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August 10, 1990

Office of General Counsel  
Federal Election Commission  
999 E Street, N.W.  
Washington, D.C.

RE: Advisory Opinion Request 1990-10

Supplement TO  
AOR 1990-10

RECEIVED  
FEDERAL ELECTION COMMISSION  
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Dear Sirs:

Please find enclosed a clipping from yesterday's Wall Street Journal and a press statement from Continental Airlines Holdings Inc., also released yesterday. Both pieces describe Frank Lorenzo's plans to step down as chief executive officer of Continental Airlines Holdings, Inc. and to sell most of his stake in the company.

Continental's PAC has presented extensive argument to demonstrate to the Commission that it and Eastern's PAC are not under common control. I respectfully submit that in deciding AOR 1990-10, the Commission should consider this development as further evidence that the PACs are not "established, financed, maintained or controlled by the same corporation ... person, or group of persons."

Sincerely,



Carolyn F. Bigda

Enclosures

cc: Chairman Lee Ann Elliott  
Vice Chairman John Warren McGarry  
Commissioner Joan D. Aikens  
Commissioner Thomas J. Josefiak  
Commissioner Danny Lee McDonald  
Commissioner Scott E. Thomas

**CONTINENTAL AIRLINES  
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**CONTINENTAL AIRLINES HOLDINGS ANNOUNCES  
MAJOR MANAGEMENT AND OTHER CHANGES**

New York City, August 9, 1990 - - Continental Airlines Holdings, Inc. today announced a series of measures which, according to Frank Lorenzo, Chairman and Chief Executive Officer, will strengthen Continental's position in the U.S. and world markets. At the same time, Lorenzo said he will sell most of his direct and indirect investment in Continental, and will step down as chairman and chief executive officer, while remaining as a director. The Company's new chief executive will be Hollis L. Harris, the current president of Delta Airlines, who, according to Lorenzo, "is one of the industry's most experienced and highly regarded executives with an outstanding reputation in the areas of airlines operations and customer service."

Scandinavian Airlines System (SAS), which acquired a 9.9% share of Continental Holdings in October 1988 in

connection with a joint operational and marketing alliance, will increase its interest in Continental to 16.8% of the equity and 18.4% of the voting stock of the corporation.

In addition, under the arrangements, the Continental Board has asked Jan Carlzon, President and CEO of SAS, who is already a member of the Continental board, to assume the post of non-executive Chairman, and he has agreed to consider it. "Jan Carlzon is one of the most respected international executives and our Board believes that he would add enormous credibility to Continental's already strong product credentials," said Lorenzo.

In discussing his decision to step down, Lorenzo said that, "In building Continental over these many years, changes were slowly required to allow Continental's people to develop the successful company that we are today, and I have obviously become a lightning rod. By stepping aside, as part of these arrangements, the hard work and dedication of our people can continue and we can accelerate our progress towards excellence," he added.

Commenting on his appointment, Hollis Harris said, "The decision to leave Delta after 16 years was not an easy one.

However, my observation of Continental's impressive development, intrinsic strengths, and future opportunities makes this one of the most exciting airline jobs in the world, and a challenge I cannot resist."

Under the terms of the agreement, SAS will acquire Jet Capital Corporation, which holds an important interest in Continental, for approximately \$21 million or about \$4.60 per share. Jet Capital is more than 80% owned by Lorenzo and other Jet directors. In addition, SAS will purchase from Continental 2.25 million shares of its common stock at \$14 per share. Importantly, at closing, Jet Capital's voting interest in Continental will drop sharply owing to the conversion of its "super-voting" Class A shares currently held, into Series C preferred stock.

Also, Continental's Board of Directors invited SAS to nominate two additional representatives to serve on the Continental board, in addition to Jan Carlzon. SAS has indicated that one of its nominees will be a U.S. citizen. There will be 13 members on the Board in total, including Hollis Harris. The operating and marketing agreements that govern the relationship between the two airlines will continue unchanged.

"This is a sound investment opportunity for SAS, and a logical development of the investment we made in 1988," said Carlzon, who has established SAS as the European market leader in business travel and expanded it into a global travel service company through partnerships with other airlines like Swissair, Thai International and All Nippon Airways and other quality airlines, and also the acquisition of 40% of the Inter-Continental Hotel Corporation.

"Since we teamed up with Continental almost two years ago, we have seen a steady growth in our North American traffic. By all measures, the alliance between Continental and SAS has been to the benefit of the passengers and a success for both airlines. Through joint projects such as our Quality Service Institute and through Continental's investments in new equipment and upgraded facilities, service has improved, complaints are way down, and Continental is poised for a new era of greatness," Carlzon said.

Under today's agreement, Continental will acquire from Frank Lorenzo, for approximately \$17 million, a substantial portion of his investment in the Company, principally his vested options and his current employment contract. He will

retain an existing option on 783,333 shares in Continental.

Lorenzo, who served as CEO of Continental Airlines and Texas Air, and its predecessor, Texas International Airlines, said, "Given the growth and development of Continental, and after 18 years as the company's chief executive, in the context of these overall agreements, I feel that this is a sensible time to turn over the leadership to Hollis Harris for the challenges and opportunities of the Nineties. Hollis understands Continental and the assets that its people have developed," said Lorenzo.

Carl Pohlad, a 22-year member of the Continental board, said, "Frank has provided an entrepreneurial spirit and dynamic leadership to this company for many years. Our board appreciates his vision and tireless efforts which have benefitted not only Continental and its people, but the entire traveling public."

Harris started with Delta Airlines as a transportation agent in the marketing division in 1954. He later became an aircraft engineer and moved steadily up through the ranks to the position of President, the post to which he was named in 1987. Harris holds a degree in Aeronautical Engineering from

the Georgia Institute of Technology.

The completion of the transaction is subject to certain conditions, including a vote by Jet Capital's shareholders, the absence of Department of Transportation objections, and anti-trust review by the Department of Justice.

## Bailing Out

# Lorenzo Plans to Sell Continental Air Stake To Scandinavian Air

He Would Step Out as Chief, And SAS Would Install Delta's Harris in the Post

Sale Proceeds to Be \$17 Million

By BRIDGET O'BRIAN

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — Frank Lorenzo, who seized on deregulation to build one of the nation's largest airline companies in a series of controversial mergers, is leaving the industry that he helped transform.

Beaten by waves of bad publicity that have swept his latest endeavors, Mr. Lorenzo is expected to announce as early as today that he is selling most of his stake in Continental Airlines Holdings Inc. (formerly Texas Air Corp.) to Scandinavian Airlines System and stepping down as chairman and chief executive officer, say people with knowledge of the proposed move.

Under the agreement, Mr. Lorenzo would walk away with at least \$17 million, a large sum but a fraction of what he was worth when his airlines were flying high. Industry sources say he didn't want to sell his stake, but believed his continued association with the company, and criticism of his operating style, were hurting Continental's hopes for recovery.



Frank Lorenzo

Mr. Lorenzo has been a pioneer in the post-deregulation airline industry, helping lead the way in merging carriers, cutting fares and using bankruptcy protection to reorganize and break up high-cost airlines. But his innovations brought on debilitating labor strife, crippling debt loads and another feature of the modern-day airline industry: service problems.

Now Mr. Lorenzo's latest airline deal appears to be his last, at least for years to come. The proposed purchase would raise SAS's interest in Continental Holdings to 16.8% in terms of equity and 18.1% in terms of voting control. SAS already owns 9.8% of Continental Holdings, and has a seat on the company's board.

SAS is said to be spending about \$50 million on the transaction, and is planning to install Hollis Harris, 58, the president of Delta Air Lines, as president and CEO of both Continental Holdings and Continental Airlines. Jan Carlson, SAS's chairman and a Continental director, would become non-executive chairman of Continental Holdings. The transaction requires approval from the U.S. Department of Transportation but doesn't violate laws governing how big a piece a foreign carrier may own of a U.S. airline. That limit currently is 25%.

A Continental spokesman declined to comment on the proposed transaction.

Lars Bergvall, SAS's chief operating officer, said he had no comment.

Under the agreement, SAS will buy out Mr. Lorenzo's five-year employment contract, which calls for a base salary of \$365,000 a year plus bonuses and deferred compensation of at least \$570,000. SAS is also buying all the shares of Jet Capital Corp., a personal investment company owned by Mr. Lorenzo and two other investors, who are selling their stakes as well. Jet Capital's chief investment is in Continental Holdings shares. Since there is no public market for Jet Capital shares, their value lies in the voting power they exert over Continental Holdings.

### A Seat on the Board

Finally, SAS plans to purchase, at a premium, Mr. Lorenzo's options to buy two million or more Continental Holdings shares. Mr. Lorenzo will retain some of those options and will remain on the board of directors. Under a non-compete clause in his employment contract, Mr. Lorenzo is obliged to stay out of the airline business for at least seven years.

The transaction has already received approval from the board of Continental Holdings, sources familiar with the transaction say.

SAS is paying \$14 a share for 2.25 million Continental Holdings shares, almost all of which come from Mr. Lorenzo and his two Jet Capital partners. That price is sure to sting other common holders who have watched Continental Holdings shares slide to yesterday's close of \$4.50 a share on the American Stock Exchange, down from about \$23 a year ago. SAS apparently chose to pay the premium in order to get the additional voting rights that Jet Capital holds. There are about 40 million Continental Holdings shares outstanding.

Controversy is certainly nothing new to Mr. Lorenzo where airlines are concerned. Over the last three years, the 50-year-old executive has been routinely vilified by Eastern Airlines unions as they mounted a tough campaign to fight his attempts to lower labor costs at that former unit. The result was a bruising strike begun in March 1989 that virtually grounded Eastern and sent that carrier careening into Chapter 11 bankruptcy proceedings, from which it still hasn't emerged.

Last April, the bankruptcy court judge, Burton R. Lifland, took control of Eastern from Mr. Lorenzo, placing the carrier in the hands of a trustee, Martin Shugrue Jr.

That entire episode so demoralized the  
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## Bailing Out: Lorenzo Plans to Sell Continental Air Stake

*Continued From First Page*

Texas Air empire that it sought to distance itself from its past, changing its name and severing all ties to Eastern. The body blows from the Eastern affair also led to Mr. Lorenzo's decision to leave the airline business, according to people who know him.

The Eastern episode, which included critical headlines and pickets outside Mr. Lorenzo's exclusive River Oaks home in Houston, took a considerable toll on the intensely private man and his family. He took to hiring bodyguards.

That was in marked contrast to the Frank Lorenzo who wrested control of Continental in 1982 in the nation's first hostile takeover of an airline. Mr. Lorenzo, a graduate of Harvard University's business school, had been looking for ways to expand his Texas International Airlines, a small regional carrier. At the time, Continental was a staid carrier and money-loser.

Within four years, Mr. Lorenzo had thrust the airline into bankruptcy court, abrogated its union contracts and lowered labor costs. He built back its operations until, in 1986, it emerged from Chapter 11 protection having turned a profit.

With low costs, Continental lured flyers by offering lower fares, and a new generation of travelers took to the skies.

But the growth of Continental itself has been anything but steady, and Mr. Lorenzo discovered it was easier to build an airline than to run it. Continental's top management has been in constant turmoil, with seven chief executives in as many years.

But that didn't stop the acquisition-minded Mr. Lorenzo. Riding high on deregulation, he and his Texas Air Corp. went on to acquire People Express and Frontier and Eastern, all of which were financially troubled. Texas Air already owned New York Air. In 1987, Mr. Lorenzo folded all the airlines, except for Eastern, into Continental, a merger that became one of the airline industry's most difficult and costly.

Continental's expansion, funded by junk bonds, was driven by an ever-growing mound of debt, and was shaky at best. With his new holdings, Mr. Lorenzo's empire—briefly the largest airline in the free world—began to feel the full weight of its debt: Texas Air rolled up the airline industry's largest losses ever in 1988 and 1989—\$718.6 million and \$225.6 million, respectively.

Mr. Lorenzo eventually broke the strike at Eastern, but lost the airline. The labor action, mounted by Eastern's machinists and supported by flight attendants and pilots, not only forced Eastern into Chapter 11 protection but kept Mr. Lorenzo in the spotlight: Angry strikers picketed the nation's airports, handing out buttons and bumper stickers emblazoned with the words, "Stop Lorenzo."

But unlike his experience with Continental, Mr. Lorenzo would not ride Eastern out of bankruptcy. After listening to ever-smaller offers of repayment, Eastern's creditors ousted Mr. Lorenzo and Texas Air from day-to-day control of Eastern.

Texas Air changed its name to Continental Airlines Holdings Inc. in June. But the parent still is on the hook for Eastern's pension debt, which could total nearly half a billion dollars. While Continental has made a dramatic financial turnaround from last year and the year before, much of its net income comes from one-time gains such as lawsuit settlements and asset sales. Its debt service costs remain high, and eat up much of its operating profits.

For its part, SAS is 50% owned by the governments of Sweden, Denmark and Norway. SAS's initial purchase of a 10% stake in Continental, as well as a marketing agreement with the carrier back in October 1988, has yielded many benefits. Passenger traffic between May and December 1989 was up 40% out of Stockholm and 100% out of Oslo, mostly because of transfers at Continental's Newark hub.

The company in recent years has undertaken a broad expansion program, of which Continental is just a part. It now has equity stakes in Inter-Continental Hotels Corp. (40%), Finnair (estimated 6%) and Swissair (5% to 10%, to be finalized by the end of 1991). It bought a 24.9% stake in Airlines of Britain PLC and 35% in LAN Chile. SAS also is in the market for as many as 126 new MD-90s or A-320/A-321s airplanes.

Like other European carriers in high-wage home markets, SAS is having problems with costs. SAS has a hiring freeze and has sold some ancillary businesses. Now its ambitious expansion plans are being scaled back. Lars Bergvall, the chief operating officer, said planned additions to the airline's New York, Seattle and Los Angeles routes will be scrapped, as will some other proposed route additions. SAS has frozen its European fleet at its current size, and three DC-9s are being sold earlier than planned.

—Carolyn Phillips in Houston and Susan Carey in Brussels contributed to this article.