

MEMORIES OF 3 DECADES

by Otto Smith

During mid 1980s and early 1990s, unprecedented events occurred in the airline industry. I called it "The Great Airline Consolidation of 1986." The event could also be called the Great Airline Melt Down of 1986. These events were caused by too much capacity, too much competition among mismanaged airlines run by overpaid employees and unqualified overpaid management. In the 80s, most major airlines were in deep financial trouble and were on the verge of bankruptcy. Both big New York banks and Wall Street were also exposed to big losses, if the epidemic continued and airlines failed. Several major airlines were considered too sick to recover.

In the early to mid '80s, the "NY financial army" seemed to declare war on their west coast airline customers. Continental and Western were two of their largest west coast customers, both were considered beyond financial help. In desperation, CO attempted to do their banking business with California based banks. The NY money machine jumped in with both feet. They were not about to lose control of any their airline customers to west coast banks.

The west coast airline clean up started with CO in the early '80s. Bob Six had over extended CO's money supply, route system and failed to repay loans...on time. Big NY money machine was not in any position to send CO more money. They called in Lorenzo and his Texas Air Corp. militia to "evaluate CO's situation." Texas Air management group had previous experience with the Texas International Airline mess. NY gave Texas Air Corp. priority on CO case. Texas International Air was directed to acquire and gained control of CO using the magical term "debtor in possession." During 1986, four west coast based airlines quickly came "under new management." A major realignment of the airline industry was needed. CO was controlled by Texas Air Corp, WA was merged into Delta. PSA was bought by USAir, AirCal was bought by American. In the Midwest, TWA also acquired Ozark in 1986. FL was only a small part of a much larger plan.

The last week of August (2016) has brought back many memories for me. If I remember correctly, on August 24, 3 decades ago, we witnessed the Chapter 7 filing that brought the sad end of Frontier Airlines. Since then, both time and CO have been good to me, personally. Sept 1, '86 was hire date with CO at their LAX HQ. However, the non rev DEN LAX commute was no fun. CO needed all the help they could get and they treated me well. After some persuasion on my part, I return to DEN in early Dec. '86. When I returned to DEN, I occupied my same FL office on the third floor...with my same phone #. I lost 19 years of FL "seniority" and "benefits" but gained a 16% salary increase. Many times during that Dec. of '86, the security guard and I were the only people in the entire building and hangar. It was very quiet with no sign of humans. At the time, CO had not received "blessing" from the bankruptcy judge and did not legally occupy any FL facilities. I was a squatter.

By moving back to DEN, I bet my job on CO winning their "law suit" against UA. I was happy that CO won that one. In late Dec and early Jan. 87, the name "Continental's Frontier" began appearing on fuselages of ex-FL planes. That was the first visible sign ...the war was over. Frontier's name was removed from the hangar, however, CO never replaced it with their name. I remained with CO in DEN until Jan. '95, when they closed the old FL hangar facility and my job was relocated to Houston. After 9 years with CO, I didn't chase the job and I was unemployed.

In late Jan. '87, BJ Blackerby, FL's flight sim engineer, was also hired by CO and returned to DEN from PSA. We were the first 2 newly hired CO employees legally working in the old FL hangar. Occasionally we saw each other in the empty hallways. It was a strange feeling ...like working in a very silent tomb. After Lorenzo won his law suit against UA, things changed fast. The old FL offices and hangar started a new life as CO property. In early spring of '87, CO's maintenance dept. moved in and quickly hired many new mechanics. By the summer of '87, FL's hangar facility was back operating at 100 % capacity and many offices were filling...without old FL employees.

NY banks and Wall Street had total control of the "Great Airline Consolidation of 1986." I followed their "maneuvering and shuffling of airline assets" closely. Lorenzo was a good soldier for the NY financial interests because he obeyed orders! In the late 60s. Wall Street and the NY money machine set up Texas Air Holdings in an effort to prevent Howard Hughes from gaining control of more airlines. Texas Air money could step in and "help" failing carriers from Hughes ownership. Early on, Lorenzo attempted to "get control" of TWA on his own, but he failed. He didn't know he was second in line for TW. Carl Icahn was one of Wall Streets biggest predators and he had first dibs on TW by a back door purchase of TW stock. However, Icahn never intended to operate the airline. He sold off assets and stole TW's over funded pension money. He quickly reduced TW to a boneless carcass.

When NY power brokers and Wall Street decided to kill off Eastern Airlines, they moved in fast. OOPS! EA's totally unqualified CEO, Frank Bormann, (ex astronaut) committed corporate suicide. He gave real EA stock to the employees, IAM and other union members. He was out so fast, he didn't say bye! That was the last rock to drop on EA. NY money machine called in Lorenzo to take over EA. He didn't want any part of EA, but now, he had no choice. NY told him EA was his to handle "any way" he wanted. He was given an ultimatum "clean up the Eastern Airline mess or else !"

NY "sweetened the deal." Lorenzo would get a package. That package included CO, EA, NYAir, People Express and FL. During the month of Sept '86, the airline world was shocked to learn of this unprecedented Wall Street's consolidation deal. Five failed and failing airlines fell under Frank Lorenzo's control within hours. Wall Street made sure United's Dick Ferris and PEX Don Burr would not be invited to the party. Both PEX and FL were already spoken for" and included in Lorenzo's package. "The Great Airline Consolidation of 1986" was proceeding as planned.

When FL's IAM union members did not obey Gerald O'Neill's order to surrender and take a pay cuts, O'Neill realized he had lost control. His vindictive mind set was to sell off FL's assets and part it out. From his past history with the Rubber Workers Union, that option probably would have happened regardless of IAM's position. O'Neill's plan would eliminate unions and separate FL employees ...people...from being included in any merger. O'Neill sale of FL to PEX was a non event. By that time, both FL and PEX were under Texas Air control.

O'Neill's B737 sale to UA deal included a special bonus...free UA paint jobs. After the sale of B737s, O'Neill sent a message to FLs IAM. FL IAM members stripped FLs name and logo and repainted the 737s with UA's paint scheme... while inside FLs hangar. UA did not buy the paint. This was done as an insult and show IAM who was boss. O'Neill got his revenge! O'Neill sold FL's MD-80 fleet and the newest B 737s to UA for less than market value. This sale of equipment was suppose "to give FL operating capital."

The sale of a public owned corporation assets for less than market value is a Federal crime. O'Neill hired Joe O'Gorman from UA as FL's new president. FL then leased back the MD-80 fleet from their biggest competitor for higher than market price. After Joe O (some would say) deliberately wrecked FL, the sky fell in. Joe O quickly returned back to UA and his previous job. Later, O'Gorman pulled the same con on another airline. He was hired as president by USAir and drove them to the edge of bankruptcy. After he was fired from USAir, again he returned back to UA.

FL was murdered by too many outside forces. However, FL's real problem came from not only outside but also from within. FL was the victim of an unqualified insane owner. It was Gerry O! Also, there was no real experienced airline management within FL. FL was raw meat on the floor of Wall Street and the NY vultures ate it for breakfast. There was money to be made by stock market manipulation and buying and selling of airline stock. Wall Street got their percent and made millions.

During a flight from SEA to DEN, Bill Wayne personally told me "Feldman, Ryland and himself were sent to in to close FL down." All three came to FL from Gen Corp's failed Aero Jet Nuclear Division in Sacramento. Wayne and I were seated side by side when Wayne told me this. It was as close to a face to face conversation as I wanted with him. The FL shut down info came directly from Wayne's mouth and a complete surprise to me. That info came before he had 3 consecutive Martinis. However, after Wayne's conversation, the Wall Street Journal ran several articles stating RKO and Gen Corp's planned to "spin off the plunging airline." With news like that and a vindictive owner like Gerry O, old FL was doomed. Gerry O NEVER planned to sell ANY of his companies to ANY employee group.

In 1985 Business Week mag had a short article about GenCorp during a rare interview with Gerry O. The subject of the article was about the upcoming Rubber Workers labor contract with GenCorp. The writer/reporter asked Gerry O a simple question "how's your negotiations with the Rubber Worker's Union going?" Gerry's answer was also simple, he said "I DON'T NEGOTIATE!" That's a direct quote from the printed article. For many years, Business Week Magazine annually rated best run US corporations. General Tire...later transformed into Gen Corp was consistently at the bottom of BWs list.

By the time Feldman was hired by Bob Six to be CO's president, it was too late! By that time, Wall Street had already given control of CO to Lorenzo because CO was flat broke. For some unknown reason, Feldman was slow to pick up. He "got the message" when Lorenzo sold Feldman's Saber Liner and fancy Mercedes. We know how that situation ended.

The source and much of the above information came to me from several old CO employees while I was working in LAX. Also Bob Olivas* added many inside details. Bob was Douglas's super salesman and "closer." I was told by others, "way back when, Don Douglas hired him." Bob and I became friends during his many trips to DEN. It was during the time of FL's MD-80 purchase. I furnished him and his staff detailed airport data and route info. Bob eventually convinced Ryland to buy MD-80s... if FL intended to serve SNA. The MD-80 purchase must have been a painful experience for Ryland because he only bought 3 aircraft in the original purchase.

After FL's demise, Bob became CO's sales rep. While I was working in LA, I met Bob by accident in CO's employee cafeteria. We had lunch together on several occasions during my time in LAX. During our lunch conversations, I learned many details of the industry and found them to be astoundingly complete. His knowledge of the industry convinced me he was also a big part of its history. His knowledge of the airline business was well beyond my comprehension. His comments filled in many blanks and his info dove-tailed perfectly with what I remembered as historical facts. It was good to see an old friend when you're a long way from home.

During the "Great Airline Consolidation", three airlines were targeted and totally killed off. They were EA, PAN AM, and FL. By design, these airlines were "dead ended." Their employees were forced out the door and separated from company assets. If these employees wanted to remain in the airline business, they were new hires at the bottom and required to start over. What a great business we were in?

*I cant confirm that Bob was hired by Donald Douglas, maybe its part of his legend. I know Bob was an old time Douglas employee and top salesman ...over 30 + years with them. Bob was involved with most Douglas sales world wide and he was known as "The Closer." He had an unusual memory for names, dates and details that fit the "inside business" facts. He filled in too many blanks on my side of the FL disaster to not have been knowledgeable of big \$ side of the business.

-0-

(Otto was an engineer who worked in the Flight Operations Department as an Aircraft Performance Analyst.)