not obtain the necessary concessions and that decisive action was necessary to preserve the assets of the Company for its shareholders, creditors and employees and for the traveling and shipping public. The Company, therefore, filed its petition.

43. In reciting this history the Company does not intend to condemn its employees. On the contrary, the leadership of some of the unions representing Continental Airlines' employees is probably more enlightened than their counterparts at many of the other established airlines. Just as it has been difficult for the Company to adjust to the realities of the deregulated marketplace so it has been difficult for the Company's employees to adjust their expectations as to wages and working conditions to those realities. Unfortunately, the marketplace makes no allowance for these difficulties.

44. Given a realistic cost structure, time to implement a strategic plan which takes advantage of this cost structure and a

stretch-out of its debt obligations,* the Company can become a strong a profitable competitor. Continental Airlines will become the largest of the low-cost airlines -- a carrier that, operating from superb facilities and with a long history of fine service, will be able to achieve a unique niche in the nation's air transportation system.

45. Continental Airlines has other important advantages. It is one of two carriers with important hubs in both the northern and southern tiers (American Airlines is the other). Fully 99% of the Company's flight operations emanate from either the Houston or Denver hubs, in both of which locations the Company has excellent facilities. In July 1983 Continental Airlines accounted for approximately 44% of the passengers boarded at Houston's Intercontinental Airport and for approximately 19% of passenger boarded at Denver's Stapleton Airport. These are impressive figures especially considering the fact that these are among the busiest airports in the country.

46. The Company also has valuable assets in its foreign subsidiaries -- particularly those operating in the South Pacific; in Mexico where it flies to more locations than any other United States carrier; and in the Western Pacific where its routes to Tokyo and to Manila have done very well.

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* Since October 1, 1982 CAL and TXI have repaid $155.1 million of debt -- $130.1 million net of new borrowings from these same lenders. Over the next 12 months, CAL and TXI are scheduled to repay $111.5 million of additional debt.

47. Continental Airlines firmly expects to be able to rehabilitate its business and implement a plan consistent with the provisions of Chapter 11. The Company's assets have a far greater value as part of a going business than they would have in liquidation -- once again assuming a reasonable cost structure. Rehabilitation is the better alternative for the creditors, employees and stockholders of Continental Airlines and for the travelling and shipping public it serves.

48. Continental Airlines has developed a preliminary plan for the rehabilitation of its business. That plan will be completed and delivered to the Court shortly.

PHILIP J. BAKER, JR.

Sworn to before me this
24th day of September, 1983.

Elise Freedman Simons
Notary Public

ELISE FREEDMAN SIMONS
Notary Public State of Texas
My Commission Expires June 9, 1984
Bonded by L. Alexander Lovett, Lawyers Surety Corp.

DATELINE _ LOS ANGELES

CONTINENETAL AIRLINES IS ENTERING THE 2ND WEEK OF A PROJECTED LONG WALK-OUT BY OVER 1800 AIRCRAFT MECHANICS, TECHNICANS, GROUND SUPPORT, AND THEIR RELATED INSPECTORS !!!

THE UNION FEELS THE SAFTEY OF CONTINENTAL'S PASSENAGERS IS DIRECTLY AFFECTED:

SINCE ITS RECENT PURCHASE BY TEXAS AIR CORP., THE BELEAGURED AIRLINES HAS BEEN CUTTING BACK ON ROUTINE MAINTENANCE OF CONTINENTAL AIRLINES'S OVER 100 AIRCRAFT TO MINIMUM F.A.A. REQUIREMENTS. CONTINENTAL HAS BEEN IN MANY CASES FORCED TO REQUEST EXTENSIONS ON FLYING TIME FOR THEIR AIRCRAFT, BECAUSE THEIR AIRCRAFT HAD SIMPLY RUN OUT OF TIME UNDER FEDERAL AIR SAFETY REGULATIONS.

BECAUSE OF THE OBVIOUS STRIKE, THE UNION MECHANICS ARE CONCERNED NOT ONLY WITH THE LOSS OF BENEFITS, BUT ALSO WITH THE SAFETY OF CONTINENTAL'S AIRCRAFT. ONCE HERRALED AS THE "PROUD BIRD" COULD END UP CONTINENTAL AIRLINES THE "PROUD VULTURE".

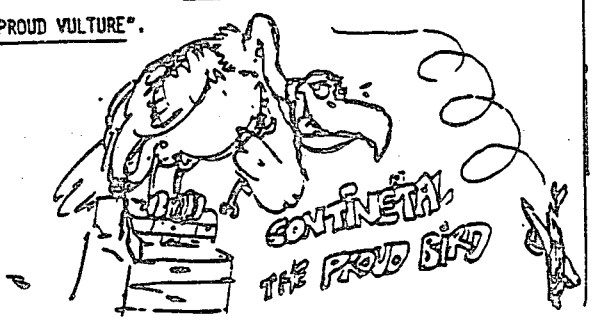

EXHIBIT A 1 of 4

Jim Barlow
President

Wilshire
West
Travel, Inc.

210 Wilshire Boulevard / Suite 115 / Los Angeles, California / 90024
213 477-1201

Machinists and Aerospace Workers
DISTRICT 146

101 • Irving, Texas 75061 • (214) 438-2626

August 15, 1983

DEAR TRAVEL AGENTS:

As a responsible organization, it is my feelings that we owe the Travel Agencies a notice that there exists a strike on Continental Airlines system-wide effective August 13, 1983. Being in business rendering a service to the traveling public, I feel that you need to know this information in regards to future bookings.

At this time, the Union has no knowledge as when to expect this dispute to be resolved.

The Company is attempting to operate the airlines with a reduced schedule, scab labor, and are cancelling flights with little or no notice. I promise to keep the travel agents informed because I know that you deal direct with the traveling public, and this information should be of great importance for you to secure a guaranteed seat for your customers.

As long as this strike is allowed to continue, and with outside help who are not familiar with Continental's aircraft, you can expect delays, cancellation and other problems that will affect the traveling public. In trusting this information will be of service to you, I remain

Sincerely yours,

L. T. Faircloth

L. T. Faircloth
Grand Lodge Representative
International Association of Machinists
and Aerospace Workers

LTF:lw

EXHIBIT A2of4

PLEASE DON'T FLY AN UNSAFE AIRLINE! CONTINENTAL HAS REPLACED ITS TRAINED MECHANIC With Unskilled Personnel

Your Safety Is Our Concern

EXHIBIT A3 of 4

***** SOMETHING TO THINK ABOUT *****

OVER TWO THOUSAND LICENSED AIRCRAFT TECHNICIANS, INSPECTORS MECHANICS, AND RELATED CLASSIFICATIONS ARE ON STRIKE. CONTINENTAL IS FLYING WITHOUT THEIR HIGHLY SKILLED SERVICES. IF EACH ONE OF THEM, WHEN WORKING, PERFORMED ONLY ONE JOB PER SHIFT, THEN EVERY DAY THAT CONTINENTAL FLIES WITHOUT THEM, OVER 2,000 NEEDED REPAIRS ARE UP AGAINST CONTINENTAL'S FLEET. CONTINENTAL IS PLAYING THE ODDS THAT THEIR AIRPLANES WILL HOLD TOGETHER LONG ENOUGH TO BREAK THEIR MECHANICS' UNION. IF CONTINENTAL WINS - THEIR MECHANICS LOSE. HOWEVER - IF THEY DON'T - YOU AND YOUR FAMILY MAY LOSE!

EXHIBIT A4 of 4

Continental Airlines

POST OFFICE BOX 4607
HOUSTON, TEXAS 77210-4607

PHONE (AREA 713) 630 5000

August 22, 1983

Mr. William W. Winpisinger
President
International Association of Machinists
and Aerospace Workers, AFL-CIO
1300 Connecticut Avenue, N.W.
Washington, D.C. 20036

Dear Mr. Winpisinger:

I am writing to register Continental's strong protest to the recent activities of your agents and representatives in connection with our current labor dispute. I assure you that Continental will hold your organization fully answerable at law for any conduct which causes damages or injury to Continental or any Continental employee.

We have received reliable reports of widespread threats and intimidation by your agents against Continental employees who desire to cross IAM picket lines and report to work. While we understand your desire for labor solidarity, we had been under the impression that the IAM was a leader in denouncing coercion and repression of the working men and women around the world. Despite this public posture, however, we have reliable reports that employees have been threatened by union officials for crossing the picket line. Subsequent threats and conduct by your agents, including tire slashings and a stabbing on your picket line, confirm to us that the threats and violence are part and parcel of the IAM's planned response to the current labor dispute. We find such conduct not only illegal, but unworthy of a great labor organization. We ask that you direct an immediate end to this course of conduct.

We have further received reports that the IAM has published signs and handbills questioning the safety of Continental Airlines and the quality of our now allegedly "unskilled personnel." We respect the right of the IAM to inform the public and to solicit informed support for your position in our current labor dispute. We regret, however, that your apparent failure to win informed public support has led the IAM to make untruthful and defamatory statements designed to scare the public and impugn Continental's sole business product, safe airline travel.

EXHIBIT B 1 of 2

Your organization is well aware of the stringent FAA safety regulations with which Continental, and all other airlines, must comply. Your organization is also familiar with the FAA licensing requirements applicable to airline mechanics. Continental is in full compliance with these requirements. In light of these requirements, we find it incredible that the IAM would question safety at Continental or allege that any of our mechanics are "unskilled" personnel. The patent falsehood of such statements or suggestions leads us to conclude that they are solely the product of a malicious intent to harm and defame Continental and our current workforce.

As you are aware, our current mechanic workforce includes over 600 incumbent mechanics who have chosen to cross the IAM's picket line. This represents a systemwide turnout of 54%, which rises to 76% excluding Los Angeles. These mechanics are long term, highly skilled individuals, most of them undoubtedly members of your organization. They have obviously made their own judgments on the merits of our labor dispute. The act of crossing your picket line, however, has not in any way diminished their skills as airline mechanics. In addition, as you know, we have hired a large number of mechanics as permanent replacements for those remaining on strike. Each of these replacements possesses all required FAA licenses for the positions they hold, as well as substantial job-related experience. In addition, each has received training on Continental maintenance practices and procedures. All of our mechanic employees, of course, remain subject to the experienced supervision and quality control procedures which are standard at Continental. In light of these facts, we demand an immediate halt to IAM publication of statements attacking Continental's safety or the skills of its mechanic personnel. Your failure to comply can only indicate a knowing and intentional course of conduct on your part to tortiously defame Continental's product and its employees. In such event, Continental will pursue all available remedies, including actual and punitive damages, for such conduct.

I await your prompt response.

Sincerely,

Stephen M. Wolf
President

cc: Joseph Manners, Esq.
Alfred M. Klein, Esq.
R. F. McCulloch
Anthony Young
F. Dean Ames
Ricoberto Martinez
John J. Vela
H. Jones

[illegible] Page 2 of 2

NEWS FROM
CONTINENTAL AIRLINES
PUBLIC RELATIONS / P.O. BOX 4607 / HOUSTON, TEXAS 77210-4607 / TELEPHONE: (713) 630-508(

FOR IMMEDIATE RELEASE

CONTACT: BRUCE E. HICKS
(713) 630-5080

CONTINENTAL TO RESTRUCTURE COSTS,
AND IMPLEMENT EMPLOYEE STOCK OWNERSHIP PLAN

HOUSTON, Sept. 14 -- Continental Airlines today announced its intention to implement a new economic plan to restructure permanently the labor costs of the company and implement an employee stock ownership plan of up to 12 million shares of stock, or up to 35 percent of the company's common stock on a fully diluted basis. Thus, the employees would become Continental's largest shareholder group.

The company's program to reduce its labor costs includes sweeping changes in labor contracts and employee policies and benefits that would result in a $150 million annual cost reduction. Employees in the agent, clerical and reservation groups, accounting for nearly half of the company's 12,000 employees, have voted overwhelmingly for the cost restructuring portion of the plan. The company expects to hear shortly from other groups, including pilots and flight attendants.

The Continental employee stock ownership plan has two major features. One is a stock bonus feature and the second is a stock option feature. The stock bonus feature involves four million shares of Continental common stock and the stock option feature involves eight million Continental common shares.

Continental explained that Texas Air Corporation, currently the majority owner of Continental with 20 million of the outstanding 22 million common shares, would make available eight million common shares or 40 percent of the parent company's Continental stock to employees concurrently with implementation of the overall economic plan. Half of the shares Texas Air is providing, or four million shares, would be provided to employees at no charge in the form of a stock bonus. The other half of Texas Air's portion would be combined with four million new shares from Continental Airlines itself

EXHIBIT C 1 of 3

and offered in the form of stock options to employees. The stock option feature would permit employees to purchase voluntarily through March 1985 up to eight million shares at 85 percent of the market price at the time of implementation of the plan. Employees who choose to purchase stock will be allowed to pay for it through payroll deductions over two years.

According to Continental Chairman Frank Lorenzo, "The economic plan that Continental is announcing today will dramatically change the cost structure of the company and put its costs more reasonably in line with marketplace labor costs." He further said, "Employees are being presented with a plan that makes a very sharp change in their compensation and productivity levels. Therefore, we believe those employees should share significantly in the ownership of the company in order to participate with other investors in the rewards that come with a competitive cost structure."

Lorenzo, who is also president of Texas Air, said, "While the plan will sharply reduce Texas Air's ownership of the company, it would result in a much stronger and more stable company and substantially benefit Texas Air's public shareholders.

"Employee ownership", according to Lorenzo, "is particularly important in a high service business such as Continental's. We would become the largest employee-owned airline in the world."

Lorenzo also stated that the employee stock ownership plan is specifically designed to "enhance the value to the existing public investors of Continental. The cost restructuring program will position the company for future profitability and the employee stock ownership plan will not substantially dilute existing public shareholders."

The economic plan, according to Lorenzo, would also contain a profit sharing feature for employees under which they would receive 25 percent of the company profits.

Continental's cost restructuring program includes annual cost savings of $30 million from its agent, clerical, reservations and management groups, $20 million from its IAM represented group, $40 million from its flight attendants and $60 million from its pilots. Most of the $20 million in IAM savings has been achieved as a result of the new IAM wage and benefit policy implemented last month after a strike by IAM employees.

EXHIBIT C 2 of 3

One half of the shares will be divided equally among the employees and the other half will be distributed on a formula according to the gross pay of each employee under the new cost structure. Thus, the employee stock ownership plan could result in each employee owning an average of 1,000 shares of common stock, although any individual employee may receive more or fewer shares.

There are currently 22.2 million common shares of Continental common stock outstanding. On a fully diluted basis, there would be a total of 34 million common shares, comprised of 22 million currently outstanding, eight million reserved for the exercise of warrants and conversion of publicly traded preferred stock and another four million new shares to be provided through the stock option feature of the employee stock ownership plan. The employees' 12 million shares would mean they would hold more than 35 percent and be the largest shareholder group. Texas Air would hold 11.5 million Continental common shares (not counting 500,000 shares previously committed under an employee plan). The initial grant of four million shares would give employees nearly 20 percent of the current outstanding common stock.

Continental's common and convertible preferred stock is traded on the American Stock Exchange.

Texas Air, Continental's parent company and currently its largest shareholder, is a publicly traded holding company whose interests include 90 percent of Continental; 77 percent of New York Air, a regional airline based at LaGuardia Airport in New York; Continental Computer Services, Inc., which provides reservation and data processing services to more than 70 other airlines; and various other investments and assets.

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EXHIBIT C 2 of 3

Continental Airlines

POST OFFICE BOX 4607
HOUSTON, TEXAS 77210-4607

PHONE (AREA 713) 630 6000

September 14, 1983

To All Continental Pilots:

I am compelled to write you again in an effort to save Continental. I want you to receive one final written communication, particularly in light of recent developments, before the Monday deadline for an answer to our economic proposal. On the one hand, I am extremely pleased to be able to announce the stock bonus and option program that will be available to all employees if the cost reduction program is approved by all groups by Monday. A copy of the press release announcing details of these programs is enclosed for your information.

As you are aware, the company has asked all of its employees to participate in an $150 million cost reduction program. All management employees began to participate on September 1, 1983 and our agent and clerical employees have overwhelmingly voted to participate. These two groups of employees represent more than half of our work force, but their personal sacrifice alone cannot and will not save Continental. To do that we need the full support of our cockpit and cabin crew employees. The enormous sacrifices being made by agent, clerical and management employees are significant. They are particularly significant when you consider the present level of their overall compensation and past sacrifices.

On the other hand, I am extremely distressed by the decision of the MEC which refused to attend a joint employee meeting with myself, Mr. Lorenzo and other executives on Tuesday, September 14, 1983. All other employee groups other than the pilots attended. It was at this meeting that we announced the employee stock ownership plan and our intent to have all employees select a representative to be a member of the Board of Directors. It is particularly puzzling that the pilots weren't represented when it was the MEC's suggestion that such a meeting be held. There was a disagreement about the additional attendance of our creditors, however, the MEC was advised why this was inappropriate and we again repeated our offer to have the pilots retain an independent accounting firm to audit and confirm the financial data I presented to you in my letter of September 11, 1983.

It will be Friday, September 16, 1983, when most of you will receive this letter. Some of you will have been able to attend the pilot meetings held by Mr. Lorenzo and myself and hear first hand what the facts are and what has to be done. Unfortunately, most of you will not have been able to attend.

The basic message that we delivered in these meetings is that we really have an extremely serious financial problem with our company. In our view, this problem can only be corrected by cutting our costs to contemporary market costs. We recognize that this means a major change in your historical working conditions requiring a sizeable reduction in pay and reducing the number of days you have off a month. However, our proposal still leaves our pilot group in a far better position than pilots being hired by our competition. We must have an answer from the pilot group. We aren't getting one. We have very little time left and we are bogged down in determining the "shape of the table" before getting into meaningful discussions with your ALPA leadership who are not convinced of the urgency of this matter.

EXHIBIT D 1 of 3

Our inability to convey the urgency of our present situation to your pilot leadership is becoming frightenly reminiscent of the recent tragic misunderstanding on the part of the IAM leadership when misread the absolute necessity to reduce our expenses and within several days witnessed the loss of some 1600 jobs.

As I said, the agent and clerical employees voted to adopt this plan. I have attempted to analyze the difference between our communications with the pilots and agents. Why is it that a group of employees who earn $20,000 a year is willing to work for less in order to see the company survive while a group averaging $89,000 has not yet decided on what to do? I have concluded that the answer to this question is that the extensive participative communications process through Agent Councils that has taken place over the last year made the difference. How else can you explain the ability of our agent and clerical employees to get some 80% of their group to overhelmingly vote for participation in just 5 days from the day they first received our request for support? It is for this reason that we are having direct group meetings with you this week.

You are involved in a direct threat to your career as a pilot. We have provided you a way to protect your career and make this your own company. Please don't wait until it's too late and say it wasn't your fault and blame it on the company or your representatives.

You must act now. We have a fundamental moral obligation to make sure that you know what needs to be done. The interests of our stockholders and creditors and external realities will not allow us to go Continental Pilots September 14, 1983, through a prolonged negotiation process. We need an immediate answer. Even if the answer is no, at least we will know your position. Right now we can't even get an answer.

Since we don't know whether or not we will meet with or ever get an answer from your MEC by Monday, September 19, we are taking the unusual step of polling individual pilots about how they feel.

I am requesting that you send me and your ALPA leadership a telegram to the addresses shown in the enclosure and indicate whether or not you want to participate. We have invited the MEC to meet with us on Monday the 19th to give us a yes or no reply. Your telegram can help both of us know how line pilots feel about participating.

Sincerely,

Stephen M. Wolf
President

Enclosures (2)

P.S. We have set up a special information hotline if you have any questions or need additional information. You may call (713) 630-5595, (713) 630-5596, (713) 630-5564 any day between 10am and 4pm CDT. The hotline is staffed with employee volunteers who have direct access to my office to handle inquiries.

EXHIBIT D 2 of 3

SEND TELEGRAMS TO:

Mr. Larry Baxter
CAL MEC Chairman
Air Line Pilots Association
9841 Airport Boulevard
Suite 1400
Los Angeles, CA 90045

Mr. Stephen M. Wolf
President
Continental Airlines
2929 Allen Parkway
Suite 1504
Houston, TX 77019

If you want to participate and save Continental and become a major owner of the company, your telegram should say

"I vote to participate."

If you want to vote against participation, your telegram should say

" I don't want to participate."

EXHIBIT D 3 of 3

Continental Airlines

POST OFFICE BOX 4607
HOUSTON, TEXAS 77210-4607

PHONE (AREA 713) 830 6000

September 15, 1983

To: All Continental Flight Attendants:

I am compelled to write you again in an effort to save Continental. I want you to receive one final written communication, particularly in light of recent developments, before the Monday deadline for an answer to our economic proposal. I am extremely pleased to be able to announce the stock bonus and option program that will be available to all employees if the cost reduction program is approved by all groups by Monday. A copy of the press release announcing details of these programs is enclosed for your information.

As you are aware, the company has asked all of its employees to participate in a $150 million cost reduction program. All management employees began to participate on September 1, 1983 and our agent and clerical employees have overwhelmingly voted to participate. These two groups of employees represent more than half of our work force, but their personal sacrifice alone cannot and will not save Continental. To do that we need the full support of our cockpit and cabin crew employees. The enormous sacrifices being made by agent, clerical and management employees are significant. They are particularly significant when you consider the present level of their overall compensation and past sacrifices.

It will be Friday, or Saturday, when most of you will receive this letter. Some of you will have been able to attend the flight attendant meetings held by Mr. Lorenzo and myself and hear first hand what the facts are and what has to be done. Unfortunately, most of you will not have been able to attend.

The basic message that we delivered in these meetings is that we really have an extremely serious financial problem with our company. In our view, this problem can only be corrected by cutting our costs to contemporary market costs. We recognize that this means a major change in your historical working conditions requiring a sizeable reduction in pay and reducing the number of days you have off a month. However, our proposal still leaves our flight attendant group in a far better position than flight attendants being hired by our competition.

Our inability to convey the urgency of our present situation to your flight attendant leadership is becoming frighteningly reminiscent of the recent tragic misunderstanding on the part of the IAM leadership which misread the absolute necessity to reduce our expenses and within several days witnessed the loss of some 1600 jobs.

As I said, the agent and clerical employees voted to adopt this plan. I have attempted to analyze the difference between our communications with the flight attendants and agents. Why is it that a group of employees who earn $20,000 a year is willing to work for less in order to see the company survive while a group

EXHIBIT E 1 of 3

averaging over $37,000 has not yet decided on what to do? I have concluded that the answer to this question is that the extensive participative communications process through Agent Councils that has taken place over the last year made the difference. How else can you explain the ability of our agent and clerical employees to get some 80% of their group to overwhelmingly vote for participation in just 5 days from the day they first received our request for support? It is for this reason that we had direct group meetings with you this week.

You are involved in a direct threat to your career as a flight attendant. We have provided you a way to protect your career and make this your own company. Please don't wait until it's too late and say it wasn't your fault and blame it on the company or your representatives.

You must act now. We have a fundamental moral obligation to make sure that you know what needs to be done. The interests of our stockholders and creditors and external realities will not allow us to go through a prolonged negotiation process. We need an immediate answer. Even if the answer is no, at least we will know your position. Right now we can't even get an answer.

Since we don't know whether or not we will get an answer and commitment from your representatives by Monday, September 19, we are taking the unusual step of asking individual flight attendants to make their feelings known.

I am requesting that you send Darenda Hardy (with a copy to me) a telegram to the addresses shown in the enclosure and indicate whether or not you want to participate. We have invited your representatives to meet with us on Monday the 19th to give us a yes or no reply. Your telegrams can make the difference.

Sincerely,

Stephen M. Wolf
President

Enclosures (2)

P.S. We have set up a special information hotline if you have any questions or need additional information. You may call (713) 630-5595, (713) 630-5596, (713) 630-5564 any day between 9am and 10pm CDT. The hotline is staffed with employee volunteers who have direct access to my office to handle inquiries.

EXHIBIT E 2 of 3

SEND TELEGRAMS TO:

Ms. Darenda Hardy, President
Union of Flight Attendants
8639 Lincoln Boulevard, Suite 200
Los Angeles, California 90045

cc: Mr. Stephen M. Wolf, President
Continental Airlines
2929 Allen Parkway, Suite 1504
Houston, Texas 77019

If you want to participate and save Continental and become a major owner of the company, your telegram should say

"I vote to participate."

If you want to vote against participation, your telegram should say

" I don't want to participate."

EXHIBIT E 3 of 3

Exhibit F

COMMENTS OF FRANK LORENZO
BEFORE CONTINENTAL PILOT M.E.C.
WEDNESDAY, AUGUST 31, 1983

FAL: "THANK YOU FOR COMING TO HOUSTON TO MEET WITH US. WE EXTEND OUR APOLOGIES FOR THE DIFFICULTY IN SCHEDULING THIS MEETING. LET ME INTRODUCE THE CONTINENTAL EXECUTIVES HERE TODAY:

STEVE WOLF - PRESIDENT

DICK ADAMS - SENIOR VICE PRESIDENT - OPERATIONS

PHIL BAKES - SENIOR VICE PRESIDENT

JOHN ADAMS - VICE PRESIDENT - PERSONNEL

DON BREEDING - VICE PRESIDENT - FLIGHT OPERATIONS

TOM MATTHEWS - VICE PRESIDENT - EMPLOYEE RELATIONS

BARRY SIMON - VICE PRESIDENT & GENERAL COUNSEL

HOWARD SWANSON - VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

BILL LAUGHLIN - SENIOR DIRECTOR - FLYING

BOB LEMON - SENIOR DIRECTOR - FLIGHT TRAINING

JIM FARROW - CHIEF PILOT - DENVER

BILL HILL - DIRECTOR - PILOT TRAINING - LAX

DICK HILLMAN - CHIEF PILOT - IAH

BOB HULSE - CHIEF PILOT - LAX

DOUG BRANSFORD - DIRECTOR - PILOT TRAINING - IAH

"WHAT WE HAVE TO SAY TO YOU WILL TAKE ABOUT 45 MINUTES. AFTERWARDS, THERE WILL BE PLENTY OF TIME TO DISCUSS WHAT WE HAVE PROVIDED.

"THE PURPOSE OF THIS MEETING IS TO PRESENT A PROPOSAL TO THE CONTINENTAL PILOTS. IF THE PROPOSAL IS ACCEPTED, AS WELL AS A SIMILAR ONE TO BE PROVIDED TO FLIGHT ATTENDANTS, THE COMPANY'S BOARD OF DIRECTORS IS COMMITTED TO CONTINUE OPERATING AND BUILDING THE COMPANY UNDER A PROGRAM THAT WILL:

1. PROVIDE THE COMPANY THE OPPORTUNITY TO SURVIVE TODAY AND A GOOD OPPORTUNITY TO MARSHAL THE RESOURCES TO GROW IN THE NEAR FUTURE;
2. PROVIDE A MEANINGFUL AND GENEROUS PROFIT SHARING PLAN FOR ALL EMPLOYEES, INCLUDING THE PILOTS, SIMILAR TO THE PLANS OF THE NEW ENTRANTS;
3. SHARPLY REDUCE ANNUAL OPERATING COSTS IN ALL AREAS OF THE COMPANY, NOT JUST PILOT AND FLIGHT ATTENDANT COSTS, BY $150 MILLION, WITH THE OBJECTIVE OF DEVELOPING A COMPETITIVE COST STRUCTURE;
4. EXECUTE A BOLD MARKETING STRATEGY, BUILDING ON CONTINENTAL'S EXISTING STRENGTHS AND CORRECTING ITS PRESENT WEAKNESSES.

"IF THIS PROPOSAL IS ACCEPTED, WE FIRMLY BELIEVE THERE CAN BE A FUTURE AND AN EXCITING ONE FOR MOST CONTINENTAL PILOTS.

"IF THIS PROPOSAL IS NOT ACCEPTED BY THE CLOSE OF BUSINESS ON WEDNESDAY, SEPTEMBER 14, THEN THIS COMPANY WILL IMPLEMENT A COURSE OF ACTION TO PROTECT THE INTERESTS OF SHAREHOLDERS AND CREDITORS. THOSE TWO GROUPS HAVE BORNE THE BRUNT OF OUR HIGH OPERATING COSTS AND THE COSTS OF RESTRUCTURING THE COMPANY'S ROUTES. WE STRONGLY BELIEVE THAT AN OBJECTIVE ASSESSMENT OF THE ALTERNATIVES AVAILABLE TO THIS COMPANY MAKES ACCEPTANCE OF THIS PROPOSAL, HOWEVER DIFFICULT, A MUCH PREFERRED ALTERNATIVE.

"THE COMPANY'S FINANCIAL POSITION IS MOST SERIOUS. THE MASSIVE LOSSES THAT ARE CONTINUING AT THE COMPANY WILL VERY SHORTLY ERODE OUR CURRENT CASH AND LIQUID RESOURCES. THAT LIQUIDITY IS LARGELY THE PRODUCT OF INVESTMENTS MADE BY AMERICAN GENERAL, THE PUBLIC AND TEXAS AIR CORPORATION. WE WILL NOT ALLOW THIS COMPANY TO DEPLETE ITS RESOURCES. WE, THEREFORE, HAVE SOME IMMEDIATE CHOICES: IMPLEMENT A NEW OPERATING PLAN INCLUDING DRAMATIC RELIEF FROM OUR CURRENT COST STRUCTURE, OR TAKE STEPS THAT PROTECT OUR CASH AND OTHER ASSETS WHILE WE STILL HAVE SUBSTANTIAL CASH RESOURCES.

"WE TRULY REGRET THAT THESE STARK ALTERNATIVES FALL SO SQUARELY ON THE PILOT GROUP AT CONTINENTAL. THE PILOTS ARE THE GROUP WHICH APPROXIMATELY ONE YEAR AGO VOLUNTARILY REVISED ITS CONTRACT IN THE HOPE OF REDUCING EXPENSES AND SAVING THE COMPANY. LITTLE DID WE THEN REALIZE HOW SWIFTLY THE MARKETPLACE WOULD BE UPON US AND HOW HARSHLY IT WOULD TREAT CONTINENTAL'S COSTS AND REVENUES. THE PILOTS OF CONTINENTAL ALSO CONTINUE TO FLY DURING OUR CONTINUED EFFORTS TO RESIST I.A.M. STRIKE-BACKED DEMANDS THAT WOULD RESULT IN ABSURD COST INCREASES. WE APPRECIATE BOTH OF THESE EFFORTS IN OUR COMMON INTEREST.

"THOUGH WE REGRET THE CIRCUMSTANCES WE NOW FIND OURSELVES IN AND THE ROLE THE PILOTS WILL PLAY -- ONE WAY OR ANOTHER -- WE BELIEVE THERE IS NO REASONABLE ALTERNATIVE LEFT OPEN TO US.

"THE REASONS WE HAVE REACHED THIS CONCLUSION ARE BASICALLY FOUR.

"FIRST, THE COMPANY IS LOSING MONEY AT AN ALARMING RATE -- $84 MILLION IN THE FIRST SIX MONTHS AND ANOTHER $7.4 MILLION LOSS IN JULY. JULY HAD ORIGINALLY BEEN PROJECTED TO BRING A $12.5 MILLION PROFIT AND JUST A FEW MONTHS AGO WE LOWERED THAT TO AN $8.4 MILLION PROFIT. THE ECONOMIC WARFARE BEING WAGED BY THE I.A.M. IS TAKING ITS TOLL. THE COMPANY'S SHAREHOLDERS' EQUITY OR NET WORTH IS CLOSE TO ZERO, AND OUR CASH RESOURCES ARE DIMINISHING RAPIDLY.

"SECOND, OUR OPERATING COSTS ARE TOO HIGH TO EVER ALLOW THE COMPANY TO BE PROFITABLE OR TO BRING A SIGNIFICANT RETURN TO SHAREHOLDERS. THIS IS TRUE EVEN WITH THE NEW I.A.M. WAGES AND WORK RULES WE IMPLEMENTED. THEREFORE, UNLESS WE CAN REDUCE OUR OPERATING COSTS VERY SIGNIFICANTLY AND PROMPTLY, IT MAKES NO BUSINESS SENSE TO CONTINUE AS WE HAVE BEEN DOING. AS A RESULT OF THE NEW WAGES AND WORK RULES DUE TO THE I.A.M. STRIKE, WE WILL BE ABLE TO REDUCE OUR I.A.M. COSTS BY ABOUT $20 MILLION ANNUALLY. OUR GOAL IS AN OVER-ALL ANNUAL COST REDUCTION OF $150 MILLION; WE BELIEVE THAT THIS REQUIRES A $60 MILLION REDUCTION FROM THE PILOTS, $40 MILLION FROM THE FLIGHT ATTENDANTS, AND A $30 MILLION REDUCTION IN OTHER COSTS INCLUDING OTHER EMPLOYEE GROUPS.

"THIRD, PILOT EXPENSES AT CONTINENTAL ARE A LARGE PORTION OF TOTAL LABOR EXPENSES. PILOT EXPENSES ARE ABOUT $130 MILLION PER YEAR OR OVER 25% OF THE TOTAL ANNUAL LABOR COSTS OF $520 MILLION BASED ON THE MAY 1983 COST LEVELS. PILOT WAGES, BENEFITS AND WORK RULES AT CONTINENTAL CREATE SIGNIFICANTLY HIGHER COSTS THAN WE CAN AFFORD. FOR EXAMPLE, IF THE CONTINENTAL PILOTS WORKED UNDER THE SAME CONTRACT AS THE "NEW" BRANIFF, OUR PILOT COSTS WOULD BE REDUCED BY $90.0 MILLION PER YEAR, OR ABOUT 70%. COMPLETELY NEW ENTRANT AIRLINE PILOT COST STRUCTURES WOULD SAVE EVEN MORE THAN THAT. THESE ARE THE COST STRUCTURES WE COMPETE AGAINST. OTHER NON-PILOT COST REDUCTION PROGRAMS, SUCH AS I.A.M., FLIGHT ATTENDANTS, CORPORATE OVERHEAD, AND SO ON, ALTHOUGH NECESSARY, ARE NOT SUFFICIENT UNLESS PILOT COSTS ARE REDUCED SIGNIFICANTLY AND PERMANENTLY.

"FOURTH, IF OUR COSTS CANNOT BE REDUCED SIGNIFICANTLY AND IMMEDIATELY IT IS NOT AN ACCEPTABLE BUSINESS RISK TO GO INTO THE OFF-PEAK SEASON WITHOUT A CREDIBLE PLAN TO PRESERVE OUR CASH RESOURCES. WE ARE NOT GOING TO GO OUT OF BUSINESS AS BRANIFF DID, THAT IS, WITH NO CASH. RATHER, WE ARE FIRMLY COMMITTED TO TAKE OTHER STEPS TO PROTECT OUR REMAINING LIQUIDITY AND OUR ASSETS.

"THE MORE BASIC REASON WE FACE THESE STARK CHOICES IS BECAUSE OF THE NEW WORLD OUT THERE TODAY. ONLY THE EFFICIENT AIRLINES WITH MARKETPLACE COST STRUCTURES WILL SURVIVE. THIS IS CERTAINLY TRUE OF CONTINENTAL, AND CARRIERS LIKE REPUBLIC, WESTERN AND PAN AM. AND, IT IS ALSO TRUE OF CARRIERS EVEN LIKE AMERICAN AND

UNITED. THE GIANTS REALIZE THIS FACT AND ARE FOLLOWING A STRATEGY UNIQUE TO THEMSELVES IN ORDER TO SURVIVE. THEY HAVE STOCKPILED TRULY AWESOME FINANCIAL RESOURCES TO PROVIDE THE STRENGTH AND TIME TO GROW. THIS GROWTH IS NOURISHED UNDER NEW LABOR CONTRACTS THAT HAVE VERY LOW NEW-HIRE RATES, THUS BUILDING LOWER UNIT COST STRUCTURES INTO THEIR ENTIRE COMPANY. IN THE MEANTIME, THE GIANTS ARE BENEFITING FROM BIASED TRAVEL AGENT COMPUTER RESERVATION SYSTEMS THAT DISTORT TRAFFIC PATTERNS AND COMPETITIVE MARKET SHARES. BEFORE THAT DISTORTION IS FULLY REDRESSED, THE GIANTS MAY OR MAY NOT BE SUFFICIENTLY PREPARED FOR THE COST PRESSURES OF THE MARKETPLACE. DELTA'S RECENT MASSIVE LOSSES SHOW HOW FICKLE THE MARKETPLACE IS TO EVEN THE APPARENT GIANTS.

"NO MATTER HOW INTELLIGENTLY WE MANAGE OUR BUSINESS, WE CANNOT HAVE LABOR COSTS THAT ARE DRAMATICALLY HIGHER THAN OUR COMPETITORS AND SURVIVE. ALTHOUGH IT IS PERFECTLY CLEAR THAT REDUCING COSTS ALONE WILL NOT SOLVE THE COMPANY'S PROBLEMS AND THAT MUCH REMAINS TO BE DONE ON THE REVENUE SIDE, NEVERTHELESS IT IS ALSO TRUE THAT A PRECONDITION TO SUCCESS IS A DRAMATIC REDUCTION IN OUR COST STRUCTURE. UNLESS WE DO THIS, WE WILL RUN OUT OF THE TIME IT TAKES TO IMPROVE REVENUES.

"SO WHILE WE CONTINUE TO WORK ON REVENUE IMPROVEMENTS AND ACKNOWLEDGE THAT THERE IS MUCH TO DO, WE HAVE CONCLUDED THAT REDUCING COSTS DRASTICALLY IS A NECESSARY FIRST STEP TO SURVIVAL.

"You have often heard me say that I did not author 'deregulation'. In fact, at first I opposed it in the U. S. Congress because I thought it could harm Texas International.

"Today, I philosophically believe in deregulation. Although it is tough on all of us and on the company we work for -- and Continental could perish because of it -- I much prefer over the long term to be subject to the rule of the marketplace, rather than the bureaucrat.

"But, we must heed the rule of the marketplace. The latest example of how harsh but inevitable that marketplace is came last week when People Express announced plans to commence Newark - Houston service five times per day at unrestricted fares a fraction of some of our recent discount fares, to say nothing of our regular fares.

"The People Express's, The Southwest's, The America West's, The Frontier Horizon's are drastically altering Continental's marketplace. Unless we change with the marketplace, we will perish.

"Other courses of action that are evolutionary, not revolutionary, do not work for Continental.

"We are working aggressively on improving revenues but this will not rescue us from the need for a marketplace cost structure. We cannot raise our yield fast enough and high enough to cover our costs. July, for example, was a month in which yield was increased 8 percent over the previous month. But through reduced traffic and high costs we lost $7.4 million. We cannot

RELY UPON A MEANINGFUL IMPROVEMENT TO THE JULY PERFORMANCE -- A PEAK TRAFFIC MONTH -- IN THE FALL, ESPECIALLY WHEN ONE CONSIDERS THAT WE LOST NEARLY $20.0 MILLION PER MONTH LAST FALL.

"MOREOVER, THE NORMAL COLLECTIVE BARGAINING PROCESS WILL TAKE TOO LONG. THE PILOT CONTRACT BECOMES AMENDABLE IN SEPTEMBER OF 1984. THE FLIGHT ATTENDANT CONTRACT, IF OUR CURRENT ARBITRATION IS UNSUCCESSFUL, IS AMENDABLE IN DECEMBER 1984. AND, OF COURSE, UNDER THE RAILWAY LABOR ACT, IT IS USUALLY MANY MONTHS AFTER THE AMENDABLE DATE BEFORE A CHANGE OCCURS. IF WE COULD REDUCE THE PREVIOUS 18 MONTH'S LOSSES BY 50%, IN THE SUBSEQUENT 18 MONTHS THROUGH DECEMBER OF 1984 WE WOULD STILL LOSE AN ADDITIONAL $117 MILLION BEFORE TAX AND SPECIAL ITEMS.

"AS AN ASIDE, THE I.A.M. SITUATION DEMONSTRATES THAT STRIKES ARE A COSTLY AND, IN HUMAN TERMS, A TRAGIC COURSE OF ACTION, EVEN THOUGH THE ALTERNATIVE OF HIGHER OPERATING COSTS WAS PERHAPS THE MOST TRAGIC COURSE OF ALL. WE WORKED VERY HARD TO AVOID A STRIKE. WE KNEW A STRIKE WOULD BE VERY COSTLY AND IT HAS PROVEN TO BE SO. WE HAD HOPES THAT THE I.A.M. LEADERSHIP WOULD RECOGNIZE THAT THE REALITIES OF THE MARKETPLACE, NEVER MIND OUR WEAK FINANCIAL CONDITION, PREVENTED US FROM A SO-CALLED "INDUSTRY PATTERN SETTLEMENT". THE OLD REGULATED INDUSTRY PRACTICES ARE NO LONGER A PATTERN FOR ANYTHING, EXCEPT EVENTUAL INSOLVENCY. IN SPITE OF OUR EFFORTS TO COMMUNICATE CLEARLY, OPENLY AND FREQUENTLY THAT WE MUST REDUCE OUR COSTS, AND QUITE APART FROM THE TIME NEGOTIATIONS WOULD TAKE, THERE IS AN ENORMOUS DANGER OF MISCALCULATION AND FATAL MISUNDERSTANDING ON THE PART

OF BARGAINING REPRESENTATIVES AND THE INDIVIDUALS THEY REPRESENT. "WE HAVE ALSO CONSIDERED ACQUIRING AIRCRAFT AND GROWING SIGNIFICANTLY TO CREATE MORE MASS AND THUS MARKET PRESENCE AND MARKET POWER IN OUR MAJOR HUBS. THIS WOULD ALLOW US TO CAPTURE A LARGER SHARE OF THE LOCAL HOUSTON AND DENVER MARKET, AND TO OFFSET SOMEWHAT THE ENORMOUS ADVANTAGES CARRIERS LIKE AMERICAN AND UNITED ENJOY. GROWTH WOULD ALSO ALLOW US TO REDUCE SOMEWHAT OUR UNIT COSTS, OR COST PER AVAILABLE SEAT MILE. ALTHOUGH GROWTH IS NECESSARY FOR CONTINENTAL TO SURVIVE, AND IS PART OF OUR STRATEGIC PLAN, IT IS NOT SUFFICIENT IN THE SHORT RUN TO SAVE US. FOR ONE THING, IT IS ENORMOUSLY COSTLY TO FINANCE SUCH GROWTH AND OUR LEVEL OF OPERATING LOSSES CANNOT FINANCE THE CAPITAL INVESTMENT AND MARKETING INVESTMENT REQUIRED. ALSO, EVEN IF THE FINANCING HURDLE WERE SOLVED, IT TAKES TIME TO GROW SIGNIFICANTLY AND IT WOULD BE 1984 AND 1985 BEFORE NEW PLANES COULD BE INTRODUCED AND PROBABLY LATER BEFORE THEY COULD BE DEPLOYED AND MARKETED PROFITABLY.

"ANOTHER OPTION WE HAVE STUDIED IS TO CUT THE SIZE OF THE COMPANY BY OVER ONE-THIRD. THIS OPTION IS WHAT LAST YEAR WAS REFERRED TO AS "THE B AIRLINE". WE HAVE UNTIL VERY RECENTLY CONSIDERED THIS COURSE OF ACTION AND HAVE IN FACT BEEN PRESENTED WITH HUNDRED MILLION DOLLAR OFFERS TO PURCHASE OUR DENVER FACILITIES. WE HAVE CONCLUDED THAT THIS OPTION IS NOT A SOLUTION TO OUR PROBLEMS, EVEN THOUGH IT WOULD PROVIDE A LARGE AMOUNT OF CASH, AND A SIMPLER, MORE MANAGEABLE COMPANY CONCENTRATED IN HOUSTON. IT IS NOT A SOLUTION BECAUSE IT DOES NOT SOLVE THE COST PROBLEM AND, IN FACT, WITH A SMALLER BUT MORE SENIOR WORK FORCE, IT EXACERBATES OUR COST PROBLEM."

"THERE MAY BE A BELIEF AMONG SOME THAT TEXAS AIR WILL NOT ALLOW CONTINENTAL TO PERISH. SOME BELIEVE THAT TEXAS AIR WILL CONTINUE TO PUMP MONEY INTO CONTINENTAL. BUT, THESE PEOPLE WOULD BE WRONG. AS PRESIDENT AND CHIEF EXECUTIVE OF TEXAS AIR CORPORATION, I SHOULD SAY A FEW BRIEF WORDS ABOUT THE ROLE OF TEXAS AIR IN RELATIONSHIP TO CONTINENTAL. UNDER THE PRESENT CIRCUMSTANCES OF COSTS THAT CONTINENTAL CAN'T AFFORD AND STAGGERING LOSSES THAT CONTINENTAL CAN'T FUND, TEXAS AIR IS NOT PREPARED TO FURTHER SUBSIDIZE CONTINENTAL.

"SINCE 1981, TEXAS AIR HAS INFUSED NEARLY $80 MILLION DOLLARS INTO THE COMBINED COMPANIES OF TEXAS INTERNATIONAL AND CONTINENTAL, AND HAS MADE ANOTHER $15 MILLION AVAILABLE FROM TIME TO TIME IN SHORT TERM TRANSACTIONS. TEXAS AIR BELIEVED THAT ITS INITIAL OWNERSHIP INVESTMENT IN THE AIRLINE WOULD BE BETTER PROTECTED IF THE AIRLINE HAD SUFFICIENT FINANCIAL RESOURCES TO CONTINUE OPERATING AS IT STRUGGLED TO SOLVE ITS COST AND REVENUE PROBLEMS. TEXAS AIR BELIEVED THAT ITS OWN SHAREHOLDERS WOULD BE BETTER SERVED AND RECEIVE HIGHER VALUE FOR THEIR TEXAS AIR SHARES IF CONTINENTAL RECEIVED ADDITIONAL TEXAS AIR FUNDS. I SHOULD ALSO POINT OUT THAT TEXAS AIR'S INVESTMENTS IN CONTINENTAL WERE ALWAYS ON AN ARMS-LENGTH BASIS IN THAT TEXAS AIR RECEIVED, IN EXCHANGE FOR ITS INVESTMENT, ASSETS OR YIELD PRODUCING SECURITIES THAT HELPED OFFSET TO SOME EXTENT THE RISKY NATURE OF THE INVESTMENT.

"TWO YEARS OF THIS INVESTMENT STRATEGY HAS NOT PAID OFF FOR TEXAS AIR SHAREHOLDERS. THEREFORE, IT WOULD NOT SERVE TEXAS AIR'S SHAREHOLDERS TO CONTINUE THAT STRATEGY. FOR ONE THING, TEXAS AIR HAS APPROXIMATELY $60 MILLION OF CASH OR CASH EQUIVALENTS AND $60 MILLION APPEARS TO BE LESS THAN WHAT CONTINENTAL COULD LOSE IN THE 3RD AND 4TH QUARTERS OF THIS YEAR ALONE, AS THINGS STAND NOW. IN ADDITION, TEXAS AIR HAS CERTAIN OBLIGATIONS, INCLUDING DEBT OBLIGATIONS, THAT MUST BE SERVICED IN PART FROM THE INTEREST INCOME DERIVED FROM THAT $60 MILLION. FINALLY, TEXAS AIR HAS AN OBLIGATION TO ITS SHAREHOLDERS AND TO COMMON SENSE TO INVEST IN ENTITIES THAT PROVIDE A POSITIVE RETURN. A POSITIVE RETURN IS HARDLY EVEN A POSSIBILITY AT TODAY'S COST STRUCTURE.

"IN SHORT, TO PROTECT OUR SHAREHOLDERS AT TEXAS AIR, NO ADDITIONAL INVESTMENTS IN CONTINENTAL WILL BE MADE. IT IS NOT GENERALLY UNDERSTOOD THAT IF CONTINENTAL SHOULD FAIL, TEXAS AIR'S LEGAL AND FINANCIAL INDEPENDENCE FROM CONTINENTAL WILL PROTECT TEXAS AIR'S EXISTENCE AND PRESERVE VALUE FOR ITS SHAREHOLDERS. CONTINENTAL SHOULD NO LONGER COUNT ON TEXAS AIR.

"NOR CAN WE COUNT ON AMERICAN GENERAL OR THE PUBLIC TO FINANCE A DISPARITY IN THE MARKEPLACE. THESE INVESTORS ARE SURELY DISAPPOINTED, HAVING WITNESSED A NEARLY 50% DROP IN CONTINENTAL'S COMMON STOCK PRICE. WHILE THESE INVESTORS HAVE NO FURTHER INTEREST IN PROVIDING FUNDS TO CONTINENTAL, WE ARE DETERMINED TO PROTECT THEIR INTERESTS.

"THAT LEAVES US WITH THE TWO ALTERNATIVES I BEGAN WITH -- DRAMATIC AND IMMEDIATE VOLUNTARY COST REDUCTIONS OR ACTIONS TO PROTECT OUR LIQUIDITY AND OTHER RESOURCES.

"WE ARE NOT HAPPY ABOUT THE COURSES OF ACTION OPEN TO US, BUT WE ARE OPTIMISTIC ABOUT FINANCIAL RECOVERY WITH A LARGE AND PROMPT REDUCTION OF OUR LABOR COSTS, IF YOUR AGREEMENT PERMITS US TO FOLLOW THAT PREFERRED COURSE.

"I WOULD LIKE NOW TO GIVE YOU A BRIEF SYNOPSIS OF THE PROPOSAL."

"THE PROPOSAL WE ARE MAKING TO YOU WOULD PERMANENTLY REDUCE THE COMPANY'S PILOT COSTS BY $60 MILLION PER YEAR. WE ARRIVED AT THAT AMOUNT BECAUSE WE BELIEVE IT IS A SIGNIFICANT ENOUGH SAVINGS WHICH, WHEN COUPLED WITH OTHER COST REDUCTIONS, WILL PROVIDE, FIRST, A COST STRUCTURE COMPETITIVE WITH OUR LOW-COST COMPETITION AND, SECOND, SUFFICIENT RELIEF TO GIVE US THE STRENGTH TO FINANCE OUR CONTINUATION, OUR GROWTH AND EVENTUAL PROFITABILITY.

"IT IS MORE THAN THE $45.0 REDUCTION WE PRESENTED IN EARLY JUNE. THE INCREASE REFLECTS THE ADDITIONAL AND ALARMING RECENT LOSSES, THE COSTS OF RESIZING THE PILOT WORKFORCE, AND, PERHAPS MOST IMPORTANTLY, THE INCREASED ONSLAUGHT OF THE MARKET ON CONTINENTAL IN RECENT WEEKS, INCLUDING THE STARK REALIZATION THAT WE MUST BE COST COMPETITIVE WITH LOW-COST CARRIERS TO SURVIVE AND ATTRACT THE CAPITAL TO PROSPER. THE PROPOSAL WOULD RESULT IN A SIGNIFICANT REDUCTION IN PAY BUT MAINTAIN THE W-2 EARNINGS OF THE AVERAGE CONTINENTAL PILOT IN THE TOP 4% OF WAGE EARNERS IN THE COUNTRY. IT WOULD PROVIDE TOTAL ANNUAL COMPENSATION, INCLUDING BENEFITS, OF OVER $60,000 PER PILOT OR 60% PERCENT HIGHER THAN THE PILOTS AT THE NEW BRANIFF. THE PROPOSAL WOULD RESULT IN A SIGNIFICANT INCREASE IN FLYING PER PILOT AND THUS A FURLOUGH OF MANY PILOTS, BUT WOULD PRESERVE AN AVERAGE 14 DAYS OFF DUTY PER MONTH, PLUS

21 DAYS VACATION. THE PROPOSAL WOULD ALSO PROVIDE A SIGNIFICANT PROFIT SHARING PLAN MODELED AFTER THE PLANS IN EFFECT AT NEW YORK AIR, PEOPLE EXPRESS AND OTHER NEW ENTRANT AIRLINES.

"THERE ARE OTHER COMBINATIONS OF POSSIBLE SAVINGS INVOLVING THE THREE VARIABLES OF PAY, BENEFITS AND PRODUCTIVITY WHICH WOULD RESULT IN A $60 MILLION ANNUAL SAVINGS. WE HAVE CHOSEN THE ONE WE THINK IS MOST SENSIBLE BUT WE ARE NOT NECESSARILY WEDDED TO IT AND ARE MORE THAN HAPPY TO DISCUSS WITH YOU ALTERNATIVE SUGGESTIONS WHICH RESULT IN THE SAME SAVINGS.

"OUR PROPOSAL IS, OF COURSE, A FAR CRY FROM YOUR CURRENT CONTRACT. THE CHOICE, NEVERTHELESS, IS NOT BETWEEN YOUR CURRENT CONTRACT, ON THE ONE HAND, AND THE PROPOSED REDUCTIONS, ON THE OTHER. THE MARKETPLACE PRECLUDES CONTINENTAL FROM OPERATING UNDER YOUR CURRENT CONTRACT. RATHER, THE REAL CHOICE IS BETWEEN THE PROPOSED COST REDUCTION AND BREATHING NEW LIFE INTO CONTINENTAL IN THIS NEW COMPETITIVE ARENA, ON THE ONE HAND, OR THE LOSS OF ALL PILOT JOBS OR TAKING JOBS AT NEW ENTRANT PAY LEVELS, ON THE OTHER. WE THINK IT IS IN YOUR OWN IMMEDIATE ECONOMIC SELF-INTEREST TO CHOOSE TO ACCEPT OUR PROPOSAL, EVEN THOUGH THAT MAY WELL NOT BE YOUR INITIAL REACTION.

"I KNOW THE EXPECTATIONS OF MANY OF YOU AND THE PILOTS YOU REPRESENT IS 180 DEGREES FROM WHAT IS NECESSARY AND WHAT WE ARE PROPOSING. I AM SURE THAT THIS WILL BE THE MOST DIFFICULT DECISION OF YOUR PROFESSIONAL LIFE. I SUSPECT SOME MAY PROPOSE THAT WE CALL IT QUITS AND NOT ATTEMPT TO GO FORWARD. BUT, I ASK EACH OF YOU TO STEP BACK, EMOTIONALLY AND INTELLECTUALLY, FROM THAT PRECIPICE. IF THE PILOTS CANNOT DO WHAT IS NECESSARY, THOUSANDS OF JOBS MAY BE LOST, PERHAPS FOREVER. EVEN PENSIONS

COULD BE IN JEOPARDY. THE STANDARD OF LIVING ENJOYED BY MOST PILOTS CANNOT BE DUPLICATED OR EVEN APPROACHED ANYWHERE ELSE IN MOST CASES. OUR PROPOSAL BRINGS PILOT COMPENSATION TO LEVELS THAT COMPARE EXTREMELY FAVORABLY TO MOST OTHER PILOT CAREERS AVAILABLE IN TODAY'S MARKETPLACE AND TO OTHER JOBS OPEN TO MOST OF YOU IN TODAY'S ECONOMY. COMPARISONS TO PILOT COMPENSATION AT AMERICAN, UNITED AND OTHER GIANTS ARE DANGEROUSLY IRRELEVANT, AND BECAME SO IN OCTOBER 1978 WHEN DEREGULATION BECAME LAW.

"I SAY THIS NOT TO BE MEAN, NOT TO BE CONFRONTATIONAL, NOT TO APPEAL TO YOUR EMOTIONS, AND CERTAINLY NOT TO BLUFF. I AND THE COMPANY DO NOT LIKE TO TAKE ON THE UNIONS OR RISK BRUTALIZING OUR WORK FORCE. RATHER, THE ECONOMIC IMPERATIVE OF SURVIVAL AT THIS COMPANY IS TO REDUCE OUR COSTS DRAMATICALLY. NOTHING CAN CHANGE THAT FACT.

"ALTHOUGH OUR PROPOSED $150 MILLION COST REDUCTION PROGRAM MAY NOT BY ITSELF MAKE US SOLIDLY PROFITABLE, IT WILL BRING US TO A BREAKEVEN. A BREAKEVEN WILL GIVE US A POSITIVE CASH FLOW. IN ADDITION, IT WILL PROVIDE US WITH THE MEANS TO FINANCE FUTURE GROWTH BY ATTRACTING CAPITAL.

"AS I HAVE SAID, ONE OF CONTINENTAL'S FUNDAMENTAL PROBLEMS IS ITS LACK OF BULK. WITH A LOWER COST STRUCTURE AND POSITIVE CASH FLOW, CONTINENTAL WOULD SEEK TO ACQUIRE ADDITIONAL AIRCRAFT AND TEXAS AIR WOULD PLAN TO MAKE SOME OF ITS DC-9-80'S AVAILABLE TO CONTINENTAL. WE HAVE OTHER AIRCRAFT TRANSACTIONS IN THE FIRE FOR A LOWER-COST CONTINENTAL. WITH ADDITIONAL AND NEWER AIRPLANES, WE CAN CORRECT OUR "MASS" PROBLEM -- AND GO A LONG WAY TOWARDS SUSTAINED PROFITABILITY. IN THIS CONNECTION, I WANT TO EMPHASIZE

THAT PART OF OUR PROPOSAL TO YOU IS A VERY MEANINGFUL PROFIT SHARING PLAN ALONG THE LINES OF NEW YORK AIR, SOUTHWEST, AND PEOPLE EXPRESS. THIS PROFIT SHARING PLAN WOULD IMMEDIATELY RETURN DOLLARS TO EACH PILOT WHEN WE TURN A PROFIT AND THOSE DOLLARS WILL GROW AS OUR PROFITABILITY GROWS.

"SO ALTHOUGH I DO NOT UNDERESTIMATE THE MAGNITUDE OF WHAT WE ARE ASKING AND WHAT THE COMPANY NEEDS TO SURVIVE, IT IS NEVERTHELESS TRUE THAT THERE CAN BE A LIGHT AT THE END OF THE TUNNEL. WITH SUBSTANTIAL COST REDUCTIONS, WE CAN FINANCE FUTURE GROWTH AND PERHAPS RECALL SOME OF THE FURLOUGHEES. AND WITH A LOWER COST STRUCTURE AND ADDITIONAL PLANES, WE CAN BECOME A HIGHLY PROFITABLE AIRLINE SO THAT THE PROFIT SHARING PAYMENTS YOU RECEIVE WILL ENABLE YOU TO RECOVER A SUBSTANTIAL PART OF YOUR SALARY REDUCTIONS. EVEN WITHOUT ANY PROFIT SHARING, YOUR JOB WILL, OF COURSE, STILL BE A VERY DESIRABLE ONE. THE AVERAGE CONTINENTAL PILOT WILL MAKE $51,000 PER YEAR BEFORE FRINGE BENEFITS.

"AND, WITH A LOWER COST STRUCTURE, WE WILL CONTINUE TO DO WHAT IN THE FINAL ANALYSIS GIVES US THE MOST PERSONAL AND PROFESSIONAL REWARD, THAT IS, ATTAIN SUCCESS IN THIS COMPETITIVE ENVIRONMENT WHILE SERVING THE TRAVELING PUBLIC AROUND THE WORLD. WE CAN MAKE CONTINENTAL GREAT ONCE AGAIN.

"YOU HAVE BEEN VERY PATIENT AND I ASK YOUR INDULGENCE FOR A FEW MORE MINUTES TO GIVE YOU A BRIEF SLIDE PRESENTATION ON THE POINTS I HAVE MADE AND A SUMMARY OF OUR PILOT PROPOSAL. AFTER THE SLIDE PRESENTATION, ALL OF US ARE AVAILABLE TO ANSWER QUESTIONS.

IN ADDITION, TOM MATTHEWS, DON BREEDING, DICK ADAMS AND JOHN ADAMS WILL BE AVAILABLE AFTERWARDS TO EXPLAIN IN DETAIL THE PILOT PROPOSAL.

----------PRESENTATION----------

[HOWARD SWANSON WILL PRESENT FIRST 9 SLIDES; FRANK LORENZO WILL PRESENT LAST SLIDE AND CONCLUDE PRESENTATION]

[10 OVERHEADS]

[HOWARD SWANSON]

1. "HISTORICAL LOSSES" - (POINT: HAVE LOST STAGGERING SUM SINCE DEREGULATION"

2. "EROSION OF EQUITY" - (POINT: SHAREHOLDERS WILL HAVE NOTHING LEFT.)

3. "MAJOR SOURCES OF CASH" - (POINT: COMPANY HAS FUNDED ITS LOSSES, I.E. PAID ITS HIGH EXPENSES THROUGH COMBINATION OF ASSET SALES, EXTERNAL FINANCINGS.)

4. "TAC PERMANENT CASH INFUSION" - (POINT: TAC HAS BEEN MAJOR CONTRIBUTOR AND HAS NOT HAD A RETURN.)

5. "1983 P & L: ACTUAL THROUGH JUNE; JULY - AUGUST PROJECTION" - (POINT: 1983 WILL BE A MAJOR LOSS YEAR.)

6. "1983 CASH FLOW" - (POINT: COMPANY WILL RUN OUT OF CASH UNDER CURRENT COURSE IN FALL AND COMPANY'S HIGHEST CASH POINT IS NOW.)

7. "COST REDUCTION GOALS" - (POINT: COMPANY'S COST REDUCTION PROGRAM IS: A. REALISTIC, B. INCLUDES REDUCTIONS IN NON-PILOT COSTS, AS WELL AS PILOTS.)

8. IAM COSTS SAVINGS (POINT: STRIKE MADE SENSE)

9. "CONTINENTAL PILOT PROPOSAL" - (POINT: SUMMARY OF NEW WAGES AND BENEFITS, NEW HARD HOURS, NEW PROFIT SHARING, AND ANNUAL SAVINGS TO COMPANY.)

(HOWARD: TURN OVER TO FRANK LORENZO)

(FRANK TO PRESENT # 10)

10. "OTHER COMPANY OBJECTIVES" - (POINT: BULLET POINTS ON BUSINESS PLAN TO PUT CONTINENTAL IN A LARGER STRATEGIC CONTEXT, NOT JUST COST REDUCTIONS.)

----------END OF PRESENTATION----------

FAL:

"WE WILL NEED YOUR ANSWER BY WEDNESDAY, SEPTEMBER 14TH. WE OBVIOUSLY WILL ASSIST YOU IN ANY WAY WE KNOW HOW TO FACILITATE YOUR DELIBERATIONS INCLUDING:

- OPENING UP OUR BOOKS AND PROVIDING ACCESS TO OUR CHIEF FINANCIAL OFFICER AND OTHER TOP OFFICERS TO THE PUBLIC ACCOUNTING FIRM OF YOUR CHOICE.
- WILLINGNESS ON OUR PART FOR OUR NEGOTIATORS TO SPEND FULL TIME WITH YOUR NEGOTIATING COMMITTEE TO EXPLAIN AND FINE TUNE OUR PROPOSAL TO YOU.
- STEVE AND I AND THE REST OF US HERE TODAY WILL MEET WITH ALL OF YOU AGAIN, IF YOU WISH.

"WE MUST, HOWEVER STICK TO OUR DEADLINE BECAUSE WE CANNOT RISK THE UNCERTAINTY AND THE INABILITY TO PROTECT OUR LIQUIDITY. IF YOU, THE M.E.C., AGREE TO REDUCE COSTS BY $60 MILLION ON OR BEFORE THAT DATE, AND IF THE FLIGHT ATTENDANTS AGREE TO THE PROPOSAL WE WILL SHORTLY PRESENT TO THEM, WE WOULD BE ABLE TO GO FORWARD WITH OUR STRATEGIC PLAN TO MAKE CONTINENTAL PROFITABLE.

"THE PROMISE OF A CONTINUING, EXCITING AND PERSONALLY REWARDING CONTINENTAL AIRLINES IS WITHIN OUR GRASP. IT WILL TAKE A DRAMATIC LEAP ON YOUR PART TO SEIZE THAT OPPORTUNITY SO WE CAN BECOME GREAT AND SECURE ONCE AGAIN. PLEASE DON'T LET IT SLIP AWAY.

"WE ARE AVAILABLE FOR QUESTIONS.

----------[END OF SCRIPT]----------

APPENDIX B

July 1, 1983

To All IAM Members and Other Fellow Employees:

We are in negotiation with the IAM which represents our mechanics, kitchen workers, cabin cleaners and fuelers. We have not reached an agreement as yet and negotiations are to continue next week. We hope they will lead to a successful conclusion to our long discussions on these matters.

In the meantime, there appears to be a number of actions that IAM members are being asked by their leadership to undertake that can harm the company and its employees, and can inconvenience our passengers,

Informational picketing, refusals to work overtime, working slowly and unproductively, getting "sick" and similar actions hurt the airline, reduce revenue, increase expenses and injure Continental in the competitive marketplace. This will hurt employees whose livelihood depends on a sound Continental. And, while in the "old days" the financial cost of these tactics were simply passed to the consumer, in today's environment they must be paid from within and limit our ability to pay for other company needs, whether it be advertising, ground equipment or fringe benefits.

Such actions will not help negotiate a better settlement or a quicker settlement. Rather, such actions poison the atmosphere and require management to find other ways to make up for the costs such actions impose.

On behalf of Continental, its management and, I trust, all of its employees, I ask the members of the IAM to let the negotiation process take its legal course in good faith without harming the company, its competitive position, you and other employees.

John Adams
Vice President - Personnel

CONTINENTAL
INTEROFFICE COMMUNICATION

July 6, 1983

TO: City Managers

FROM: John Adams JA

The International Association of Machinists initiated informational and economically coercive picketing activities against the Company on June 30, 1983 at LAX. The Company has been in lengthy contract negotiations with the IAM in an effort to obtain a reasonable labor agreement. Such negotiations, in the presence of a Federal Mediator, are continuing with the next negotiations session scheduled for July 6, 1983.

Due to the IAM's tactics, it is necessary to ascertain certain facts concerning all Company facilities at your location. Therefore, please contact the appropriate local authorities to obtain the following information within 48 hours. Information requested can usually be obtained from local airport authority and/or the county District Attorney's office:

- Determine if permit is required for a labor union to conduct informational or strike picketing activities.
- Determine if any local constraints exist concerning the number of picketers allowed to participate in such activities.
- Determine local public areas where picketing activities are usually allowed and/or assigned.
- Determine actual boundary and/or lease lines of all Company property and facilities at your city. Contact the Properties & Facilities Department if assistance is needed.

In order to properly respond in the event picketing activities are initiated at your location, the following procedures shall apply:

- Immediately notify the Duty Director, System Control, LAX.
- Do not interfere or allow our employees to interfere with picketing activities.
- Do not verbally antagonize picketers.

July 8, 1983

TO ALL SUPERVISORS OF IAM PERSONNEL

This morning the Company and the IAM met in joint negotiation sessions under the auspices of Mr. Robert Harris, Chairman of the National Mediation Board, and mediator Robert Brown.

Mr. Phil Bakes, Senior Vice President gave a presentation to the committee which outlined the current and historical financial condition of Continental. Basically we estimate we will have lost nearly 100 million dollars so far this year before extraordinary items like the sale of assets and that in order to provide pay increases and turn profitable, we need to make major changes in our cost structure.

Yesterday the Company received the attached proposal from the IAM. After reviewing the proposal, we asked questions regarding their acceptance of Company proposals in Article 1 Scope. The answers given by the Union were basically that they really did not accept the Company proposals after all. For example, the Company proposal on regional stations permitted the movement of IAM personnel from San Jose (where they are not needed) to San Francisco where they can be most productive.

The Union's position was that while they accepted the Company's proposal we would still be prohibited from relocating San Jose personnel because of the existing scope language which they refused to change.

The Union also insisted that we would still be prohibited from purchasing food items in our flight kitchens which every other airline buys but we are required to do in-house at high expense.

The Company proposal seeks to balance the need of our IAM group to have pay raises with the need of our Company to be as productive and efficient as we can possibly be.

In spite of our losses this year and our nearly 500 million dollar losses since 1979, the Company proposed an immediate 20% pay increase for most CO Mechanics. The Company's proposal given to them today is attached.

The Union stated that this was inadequate and demanded a $5.10 increase for a large number of Mechanics by the end of next year.

What is most disappointing is the fact that the IAM refuses to recognize that CO is not asking for special treatment. It is asking for a fair offer to all concerned which assures all 12,000 CO personnel a chance to see the light at the end of the dark tunnel we have been in for four long years.

We will be holding meetings with our management personnel to brief you in detail on our positions.

Mr. Harris recessed the meetings for consideration by the National Mediation Board. He stated that the Mediation Board would take this matter under consideration and evaluate what the impact a release from mediation would have on the objectives of having the Company and the IAM reach an agreement as well as its impact on the traveling public.

John B. Adams
Vice President-Personnel

July 13, 1983

To All Employees:

The National Mediation Board released Continental Airlines and the International Association of Machnists from mediation today, thus beginning a 30-day cooling off period. We are hopeful that the Company and the IAM will be able to resolve the contract within that period. However, if a negotiated settlement is not reached by 12:01 a.m., Eastern Daylight Time, Saturday, August 13, employees represented by the IAM will be free to strike and the Company would be free to implement its proposed contract.

You can be assured that the Company is dedicated to avoiding a strike if at all possible. We will keep all employees informed of progress.

John B. Adams
Vice President
Personnel

CONTINENTAL AIRLINES

7300 WORLD WAY WEST
LOS ANGELES INTERNATIONAL AIRPORT
LOS ANGELES, CALIFORNIA 90009

PHONE (AREA 213) 646-2510
CABLE CONAIR USA
TELEX 08-74402

July 18, 1983

Dear Fellow Employee:

As you are aware, the National Mediation Board has notified the Company and the IAM that the 30-day "cooling off" period has started. This means that at 12:01 a.m., Eastern Daylight Time (EDT), Saturday, August 13, the IAM would be free to strike if an agreement has not been reached.

The purpose of this letter is to bring you up to date on the status of our situation with the IAM and make sure you understand the Company's position and how it affects you and those who depend upon you and Continental for a living.

There are essentially three major areas of disagreement between the Company and the union. These differences of opinion are all caused by the seriousness of our financial condition and the need for change in our Company.

In the last four-and-a-half years we have lost over $450 million before taking into consideration special items and taxes. In the last nine months alone we have lost more than $165 million before special items and taxes.

We have asked the IAM to look at our huge losses and realize that the Company cannot afford to increase its costs. We cannot even cover our current costs!

The three areas of disagreement are as follows:

1. The IAM's last proposal demands that the wage rate of an A&P mechanic be increased by $5.10 per hour from $14.10 an hour to $19.20 an hour, or an increase of over 36%. The Company's last proposal increases the wage rate (including license premium) of a mechanic with Airframe and Powerplant licenses by $2.90 per hour from $14.10 to $17.00 an hour, or an increase of over 20%. The Company's proposal puts the former Continental and former Texas International employees at exactly the same pay rate. It would require the former TI mechanic rates to remain at this level. Wage increases for other IAM classifications would be frozen or be less than 20%.

2. The Company's proposal provides for significant contract and work rule changes which would increase productivity and offset the cost of the wage increase. In effect, these productivity proposals are designed to make sure that the Company receives a full eight hours of work for eight hours pay. Our proposal eliminates paid lunches where employees work seven-and-one-half hours for eight hours pay and restrictions that prevent the Company from cross-utilizing employees between job classifications in order to eliminate waste. The Company's proposal includes a profit sharing and stock purchase plan.

3. The IAM has argued that the 36% pay increase is justified because this is the "industry" standard. Republic Airlines, the most recent airline to settle with the IAM, is used as an example. Republic agreed to high rates because it could not take a strike with a negative net worth of $35 million. Last week, less than a month after agreeing to these high rates, Republic has asked the IAM and every other employee to take an immediate 15% pay cut. United's current rates are 19 cents lower than Continental's proposal. Eastern agreed to high rates to avoid a strike and then immediately asked for the increases back and pay cuts for all other employees. Northwest has a little higher rate but they have been profitable for years and the wage increase will never pay the IAM back for the 27 days they were on strike. TWA has higher rates which were agreed to when TWA did not want a strike resulting in a tremendous revenue infusion to Pan Am, their principal competitor, whose rates are more than $2.00 an hour below Continental's last proposal. Southwest has much lower rates and their mechanics are represented by the Teamsters. Muse Air pays $5.00 an hour less and uses this cost advantage to use low fares in competing with us between Houston and Los Angeles and our other Texas markets.

Finally, by agreeing to a mechanic rate of $9.50 per hour with few fringe benefits (no pension plan and employee paid group insurance up to $100 a month), the IAM has given the new Braniff a 50% rate advantage until 1988 to use against us as we compete with them in our major markets. This $9.50 per hour goes up to $11.00 per hour in 1988. In essence, the IAM is arguing that the highest rate in the industry is the "industry" standard even though many of our major competitors pay lower rates. The IAM also ignores the pay cuts they agreed to at several IAM carriers.

As indicated above, the IAM's proposal is simply more than we can afford. No company can afford to increase its costs at a time when it is losing money. We have asked the IAM mechanics to accept a 20% increase in pay in exchange for increasing their productivity equal to the cost of the wage increase. We cannot sign an agreement which we know in advance will cause us to lose more money and thereby further jeopardize our future.

We believe that, if you owned your own business and had been losing large sums of money that you would not grant your employees pay increases you could not afford. We ask you to look at our financial condition and then decide whether or not a 20% pay increase is fair.

The Company does not want a strike. We would like the IAM to realize that we have made them a fair offer in light of our financial condition. We know a strike could hurt everyone, but we honestly believe there is a greater danger to every employee if we significantly increase our costs when we are already losing large sums of money.

We have a great airline with a superb heritage and a management that envisions us as a survivor in the decades ahead. But the only way we can prosper is to recognize the fact that what other carriers' management may have done in this round of negotiations is irrelevant to our situation. We must improve our productivity and be as fair as we can afford to be to all employees.

Finally, I will try to keep you as informed as possible over the next 25 days. If you have any comments or questions, please feel free to send them to my attention: 2929 Allen Parkway, P. O. Box 4607, Houston, TX 77210-4607.

Sincerely,

Stephen M. Wolf
President

CONTINENTAL AIRLINES

1500 WORLD WAY WEST
LOS ANGELES INTERNATIONAL AIRPORT
LOS ANGELES, CALIFORNIA 90009

PHONE (AREA 213) 646-2816
CABLE CONAIR USA
TELEX 66-74402

June 22, 1983

Dear Fellow Employee:

Since joining you at Continental seven months ago, I have devoted my energies to learning about our Company, its strengths and weaknesses, and trying to map out the best route for us through these turbulent times in the airline industry.

Survival in this industry during this critical period will require a creative marketing strategy, a firm grip on costs and total dedication from each and every one of us.

Let us talk about the last point first: my dedication and yours to ensuring that Continental not only survives but emerges as a strong, competitive force in the industry. Our competitors also face a very serious challenge if they are to survive/succeed against a proud, dedicated and competent group of Continental employees providing efficient, superior service for our passengers and shippers. That kind of service is our hallmark and it is our key to the future. We must seize it.

What does the future hold for us? We face competition from all fronts — from the major airlines with their vast resources as well as from the new entrant carriers with their low costs and low fares. To meet this challenge our overriding and paramount goal is to return this airline to profitability to ensure it has a future. In support of this goal, we have four objectives which are: 1) improve the quality of our product; 2) increase our revenue base; 3) strengthen our financial position; and 4) improve our productivity and unit cost efficiency.

The following is a brief comment on the status of our four objectives:

1. Many of us have focused much effort on improving quality, and the results speak well for the commitment of Continental's people. The operating dependability of the airline, as measured by the on-time operation, has improved measurably. Additionally, the quality of passenger service as measured by the speed with which we service customers at ticket counters, gates, open cabin doors upon arrival and then deliver baggage, have each improved considerably. Some of these gains have resulted from improved systems such as one-stop check-in, others from implementing new procedures, but most are attributable to a superb effort on your part. Though we have shown considerable improvement, there remains much to do in the area of service.

2. We believe the opportunity to increase traffic and revenue is substantial, and to that end have continued the redeployment of the fleet to better serve the Denver and Houston hubs. Of all U.S. carriers, Continental today has the greatest percentage of its fleet committed to the hub concept. Today, Continental has over 2,650 daily connecting flight opportunities over our two hubs, compared to less than half the number a year ago. Our load factor performance compared to that of other carriers has continuously improved since the combination in October, to the point where Continental's June load factor is slightly above that of the industry. And while yields have been dismally low, they, too, have been improving, although we are not yet to the level necessary to be profitable. While the improved load factors have reflected low prices, Continental's increased loads reflect several marketing successes including the Pub, TravelBank, and a continuing media program. The new, "It's a Better Way to Fly" theme is intended to reflect the quality of Continental's schedules and personal service.

3. The third of the primary goals was to strengthen Continental's financial position. It is ironic that, while we have not been able to obtain the required increase in productivity from our organized employee groups, outside investors have such a strong belief in the potential of Continental that significant investments have been made in the Company. Our lenders have extended a $32 million line of credit, public investors fully subscribed to a $40 million offering, and American General has invested $40 million in the Company: all in the face of continuing losses because they believe in the potential success of Continental.

4. The one area where we have not been successful in achieving a stated objective is in the area of improved productivity and reduced unit costs. And, a continued failure to do so is likely to prove fatal. Thus, our objective to reduce costs is imperative, a necessity for survival, not just a nice management objective. Although first quarter revenues were under plan, 90% of the Company's first quarter variance from the plan reflected expense variances, and most of these overruns were not resultant from increases in volume. Clearly, we have not met the efficiencies in unit costs required for Continental to compete with carriers like Southwest and Muse. It costs Continental 50% more to fly a seat between Houston and Los Angeles than it costs Muse. So, while Muse can earn a profit at low fares - and add yet more service - Continental's cost levels make it difficult to compete in this our largest domestic market. We need to substantially reduce our costs without reducing quality, advertising and future development.

In spite of the gradual achievement of many of our objectives, the Company continued during the first quarter this year to lose money at a devastating rate. We lost over $70 million in January, February and March before adjusting for the sale of airplanes. Our second quarter projections do not look for any financial improvement from the second quarter last year when we lost nearly $25 million from operations. Even in the month of March, when we operated with a 69% load factor, we did not make a profit. We flew nearly one billion revenue passenger miles in March and we were able to charge only 10.13¢ for each RPM, which gave us passenger revenue of 101 million dollars. Added to other revenue of $14 million from cargo, mail, liquor charges and so on, we came up $11 million short of meeting our expenses.

Continued losses also sap our spirits and take away the "extras" that come from being part of a winning team. Being a "loser" for the last five years has had its toll on the way we think about our Company and ourselves.

What does all this mean and how can we turn Continental around?

First and foremost we must become profitable. This Company must lower its costs because it is essential to our survival. The biggest risk this Company faces is accepting higher costs and hoping for a miracle to save us. Continental's competitive environment is unique. Continental is about one-third the size of United, American and other large major carriers which have the advantage of size, formidable marketing presence, enormous financial resources and well developed computer reservations systems. Although we are larger than Muse, Southwest and other new entrants, their costs are dramatically lower than ours. Of the original small trunk carriers--Braniff, National, Western and Continental--two have disappeared and the other two--Western and Continental--are struggling to find a way to survive. Since airfares will never ever reach the high (relative to costs) level of regulated days, even in a good economic environment, we must quickly, substantially and permanently reduce our costs to become profitable.

Yes, we have our problems, and no, returning this airline to profitability to ensure it has a future, will not be easy. It will, in fact, be difficult. It will require a great deal of effort and dedication from each of us. Alfred Kahn, the Chairman of the Civil Aeronautics Board when deregulation was passed, said to the airlines, "The ones of you who are quick on your feet, who get your costs down, will do well. The ones of you who are dinosaurs are going to go out of business." The amount of money our airline has lost since the start of deregulation is both awesome and sad. We must be one of the airlines who gets its costs down. We must be one of the airlines who will do well. We must return this airline to profitability to ensure it has a future.

Please plan to join me in Denver, Houston, Los Angeles and Chicago in the early part of July. To the degree possible, I want you to know where we are and what we must do in order to ensure a future for our Company and its employees. Spouses are welcome.

Stephen M. Wolf
President

Please mark your calendar:

HOUSTON - JULY 11	Marriott Intercontinental	3:30 pm & 8:00 pm
CHICAGO - JULY 12	Ramada O'Hare	4:00 pm & 7:00 pm
DENVER - JULY 13	Holidome (Holiday Inn I-70 East)	4:00 pm & 8:00 pm
L.A. - JULY 14	Sheraton La Reina	4:00 pm & 7:00 pm

CONTINENTAL AIRLINES

7300 WORLD WAY WEST
LOS ANGELES INTERNATIONAL AIRPORT
LOS ANGELES, CALIFORNIA 90009

PHONE (AREA 213) 646-2810
CABLE CONAIR USA
TELEX 09 74407

July 25, 1983

Dear Fellow Employee:

This letter is intended to continue our effort to keep all employees as informed as possible on the status of our IAM negotiations, as well as answer the many questions you have asked over the last two weeks.

The status of our negotiations has not changed. Our last negotiation session was Friday, July 8. At that time, the IAM rejected our July 8 proposal. No new negotiation sessions have been scheduled. The strike deadline remains at 12:01 a.m. Eastern Daylight Time, Saturday, August 13, 1983.

As the strike deadline approaches, the Company is implementing a plan to ensure that Continental continues to operate in the event of a strike. We cannot afford to abandon our markets to our competition. In a regulated environment, an airline could shut down during a strike and know that when the strike was over they could start up again and return to regulated routes. In a deregulated environment, the competition would quickly absorb our customers and it would be very difficult to get them back. Can you imagine the joy at United and Frontier if they could have Denver to themselves for a short period of time? What would happen to our strength in Houston if we let American, Muse, Eastern and Southwest have our customers for a while?

As stated in my previous letter, we cannot afford to increase our operating costs. No company increases its costs when it is losing large sums of money. We cannot reach an agreement with the IAM which increases our costs, nor can we allow operations to cease. Therefore, we have made preparations to operate our airline in the event their leadership directs our IAM employees to strike. We are prepared to continue to operate Continental Airlines at or near our current operating level.

You should be aware that last week there were some isolated incidents of damage to ground equipment, tire slashings and other similar acts of sabotage. Several individuals in Denver distributed handbills in front of our ticket counters and advised passengers that the IAM was already on strike and asked them not to fly Continental. In fact, one incident involved a threat to a fellow employee and damage to his car.

We know that 99% of our employees do not condone such acts. We think you will agree that this behavior is not the way to resolve differences of opinions. We took steps to significantly increase our security. We also instituted a reward system for any employee who provides information regarding employees involved in such acts. These steps have been successful in preventing subsequent acts of this nature. We will continue to protect our equipment; but more importantly, we will make absolutely sure that our employees are fully protected. Employees who engage in such conduct will have their employment terminated and we will prosecute to the fullest extent of the law.

-over-

Once again, I want every employee to know that we have made a fair offer to the IAM, including a pay increase of over 20%. We asked that this increase be offset with work rule changes that ensure we receive a full eight hours of work for eight hours of pay. See the attached for a summary of Company proposed work rule changes. Many of you have asked me to be specific about statements made by the IAM that all they want is an "industry" rate of pay. You have asked for detailed information about what other airlines pay their mechanics. Attached is a chart comparing the rates of pay for mechanics.

As you can see, the top rate of pay varies from $10 an hour at Muse to $17.70 an hour at Republic (at the end of 1984). However, Republic has now asked the IAM to reduce this rate by 15% to $13.52 an hour now, increasing to $15.05 at the end of 1984. United is at $15.91. Southwest is at $14.85. Muse is at $10 and Braniff will be at $9.50 building to $11 over a five-year period. Pan Am is at $13.26 through 12/31/84. There is no "industry" rate of pay. The IAM is simply asking for the highest rate among all airlines. We believe our July 8 offer of $16 provides our employees an extremely generous rate close to the top end of our competition. In fact, in light of our huge losses, our offer should be criticized as too high if it should be criticized at all. In order to be fair, however, I want to stress that our offer changes or eliminates work rules that constrict productivity. The cornerstone of our position is that it is fair for the company to ask for and receive eight hours of work eight hours of pay.

In order for us to continue to operate during a strike, we would like the full support of all of our employees. We want our agents, pilots, and flight attendants and, yes, our IAM personnel, to do their very best to see that our service is better than ever. If we fail to meet this challenge, our competitors will be aggressive in taking away our passengers and shippers.

The last thing Continental needs at this point in the company's history is a strike. But the greater damage is to significantly increase the costs of the Company. We dearly hope our IAM represented employees will view our offer as being fair, accept it, support their company and allow us to grow, which in the final analysis will have a positive effect on each and every employee in this company.

Once again, I invite your questions and comments which can be sent to me at P. O. Box 4607/Room 1504, Houston, Texas 77210-4607.

Yours very truly,

Stephen M. Wolf
President

P.S. An employee "hot line" has been established, effective Friday, July 29, which will provide updated information as the strike deadline approaches. The "hotline" numbers are:

U.S. (except Texas) WATS	800-231-0694
Texas WATS	800-392-5179
Houston local	713-630-0081

SUMMARY OF CONTINENTAL'S PROPOSALS
REJECTED BY THE IAM

The Company must have ability to station its employees at locations where the work can be accomplished and ability to change staffing when schedule changes dictate.

The Company needs the ability to use any available manpower to handle push/power-back of aircraft rather than require the Company to use only highly skilled mechanics.

In order to accomplish all aircraft fueling, watering and lavatory servicing in the most economical and efficient manner, this work may be accomplished by qualified outside contractors or by other means. The Company has proposed methods for retraining employees affected by this change.

Cabin Service personnel will drive and service their own vehicles in the same manner as all other IAM represented classifications and in other non-contract departments within the company.

The Company needs the ability to have some low skill work performed by vendors or suppliers rather than spend excessive amounts of our limited resources on these items.

EXAMPLE: Purchase a ready made salad rather than make the salad from scratch or repair of LD-3 containers

Close the LAX Flight Kitchen and increase the efficiency of the DEN and IAH Flight Kitchen to reduce costs and reduce our present competitors' economic advantage which is about $4 per hour per employee. We have proposed methods of transferring employees affected by this change into other jobs or locations.

Enable the Company to hire part-time food service, kitchen helpers and cabin service personnel agents along with work rules covering such classifications will enable the company to improve the size and stability of the two remaining flight kitchens.

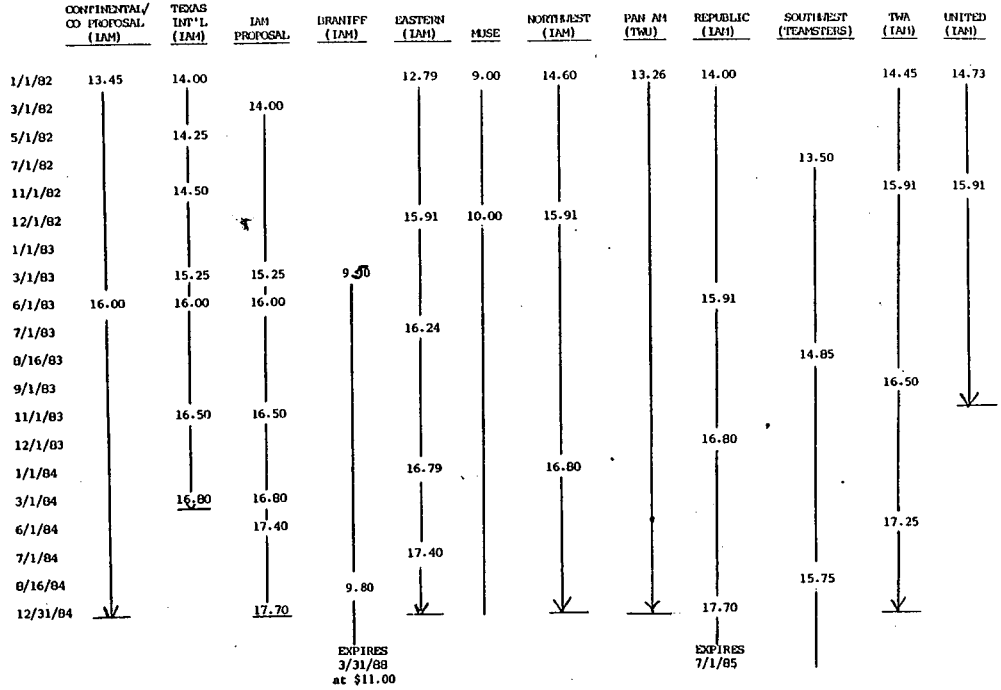
The job descriptions for flight kitchen classifications must be revised to allow all kitchen employees to be used to perform any duties inside the kitchen while recognizing that loading and unloading of aircraft will continue to be performed by food service personnel only.

The company has agreed to establish a new ratio for crew chiefs at the L.A. base. Affected crew chiefs would be permitted to bump back to mechanic classification.

Eight (8) consecutive hours of work exclusive of an unpaid meal period beginning and ending at the employee's assigned work location shall constitute a work shift. Further the company will agree to a maximum of six shift start times per day for each Line or Terminal Maintenance station or for each classification in the Flight Kitchen and Cabin Cleaning and Supply departments. In addition, not more than six shift start times will be established for maintenance shops at each station. Starting times will be covered by the needs of the service.

Any lunch period may be moved within the corridor of the fourth and fifth hour without penalty. Cross-utilization from one department to another or from one skill area or classification to another is necessary to utilize the available manpower. The company agrees to pay the higher rate of the employee's classification or the classification temporarily assigned to. Qualified personnel may work alone as safety conditions permit.

COMPARISON OF MECHANIC PAY RATES



The Company's proposal provides for an increase in license premium from .65 an hour to 1.00 an hour thereby bringing the A & P mechanic up to $17 an hour.

The IAM proposal increases the license premium to 1.50 and brings the A & P mechanic up to $19.20 per hour.

CONTINENTAL AIRLINES

July 28, 1983

Dear IAM-Represented Employees:

As you are aware, the IAM has stated that it may call a strike by the Continental employees they represent on Saturday morning, August 13, at 12:01 a.m. (EDT). This would involve all of our IAM represented employees inasmuch as we are negotiating a combined contract. On August 13 there will be only one IAM contract at Continental (including the former TI employees) or, if no contract is negotiated, one set of wages and work rules for all IAM personnel as proposed by the Company at that time.

I think it is important for you to know the details of the Company's offer to you in light of the misunderstanding and, unfortunately, misrepresentations of our proposal so that you can evaluate for yourself what the issues are in our negotiations and what they mean to you and your family.

The intent behind every one of our proposals is to reduce costs by reducing waste and inefficiency wherever possible. This objective is consistent with our need to become profitable if we are to survive, never mind grow and become prosperous. By accepting our July 8 proposal an IAM employee would be eligible to participate in the Company's Profit Sharing and subsidized Stock Purchase Plans which already cover the majority of our employees.

We are not asking our IAM-represented people to do any more than what has been done by our pilots and non-contract personnel. If we are to be a viable company we must all contribute without exception by making us competitive with other airlines which have a lower cost structure or size advantage.

Our guiding principle, therefore, is not to propose change for the sake of change, but to enable everyone to be free to perform the work which needs to be done without the artificial work rule restrictions which cost more than we can afford.

Given the above, let me explain specifically what we are talking about.

WAGES

We have offered a wage rate to our mechanics of $16.00 effective June 1 of this year. For the former Continental mechanics this represents a pay increase of $2.55 per hour or 19% over what they had previously made, or nearly 21% when coupled with license premium increases. This rate is the one currently paid to the former TI mechanics. This rate of pay would continue until the proposed expiration date of December 31, 1984.

How does this equate to rates of pay at our competitors today? A look at this chart shows you the industry today and the current mechanic rates:

CARRIER	RATE	UNION
American	10.00-15.69	TWU
Braniff	9.50	IAM
Eastern	16.24	IAM
Muse	10.00	Non-Union
Northwest	15.91	IAM
Pan Am	13.26	TWU
Republic	15.91	IAM
Soutwest	14.85	Teamsters
TWA	15.91	IAM
United	15.91	IAM

American now has two different pay scales. Newly hired mechanics receive $10.00 per hour. Mechanics who had been with American before its new contract was signed are paid the $15.69 rate.

There are no pay increases proposed on a retroactive basis. It is consistent with our need to provide pay increases through reduced costs in other areas. Our inability to eliminate unnecessary work rule restrictions in 1982 or earlier this year prevents us from proposing increases earlier than the June 1 date.

LICENSE PREMIUMS

We have proposed an increase in license premiums from 30¢/35¢ per license to 50¢ per license up to $1.00 for two licenses. The amounts paid by our competitors vary from zero to $1.00 for two licenses.

This 54% increase in license premium, when added to the $16.00 hourly rate we propose, would give most of our mechanics an overall pay rate of over $35,000 per year before payments for longevity, shift premiums, holiday overtime, etc. This is a pay raise of over $6,000 per year over current rates for the former Continental mechanics.

NEW WAGE RATES

We have proposed lower starting rates for any new employee who is hired after the date the contract is signed.

These pay rates are more in line with the rates paid by new entrant competitors and would not affect the pay of any employee currently covered by the IAM Agreement.

WORK RULE CHANGES

Currently, Continental has the ability to contract out scheduled aircraft maintenance at cities where we currently do not have IAM personnel assigned.

We are proposing that we have our own personnel perform this scheduled aircraft maintenance and, therefore, would continue to staff the recently opened field stations as long as the flight schedules permitted this work to be performed on overnight aircraft. As an example, the recent interim agreement we reached with the IAM enabled us to put our mechanic personnel in Tucson, San Diego, San Francisco, Boston, Newark, Fort Lauderdale and LaGuardia and terminate outside contracts which had provided contract personnel.

In return for this concession by the Company, we are asking that the current restrictions on maintenance stations be changed to allow us to staff stations in line with our changing needs. Currently for example, we are required to keep open a maintenance station in San Jose, when we actually need to transfer our mechanic work force from there to San Francisco.

Our proposal is an equitable method to provide for the opening and closing of maintenance stations which best utilize the skills of our mechanic personnel. This flexibility is necessary for us to compete.

We currently perform shop work in-house which does not require a high degree of skill yet we must still pay a high rate of pay for this work. We want to utilize the abilities of our mechanic group on more skilled work which we currently contract out.

We have thus proposed that we be allowed to exchange, on an hour-for-hour basis, the type of work that our mechanic personnel currently perform.

The impact of this proposal would lower our costs, but not reduce the number of hours of work available to our mechanic personnel.

FLIGHT KITCHENS

Our flight kitchens are currently hampered from operating efficiently due to restrictive work rules which were developed over decades in a regulated environment with high wage rates and benefit levels which far exceed those paid by Marriott, Skychefs, Dobbs and so on.

We have proposed closing down our LAX flight kitchen which caters our limited flight schedule from LAX and providing for an equitable arrangement to move our flight kitchen people in LAX to DEN or IAH to accommodate our substantially increased flight schedule in those cities. We are also proposing part-time employees and new pay rates for new employees in the flight kitchens to make this operation competitive. We are not proposing a reduction in the rate of pay for our current flight kitchen personnel.

SUPPORT FUNCTIONS

We have also proposed to eliminate fueling, watering, and lavatory servicing by our personnel.

The high capital costs associated with these operations in our hubs is not the best use of our resources. We should not be forced to buy expensive fueling and aircraft support equipment when we need to invest that money for new aircraft.

We have proposed alternate employment within the Company for those employees who are adversely affected by these changes.

SUMMARY

The total employment level of our mechanic work force would be reduced by approximately eight percent as a result of these changes. There are other specific proposals which are consistent with our principle of eight hours work for eight hours of pay. These other proposals do not affect employment levels, but they do affect costs dramatically. This is far less than the reduction in the number of pilots which occured last year as a result of their contract changes.

The IAM rejected our proposal and proposed instead a total package which would increase costs nearly 30 million dollars over the next 18 months. The savings proposed by the IAM in work rule changes would not even pay for the cost increases they proposed in group insurance alone. They had earlier rejected Company proposed job guarantee language in return for smaller pay increases. Their offer substantially increases our costs which we cannot afford and cannot accept.

The IAM has pointed to Republic as an airline that settled for IAM demands. However, immedately after settling, Republic asked all employees, including their IAM employees, to take a 15% pay cut. The pay cut would reduce a mechanic at Republic to $13.52 per hour, which is $2.48 below our July 8 proposal. The IAM points to Eastern, but Eastern bankers cut off all credit after the contract settlement and Eastern only avoided running out of money by getting employees to agree to millions of dollars in wage deferrals.

The industry standard that the IAM points to is not a standard at all. It is a path which has resulted in over 400,000 IAM members losing their jobs. This type of reasoning has resulted in Braniff's IAM mechanics now making $9.50 per hour with no work rules, in a company that has not flown an airplane for 14 months.

Our proposal gives us a cost structure that will enable us to have a Company to work for for many years ahead. The leadership of thousands of mechanics at Air New England, Braniff, Altair, Golden West and other airlines said they would rather lose their jobs than change work rules and make their airline more competitive.

The decision which you must make is one of the most important ones of your career at Continental.

If the IAM leadership calls a strike, it will be very costly to Continental and, in fact, IAM actions to date have been costly. The only way we can pay those costs is to reduce our current offer to the IAM. We do not have the luxury that existed when the IAM struck Southwest Airlines three years ago and the company was able to leave its last offer open until it was accepted by the IAM. Continental would be forced to implement a dramatically different contract if there is a strike. I ask you to seriously consider the company's offer as it is the only way to make Continental financially viable and insure the financial well being of you and your family.

I wish I did not have to write this letter to you and that we could have resolved this negotiation earlier. The fact is that your company has lost a tremendous amount of money in the last four years and we must reduce our operating expenses. We must get rid of those restrictions that keep some of our people from a solid eight hours work for eight hours of pay. We must return your company to where it is profitable so we can buy new aircraft, grow, prosper and provide security for you and your family.

Sincerely,

Stephen M. Wolf
President

HSB139(2012)(4-068483S266)PD 09/23/83 2008 APPENDIX C

ICS IPMBNGZ CSP

7135905355 TDBN HOUSTON TX 138 09-23 0808P EST

PMS MR TOM MATTHEWS CONTINENTAL AIR LINES RPT DLY MGM, DLR

2929 ALLEN PARKWAY SUITE 1504

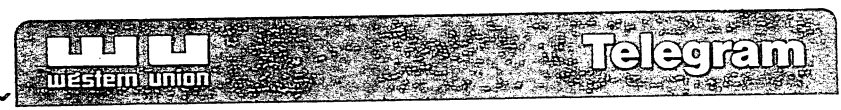
HOUSTON TX 77019

OUR MEETING TODAY, FRIDAY, SEPTEMBER 23, 1983 AT 130PM WAS ANOTHER POSITIVE STEP IN THE DIRECTION OF SOLVING OUR MUTUAL PROBLEM THE PROFITABILITY OF CONTINENTAL AIRLINE

WE FEEL THAT OUR STATEMENT GIVEN TO YOU IS A POSITIVE INDICATION THAT THE PILOTS OF CONTINENTAL ARE WILLING TO CONTINUE TO MOVE FORWARD IN A TIMELY MANNER IN OUR MUTUAL EFFORT TO SOLVE THE PROFITABILITY AND THEREFORE THE SURVIVALABILITY OF OUR COMPANY

WE AWAIT YOUR RESPONSE TO OUR "MEMO OF UNDERSTANDING" SUBMITTED TO YOU TODAY THE TIMELINESS OF YOUR RESPONSE TO THIS MEMO ESTABLISHING THE GROUND RULES FOR CONTINUED NEGOTIATIONS WILL SET THE SCHEDULE FOR

W.U. 1201-SF (R5-83)



PROCEEDING WITH THE PROCESS NECESSARY TO REACH A MUTUALLY AGREEABLE SOLUTION TO OUR COMMON PROBLEM

WE STAND READY TO MEET WITH YOU AT ANY TIME CONVENIENT TO BOTH PARTIES UNDER THE CONDITIONS OUTLINED IN OUR MEMO

SINCERELY

L J COLOMBO CAL NEGOTIATING COMMITTEE CHAIRMAN

15600 DRUMMETT BLVD SUITE 510

HOUSTON TX 77025

NNNN

Continental Airlines

POST OFFICE BOX 4607
HOUSTON, TEXAS 77210-4607

PHONE (AREA 713) 630 5000

September 24, 1983

Captain Larry Baxter
Continental Airlines MEC Chairman
Air Line Pilots Association
9841 Airport Boulevard, Suite 1400
Los Angeles, California 90045

Dear Captain Baxter:

As you have been advised, at 6:30 p.m., (C.D.T.) on September 24, 1983, Continental Air Lines, Inc. and Texas International Airlines, Inc. ("the Company") filed in the United States Bankruptcy Court for the Southern District of Texas petitions for reorganization pursuant to Chapter 11 of the U.S. Bankruptcy Code. As of that time, the Company became a "Debtor-In-Possession" charged with responsibility for prudently administering the assets of the Company pending reoryanization.

It is the intention of the Debtor-In-Possession to continue without interruption the operations of at least a portion of Continental's flight schedule. Enclosed for your information are copies of emergency work rules which the Debtor-In-Possession is promulgating and implementing immediately in order to define wages, hours and work rules for all employees in continuing in the active service of the Company as Debtor-In-Possession.

As Debtor-In-Possession, the Company continues to recognize your organization as the collective bargaining representative of its pilot employees and commits itself to bargain in good faith with your organization about these emergency work rules and all wages, hours and work rules applicable to the employees you represent.

The Company as Debtor-In-Possession requests that you contact the undersigned immediately to arrange for expedited negotiations relating to the emergency work rules. The necessity to conduct operations as economically as possible and to avoid an interruption in service has required unilateral implementation of the emergency work rules; the Company is willing to apply any agreement reached on emergency work rules retroactively to the time of implementation.

The emergency work rules also constitute a proposal for a new Agreement with your organization by the Debtor-In-Possession in accordance with the provisions of Section 6 of the Railway Labor Act. While the Debtor-In-Possession is prepared to negotiate for inclusion in a new Agreement of certain non-economic sections of the Company's prior Agreement(s) with your organization (e.g. seniority system, grievance-arbitration procedure, union security provisions), the Debtor-In-Possession is not prepared to assume that prior Agreement and expressly disclaims any intention to do so. We would like to commence negotiations for a new Agreement at the earliest possible time.

Any Agreement reached, of course, is subject to the approval of the Bankruptcy Court as consistent with the best interests of the shareholders and creditors of the Company.

We earnestly solicit your cooperation and support in this difficult period of transition for the Company and all of its employees. Please feel free to contact me at any time (Office 713/630-5397; Home 713/783-6135) to arrange negotiations or to raise any questions or comments you may have.

Sincerely,

Tom Matthews

Tom Matthews
Vice President - Employee Relations

cc: Captain Henry Duffy

CONTINENTAL AIRLINES

DEBTOR-IN-POSSESSION

PILOT EMERGENCY WORK RULES HIGHLIGHTS

I. Pay and Benefits

(A) Pay Rates - (Salary)

Captain - $43,000 per year

Pilot Officer - $28,000 per year

The Company will publish new rates of pay for pilots not currently on the active payroll or who do not remain on the active payroll after 12/1/83 and are subsequently recalled

(B) Vacation

1 - 4 years continuous service - 1 week
5- 14 years continuous service - 2 weeks
15 + years continuous service - 3 weeks

(C) Pension plans which had previously been in effect for employees under this Agreement will be terminated or suspended. Subject to agreement with the Air Line Pilots Association and approval by the Internal Revenue Service and the Bankruptcy Court, the Company will endeavor to design and implement a program to provide for profit sharing and stock purchase plans subject to necessary approvals of the courts and/or the IRS.

(D) Group Insurance

Modified and requires monthly contribution of $25/$50.

(E) Per diem paid at $1.00 per hour. Paid only on trips with a legal rest period.

II. Work Rules

(A) Pilots fly according to FAR rules. Bid run holders may have scheduled "R" days.

II. Work Rules (continued)

(B) Emergency reserve rules until schedule stabilizes.

(C) Negative bank concept to ensure level earnings and work.

(D) Maximum scheduled domestic duty period 14 hours, 16 hours actual required. International maximum scheduled duty period 16 hours, 17 1/2 hours actual required.

(E) Scheduling and Vacancies will be constructed under rules defined by the Company.

(F) International flights will be flown under Flag Rules.

(G) Pilot Officer - new concept to provide a position that is qualified to fly as either first officer or second officer.

(H) Minimum rest periods determined by F.A.R.

III. General

(A) No severance allowance or required notice of furlough.

(B) Moving expenses will be covered as defined in new Company Policy.

(C) All hotels selected by the Company.

For further explanation of all the new work rules you may pick up a complete copy of the Company proposal for a new agreement at your home base domicile. The above is merely a summary of some major items.

The Company as Debtor-In-Possession has <u>not</u> assumed the terms of prior collective bargaining agreements.

11:20 AM Delivery Service Confirmed
delivery to Capt. Baxter 9/28/83

Continental Airlines

POST OFFICE BOX 4607
HOUSTON, TEXAS 77210-4607

PHONE (AREA 713) 630 5000

September 28, 1983

Mr. Larry Baxter
Chairman
CAL MEC
15600 Drummet Blvd.
World Tower One
Suite 510
Houston, TX 75032

Dear Mr. Baxter:

Your letter to Frank Lorenzo dated 9/26/83 which we received late afternoon on the 27th has been referred to the Company's negotiating committee for reply.

This letter is written to confirm the telephone message given to Lou Columbo on the evening of the 27th suggesting that we meet today, the 28th, to discuss our current situation. As you are aware, we have been attempting to arrange a meeting since Saturday in order to discuss our filing. This letter has been hand delivered in hopes that you will accept our invitation to meet at 2:00 pm at our offices in the Personnel Department conference room today, 9/28/83.

Please let us know if you are available to attend.

Your truly,

Tom

Tom Matthews
Negotiating Committee

TM/rs

cc: D. Breeding
D. Adams
J. Adams
P. Bakes
F. Lorenzo

MAILGRAM SERVICE CENTER
MIDDLETOWN, VA, 22645
28AM

Western Union Mailgram

4-018854S271002 09/28/83 ICS IPMBNGZ CSP HOUB
1 7136305397 MGM TDBN HOUSTON TX 09-28 1132A EST

CONTINENTAL AIRLINES
PO BOX 4607
HOUSTON TX 77210

THIS MAILGRAM IS A CONFIRMATION COPY OF THE FOLLOWING MESSAGE:

7136305397 TDBN HOUSTON TX 22 09-28 1132A EST
PMS CAPTAIN LARRY BAXTER
CONTINENTAL AIRLINES MEC CHAIRMAN RPT DLY MGM, DLR
AIRLINE PILOTS ASSOCIATION
15700 DRUMMET STE 510
HOUSTON TX 75032
I REPEAT MY URGENT REQUEST TO YOU FOR IMMEDIATE BARGAINING ABOUT EMERGENCY WORK RULES. AGAIN, CONTACT ME IMMEDIATELY TO ARRANGE FOR BARGAINING.

TOM MATTHEWS
PO BOX 4607
HOUSTON TX 77210

11:32 EST

MGMCOMP

TO REPLY BY MAILGRAM MESSAGE, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

AIR LINE PILOTS ASSOCIATION

HOUSTON FIELD OFFICE □ 15600 DRUMMET BLVD □ SUITE 510 □ HOUSTON, TX 77032

September 28, 1983

Mr. Tom Matthews
Vice President Employee Relations
Continental Airlines
P. O. Box 4607
Houston, Texas 77210

Dear Mr. Matthews:

This will acknowledge receipt of your letter dated September 28, 1983, at noon, suggesting a meeting for 2:00pm today. I note that while my letter to Mr. Lorenzo has been referred to you for reply, you have not in fact replied to the substantive aspects of my letter. Specifically, you have not addressed our position that our collective bargaining agreement remains in full force and effect; that your unilateral announcement and implementation of so-called emergency work rules violated the Railway Labor Act; that your reported efforts to bargain with individual pilots and threats of discipline/discharge violates the Railway Labor Act. Nor have you responded to our demand that you immediately cease and desist from further violations. I further note that late yesterday afternoon you filed in Bankruptcy Court a motion to reject the pilot collective bargaining agreement.

Notwithstanding your continued violations of the Railway Labor Act and the contempt you continue to demonstrate towards your employees and their collective bargaining representatives, we remain willing to meet and "discuss our current situation", as your letter requests.

In view of the fact that the Continental MEC has been in session since 9:00am this morning, and will be in session all day and into the evening, it was obviously impossible for us to meet in your office at 2:00pm. As you doubtless know, this MEC meeting was necessitated by your precipitious and unwarranted action, and was scheduled before your request for a meeting. Similarly, tomorrow, the Board of Directors of ALPA, constituting the representatives of all ALPA represented airlines will be meeting all day. I suggest you call Lou Colombo personally so that we may mutually schedule an expeditious meeting. It serves little purpose for you to set, unilaterally, a time and place which you know is impossible.

Yours truly,

Larry

Larry A. Baxter
Chairman
CAL MEC

LAB/bj

EXECUTIVE BOARD RESOLUTION - DEREGULATION

This Executive Board regards deregulation and its devastating effects as a top priority matter. We find:

1. Sufficient time has elapsed to demonstrate that deregulation with its speculative, manipulative and destabilizing practices has no place in airline transportation.
2. The airline structure of the United States achieved domestic and world-wide recognition as the safest, most dependable and productive airline transportation structure in the service of the travelling public. Deregulation is bringing that structure to its knees and rapidly reducing it to a shambles.
3. Public interest which is supposed to be served by deregulation is, instead, being rendered a grave disservice. Rapidly shifting fares with a myriad of limitations, the use of loss leader fares suitable to a supermarket rather than to a stable transportation system have resulted in cutthroat competition. None of this is compatible with safe, dependable and stable service which the public expects and has a right to receive.
4. Airline pilots and other employees who have built their careers in the airline industry are being put out of work and their professions degraded as a result of deregulation.
5. No segment of the industry, no carrier large or small, escapes the destructive reach of deregulation.
6. The misuse of Chapter 11 of the Bankruptcy Act is a direct offshoot of the destructive pressures which deregulation spawns.

THEREFORE, this Executive Board has resolved that prompt and effective action must be taken:

1. Suspension of Service is determined to be essential to protest deregulation legislation and the Government's program for deregulation The time, duration, and repetition of Suspension of Service shall be determined by the President. The President is directed to proceed with the greatest expedition to educate the membership in preparation for a prompt Ballot approving such Suspension of Service. The President shall assure that adequate funding is available for this program.
2. The President is directed to take necessary steps leading to the participation of other airline unions in joint programs for the reform of airline deregulation.
3. The President is directed to activate steps drawing congressional and public attention to the critical conditions in the airline industry, the threat to safety and to the national economy by the destabilization of a major productive transportation industry.
4. The President shall appoint a committee to assist him in the development of the programs required to carry out this resolution and to see to their implementation.
5. A report of actions taken giving effect to this resolution shall be made to the November 1983 Executive Board in session.

APPENDIX 2

PREPARED STATEMENT OF DENNIS NADALE, PRESIDENT, INDEPENDENT UNION OF FLIGHT ATTENDANTS

I am Dennis Nadale, President of the Independent Union of Flight Attendants ("IUFA"), the collective bargaining representative of all flight attendants employed by Pan American World Airways, Inc. ("Pan Am"). I make this statement as a concerned flight attendant and also as an officer in the IUFA, in order to provide these Subcommittees with some insight into the present labor-management situation in our industry and, more particularly, in our company.

First, please understand that the membership of the IUFA is now comprised of approximately 6,500 flight attendants at Pan Am. We are one of a few independent unions; that is, we are the union for Pan Am flight attendants only and have no members employed by other airlines or in other industries. We feel that this status provides us with a particular insight and expertise regarding labor-management problems at Pan American. Of course, the Continental Airlines flight attendants are also represented by an independent flight attendant union—the Union of Flight Attendants ("UFA")—and we are understandably concerned with the plight of these employees.

Our union has been in existence since 1977. Pan Am flight attendants were formerly represented by the Transport Workers Union ("TWU") and, before that, by the Airline Pilots Association ("ALPA"). In the 6 years since our founding, I believe that we have provided a responsible voice for our membership without jeopardizing the viability of the company which employs us.

Our collective bargaining agreement with Pan American represents the sum total of our rules, working conditions, and rates of pay as flight attendants. We have made certain gains in all of these areas in the years that we have existed as an independent union. Many of these gains have come in areas on increased safety, including guaranteed "rest" time, and rest seats for long overseas flights. The gains have not necessarily all involved increased cost to Pan American. However, as these Subcommittees may or may not understand, the rules and protections for our membership are found only in this collective bargaining agreement. Although pilots and some other employee groups find safety assurance and protection within FAA regulations, we are not such a group. There are no FAA regulations which govern flight attendant performance, hours, or safety standards.

The collective bargaining agreement and such other agreements as may be negotiated represent the sum total of our protections. If management is allowed to ignore or disregard the provisions of a collective bargaining agreement, those safety and health considerations built up over the years disappear along with any improved wages which we may have negotiated. Consequently, we urge these Subcommittees to do whatever is possible to insure the protection and retention of collective bargaining agreements and the collective bargaining process.

Since the 1982, we have been involved in agreements with Pan Am which have included productivity concessions or "give-backs." By that, I mean that our union and others at Pan American were asked to give back gains which we had won in prior collective bargaining negotiations. We have negotiated in good faith with Pan Am and have attempted to gain concessions in nonmonetary areas while providing Pan Am with the needed "botton-line" dollars. In late 1981, we commenced negotiations which resulted in an agreement in February, 1982, which allowed Pan Am to fly flight attendants for an additional 50,000 block hours without any added labor cost.

In October of 1982, our prior productivity concessions ended when Pan Am was forced to furlough a number of flight attendants. We again met with the company from late November, 1982 to January, 1983 and negotiated concessions whereby our union agreed to fly more hours for a lower rate of pay then that set out in the current collective bargaining agreement. I should note that this productivity agreement was negotiated in an atmosphere of urgency, to say the least. Nevertheless, when it became apparent that Pan Am required certain concessions from us, we made them in the interest of preserving Pan Am's viability as an air carrier and the continuation of our jobs as flight attendants.

As noted in this brief summary of recent productivity negotiations at Pan Am, we have always agreed to sit down and discuss changes at the Company's request. This has often meant that we have had to forego gains negotiated in the collective bargaining process in order to provide Pan Am with more efficient operating rules at a lower cost. Often, these productivity concessions have been necessary to protect the image projected to the traveling public not to mention investors and bankers. Nev-

ertheless, when asked, the flight attendants have always negotiated concessions or cut-backs in our collective bargaining agreements.

This good faith negotiation process is not a one-way street, however. Flight attendants have changed just as the airline industry has changed in the past 20 or 30 years. We are no longer a group of young "girls" looking for travel and adventure while searching for husbands. Many of us are, in fact, those husbands. Many of us are the sole sources of support for our families. In sum, the job is no longer a grand adventure but is a profession which we take seriously and which provides a necessary income for us and our families. We are disturbed at the prospect that this source of income may be arbitrarily removed at the whim of a cost-conscious management. Surely, long-standing and loyal employees deserve some protection from precipitous actions which could throw a substantial portion of the work force to the welfare roles.

The collective bargaining process has worked well through many difficult periods in American labor history. Although this may be such a period, there is no reason now to suggest that the process should be abandoned merely because labor costs have risen during the years of profitable flying. Since the Railway Labor Act was amended to include the airline industry within its scope in 1936, it has proved an adequate vehicle for servicing twin objectives: (1) free collective bargaining; and (2) protection of the public interest in an uninterrupted flow of commerce. There has been no adequate showing, now, to suggest that the Railway Labor Act should be shelved in favor of the Bankruptcy Act or some other expeditious scheme for eliminating production costs.

In fact, history suggests that bankrupticies and reorganizations can be considered within the ambit of the Railway Labor Act. Although we understand that the Supreme Court is now considering bankruptcy and its relationship to the National Labor Relations Act, we submit that the Railway Labor Act presents different considerations. With its emphasis on prolonged bargaining and maintenance of existing agreements, the RLA's provisions are arguably applicable to a Chapter Eleven situation such as Continental's. Certainly, the Act does not countenance wholesale disregard for free collective bargaining. As noted in a Newsweek magazine quote of a Western Airlines Executive, "What Continental is doing makes a mockery of the collective-bargaining system." (Newsweek, Oct. 10, 1983 at p. 66)

If the Deregulation Act goal of increased competition is thought to be a primary objective, it should be allowed to work in the supply and demand atmosphere which collective bargaining provides. If, at some point, employees drop to a salary level at which they can no longer efficiently produce income for their families, this will emerge in the collective bargaining context. However, to allow this to happen in an instant with a bankruptcy filing is to throw thousands of employees and their families out of work without giving the system a chance to succeed. Certainly, some airlines may not survive in a deregulated era. However, airline management *and* the employees should have a hand in that decision. With an increase in the number of employee stock ownership plans and other creative methods for involving employees in airline management, employees now have an even greater stake in the industry's future. If airline management is allowed to disregard its collective bargaining agreements, what reason is there for its employees to be bound by these same agreements? Management cannot have its cake and eat it too. If a collective bargaining agreement allows a company to operate in a strike-free environment under the guidelines set forth in that agreement, management cannot disregard that agreement whenever it becomes cost effective to do so. If such is allowed to occur, employees will have little incentive to negotiate such agreements and wildcat or unauthorized work stoppages may become commonplace.

In sum, I suggest that the negotiating framework which has served the industry well over the past 25 years should not be discarded under the guise of cost effectiveness. Employees at Pan Am and other airlines have shown their willingness to absorb reduced benefits and increased productivity in the interests of preserving their jobs. If a mechanism can be established for assuring an open flow of information regarding the financial viability of the company, the collective bargaining process will continue to work and in fact should flourish. Whether Continental feels an obligation toward its employees or not, the traveling public and the transportation industry has a stake in these matters and these interests should be considered. We urge your support of legislation which will preserve the collective bargaining system rather than ensure its destruction as seems the object of the current bankruptcy alternative.

Thank you for the opportunity to voice these views.

Dated: October 20, 1983 in Burlingame, California.

DENNIS NADALE, *President,*
Independent Union of Flight Attendants.

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