# A LITTLE HISTORY
# From: "FRONTIER BANKRUPTCY: A FINAL PERSPECTIVE"

By ALPA circa 1986, written word-by-word by ALPA to fulfill numerous requests

*(Your Editor was surprised to learn that many of our Frontier group had never seen the Frontier Air Lines Bankruptcy Perspective written by the Air Line Pilots Association. It was with this thought in mind that this 'special issue' is devoted to that printing.*

*Hopefully you, the reader, will get more of an understanding of the events that took place during this dark time of our lives. Twenty Two years have passed since that period - when the unthinkable happened. Our Frontier Air Lines is no more.. .just a memory. As with other events that have taken place during our lives, those times are vividly etched in our memory bank.*

*Now another airline and ironically, with the name Frontier Air Lines is going through hard times. It is hoped the new Frontier will not go through the same demise.*

*-Reprinted from the August 2008 FARPA Newsletter, Ace Avakian - Editor)*

## INTRODUCTION

Since the rebirth of "New Continental", United Air lines has had a long and difficult struggle to make it's second largest hub in Denver profitable. The existence of two low cost competitors, Continental and Frontier Air Lines, made it almost impossible for United to raise airfares to a level that would guarantee an acceptable return on its investment. This situation gives credence to the position of most airline analysts that a major hub such as Denver cannot support more than two strong competitors.

At the conclusion of the United pilot strike, corporate management proceeded with a plan to squeeze out the competition in Denver. In fact, Richard Ferris hailed his new pilot contract as the competitive agreement that UAL needed to flex it's muscle and eliminate some of its low cost or financially troubled competitors. The Denver market became one of United's main focal points in its war to become the undisputed giant of the airline industry.

United's strategy worked well - so well in fact that management from People Express Airline approached United management hoping, at first, to sell its 747 fleet to United to raise cash to offset huge losses at Frontier. When United managers saw the high level of debt secured against PEX wide body fleet, they refused to even bid for the aircraft. Desperate for cash, PEX then offered to sell its subsidiary, Frontier Air Lines, to United. At last United could realize its dream of control of the Denver hub. The only question remaining was how best to use the Frontier deal.

The following will show how United's managers executed a well thought out plan to eliminate a competitor in DEN; strip away Frontier's assets; financially cripple People Express; and to cast off Frontier employees, creating a pool of qualified applicants to be hired as new employees at "B" scale pay rates.

## THE PROPOSAL

Originally, United agreed to pay People Express $146 million for Frontier Air Lines. The purchase price included all frontier facilities and, ostensibly, it's 4700 employees. The net asset value of equipment and facilities was about $64 million. The balance of $80 million was a business consideration for "good will", an intangible value placed on a business entity, which takes into account name recognition, passenger loyalty, advanced bookings, etc.

A primary condition of the agreement was that United reach an accord with each of its unionized labor groups by August 31, 1986, a condition that would lead to the eventual demise of Frontier and seriously threaten the future of People Express.

## SUMMARY OF NEGOTIATIONS

From the beginning, United management took the position that they would not negotiate with other labor groups until an acceptable agreement was reached with the Air Line Pilots Association. Indeed, formal talks with ALPA did not begin until July 25th.

Faced with the certainty of long membership ratification procedures required by other unions it is still uncertain how management planned to complete all required contract ratifications by the end of August.

Prior to beginning direct negotiations with United's pilot negotiators, United management spent several days talking with Frontier pilot negotiators. However, the company did waste several days in discussions with Frontier pilots, thus giving the impression that there was no real time pressure on management.

## JULY 25th

United pilot negotiators met with a management team at EXO. John Zeeman, Senior Vice President of Marketing, gave a short presentation outlining how the deal came into being. He also stated how this deal could enhance United's overall market strength throughout its entire route system. United Airlines had no plans to operate Frontier as a separate airline in Denver, rather the plan was to redistribute the Frontier assets and employees throughout United's present domicile system. Clearly, Frontier as an entity would cease to exist. The airline that was losing $10 million a month would be disassembled and it's parts moved nation wide to strengthen other United hubs, while removing a low cost competitor in Denver.

At this meeting, management made a proposal to the pilots outlining how the Frontier pilots were to be paid. Their offer called for Frontier pilots to remain at their current levels of pay for five years and then receive raises equal to one third the difference between their rates and United rates over the next three years. Basically, it would take them eight years to reach parity. The meeting adjourned.

**JULY 29th**

In conjunction with Frontier negotiators, United pilots constructed a proposal that not only dealt with pay, but included other items relative to the transition of Frontier pilots to United's property. The pay section, however, called for the Frontier pilots to immediately be paid United pilot rates for working as pilots for United Airlines. This proposal reflected exactly the treatment offered Pan American pilots when they transferred to UAL.

**JULY 30th**

Management proposed that the Frontier pilots reach parity in six years, and failed to respond to other transition items outlined in the pilot's proposal. At this meeting, Mr. Pringle stated that UAL would not request an extension from the D.O.T. This was viewed by ALPA's negotiators as the first clear indication that United was willing to dump the whole deal.

**JULY 21st**

ALPA proposed 50% of the pay difference for the Frontier pilots immediately and then another raise to parity in six months. Management then verbally proposed pay raises of 6% per year until FAL pilots reached parity. The meeting broke for lunch. UAL management stated that they would have a written formal proposal after the break. The formal proposal was amended to give 7% annual raises until parity. Under this plan, assuming no raises for current UAL pilots, parity would be reached by mid 1990s! The pilots then proposed that FAL pilots reach parity by 3-31-88. Pay raises in the interim were to be negotiated. The meeting recessed.

**AUGUST 14th**

United management proposed that FAL pilots maintain their current rates of pay for five years and then jump to parity.

**AUGUST 15th**

ALPA proposed three equal pay raises roughly six months apart to reach parity on 3-31-88. Management rejected this offer. Management then opened discussions concerning new hire rates of pay. They indicated they would sign a nonprejudicial letter attesting to the purity of their offer that the FAL pay issue would not be a topic of discussion during the "B" Scale arbitration. This arbitration is scheduled, by contract, to occur in early 1990. Management also offered to consider dispensing with the arbitration of the "B" Scale pay rates in 1990 and review our competitors' costs and rates of pay and then consider adjusting our "B" Scale pay rates in 1990 and review our competitor's costs and rates of pay and then consider adjusting our "B" Scale accordingly. This position was the company 's last "B" Scale offer prior to the strike in 1985!

**AUGUST 24th**

This round of discussions resulted from the efforts of Colorado Congressman Tim Wirth to bring the two parties to the table. The meeting convened in the afternoon on Sunday and lasted until approximately 3 :AM on Monday. Because management refused to budge from its last proposal, ALPA finally presented management with three possible options.

The first offer was the previous proposal of Aug. 1 5th, which called for parity on 3-31-88.

The second option was to merge the FAL "A" Scale pilots to parity on September 1, 1988. Further, both United and Frontier "B" Scale pilots would be paid according to Delta's recently agreed to "B" Scale rates. There are approximately 115 pilots at FAL on their "B" Scale. These rates of pay would be consistent with "B" Scales recently negotiated or arbitrated on not only Delta but USAir, Aloha and Alaska.

The third proposal called for all pilots, both "A" and "B" scalers to merge to United's "A" Scale on December 31, 1989.

The purpose of the last two offers was to clearly demonstrate that the pilots were, indeed, ready to negotiate and to discuss various ways of resolving the differences between the two parties. However, not only did management refuse to accept any of the three offers, they steadfastly refused to even discuss them. Even more disturbing, they refused to offer any change in their offer of August 14th made over ten days earlier!!! Starting at eleven o'clock in the evening, company negotiators began to press to leave the negotiations stating that they saw no productive reason to stay. Obviously, if they did not want to reach settlement, then the entire evening's work was never going to be productive.

**AUGUST 25th**

Roger Hall called United President and Chief Executive Officer, Mr. James Hartigan, in an attempt to bring the parties closer together. Mr. Hartigan refused stating that the company had moved as far as it would in offering the five years at current rates and then a jump to parity. Included in this deal was the assurance that any raises that United pilots negotiated in the interim would be passed on to the FAL pilots. Again, the company's bottom line remained unchanged.

**AUGUST 28th**

After a two day special meeting of the United pilot leadership in Chicago where a presentation was made by Captain Walker, Chairman of the Frontier pilots and Don Osmundson, President of the Frontier Labor Coalition, ALPA again developed another way to break the deadlock.

A final phone call was made to management by the Chairman of the United pilot negotiating team, Captain Pat Austin. Captain Austin contacted Mr Pringle to offer to meet to propose an arbitrated settlement to the dispute. This plan centered around the position that both parties would take their final proposals to a neutral party who would resolve the remaining issues. In such cases, the arbitrator would have the ability to impose a solution that would be binding on both parties. Each side would have the right to defend its position, based on economic facts. Again, the arbitrator could award the decision to either side, or craft an award which could be viewed as somewhere in the middle. The bottom line of the pilots' offer was that the Frontier pilots would come to work for UAL immediately, at their current rates of pay, until the arbitrator decided as to the length of time it would take for the FAL pilots to reach parity.

Additionally, in an attempt to represent and protect new hire United pilots on our "B" Scale, ALPA proposed that the 1990 arbitration relative to their merge to take place at this time. Please be aware that this position could have resulted in management being awarded a five year merge. ALPA's position could have been rejected completely by the neutral. Incredibly, even this offer to meet was refused.

At 4:45 PM Mountain Daylight Time, Chapter 11 bankruptcy papers were filed in Court in Denver.

**ALPA'S POSITION**

First, why would ALPA attempt to bring Frontier pilots to parity at such a rapid pace? If United management planned to operate Frontier as a separate entity, then a case could be made to maintain pay rates at current levels. However, because of the route duplication between UAL and Frontier, approximately 60% overlap, management planned to shut down Frontier and redeploy its assets. At that point all Frontier employees transferring to United would become a part of an immediate expansion of UAL and commence generating revenues for this company. Therefore, those employees should expect to be compensated at United rates of pay. After all, isn't that what happened to the PAN AM people that joined us?

Why were the Frontier pilots working for rates so much lower than United pilots? For several years, Frontier has been caught in a competitive vice between United and Continental. Their employees banded together and attempted to save their company. They reduced their direct wages to assist management. In return for their cash concessions, they were given ownership in their company, so their total compensation package remained strong if their company survived or was purchased. United was unwilling to compensate them for their ownership positions when Frontier was purchased and further, United management was unwilling to continue the Frontier pilots' profit sharing agreement. UAL managers were only willing to let them maintain their lower rates of pay and treat them as second class citizens.

Why couldn't ALPA accept the company's final offer? Many will remember that the strike in 1985 occurred because both parties could not agree on the terms of a "B" Scale for new hire pilots. ALPA had no interest in a long term scale that would greatly reduce the income for new pilots.

The company desired a seventeen year reduced salary level for the new hires. Regardless of how emotional the strike became, one should remember that the "B" Scale issue and in fact all outstanding issues were resolved by the fourth day of the strike. In this case, United management was willing to submit the "B" Scale issue to a neutral party for binding arbitration, if the two parties fail to reach accord on the issue of parity with "A" Scalers by the end of 1989. *It continues to puzzle us as to why management was unwilling to take the same position concerning the FAL pay issue.*

Further, accepting the final offer from the company would have introduced another factor into the pay equation, specifically a "B" Scale Captain. Clearly, management desired to open up issues supposedly resolved at the beginning of the last contract. Now with no valid jusification, management was trying to revisit issues well beyond the scope of the Frontier situation.

Also, using Frontier pay to place a wedge between our current "B" Scale and "A" Scale pilots would, in our view, put the 1990 arbitration at risk. Placing the over 1200 United new hire pilots future at risk after the strike of 1985 would be unacceptable. By offering merge dates beyond the scheduled arbitration, management knew that they stood to undermine the effect of this arbitration. An offer to write a side letter to exempt the Frontier pay from the arbitration was an empty gesture, as the Railway Labor Act, the law which governs our contracts with UAL, specifically limits the effectiveness of this type of approach.

Lastly, Mr. Pringle, Senior Vice President of Human resources, has continually stated that he intends to reduce pilot pay over the next few years. Obviously, the introduction of a third pay scale a few months prior to the resumption of negotiations would serve as a very effective wedge to weaken the collective bargaining strength of the pilots. As to ALPA's proposal calling for a merge to parity by 3-31-88: Despite Pan Am employees gaining parity immediately, ALPA ultimately proposed this concessionary solution. Was this offer too expensive for management to accept? Consider that if all Frontier employee groups accepted the pilots concept for an eighteen month merge to parity with their UAL counterparts, the total savings in direct employee costs to management would have been $156 million. That savings would have exceeded the total purchase of price of Frontier by $10 million!!!!! We think that an offer that would have recouped United's total investment in eighteen months, plus a $10 million bonus, coupled with the fact that these employees and equipment would almost immediately be out generating revenue for a stronger United Airlines, is one hell of a deal for any manager. Yet,UAL management dismissed this offer as too expensive. Why?

Subsequent offers by ALPA which were immediately dismissed by management without discussion, made it more and more evident that management had another agenda, one far beyond the negotiating table.

**WHY THE DEAL FAILED**

It is the belief of the United pilots that the deal United management truly wanted did not fail! The agreement between People Express and United management consists of two distinct parts. One section called for the transfer of Frontier assets for a cash advance to a struggling People Express and the rest of the deal hinged on reaching successful accords with labor groups.

A clear understanding of this situation would explain why United management refused to progressively advance any counter proposals at the bargaining table. In the last week of July, the Denver City Council approved the transfer of Frontier's most valuable assets to United Airlines for the cash sum of approximately $56 million. Interestingly, because People Express' plight had become so acute, the Newark based carrier had also been willing to sell to United additional landing slots in Chicago and Washington, D.C., specifically, 154 PED slots at DCA, 212 PEX slots at ORD and 14 Britt slots at ORD. There was an additional slot sold to UAL that PEX evidently owned but did not operate. There is speculation that the airlines management did not know that it owned the slot until United offered to purchase it! These slots sell on the average of $250,000 each and are the life blood of airlines operating out of slot conrolled airports. The sale of the slots signaled just how critical the low cost carrier's position was. By delaying the complete purchase of Frontier, United stood the chance of not only removing Frontier from the picture in Denver but also severely crippling the "source" of many of the low cost fares across the country. With the asset transfer UAL controlled six FAL gates in DEN. The rest were sold to the city of Denver to speed the transfer of asset approval and also, to reach an accord with the city over a noise problem. UAL acquired eight FAL Boeing 737-200's, five slots in ORD, two MD-80 production line slots, two hangars in DEN where United will create a mid-continent aircraft maintenance center, assorted spare parts, three gates at DFW and five People Express 737-200s which will be leased back to PEX for $150,000 per month. PEX does have the right to buy these planes back as soon as can raise the cash. These are major assets that United truly was interested in.

All that remained of Frontier was a fleet of aircraft leased from other companies. Because of huge losses the Frontier name was being identified as a loser by the combined managements of PEX, UAL and FAL in the press. Travelers started to book away from Frontier as the rumors spread about its pending demise. United had won in court the right to a joint marketing agreement with the failing carrier. This agreement allowed United to move up FAL flights in the Apollo computer reservation system, thus creating a link in the minds of travel agents between the two carriers. Additionally, the computers told United everything it needed to know about future bookings on Frontier. The Frontier identity was almost gone!

The completion of the acqisition called for the transfer of over $80 million to People Express. The question now becomes, "For What!" Frontier had been all but eliminated with the transfer of assets. The money to be paid PEX would only go to aid that airline in restructuring its aircraft to try to appeal to business travelers. Naturally, United management did not want to aid People Express in its attempt to attract one of UAL staples, the business traveler that pays a premium for short notice travel. It was clearly United's desire to eliminate, not assist, PEX. Is the plan working? On September 5th, 1986 the ratings on all People Express debt was drastically lowered. The rating service noted the failure to secure a cash infusion from the failed United acquisiition of Frontier Airlines.

With the asset transfer complete, what was truly left for United to buy? Unfortunately, in the eyes of United management, nothing. Clearly, employees are not the concern of money managers.