

By Howard Silber, World-Herald Staff Writer, August 5, 1985

Denver - Frontier Airlines may have blundered when it stopped serving Grand Island, North Platte and Scottsbluff, Neb., and 19 other cities last fall, the company's new president said.

Joseph J. O'Gorman, 42, faces the task of directing the recovery of the distressed airline. Frontier lost \$44.9 million in 1983 and 1984 after a five year period in which it reported net earnings of \$163 million.

He said the airline was transformed from a winner to a loser by mistakes and a variety of other circumstances. Most of those circumstances reflect Frontier's troubles in coping with the open market resulting from air transportation deregulation, he said.

O'Gorman said he plans to re-examine the potential for restored Frontier service in some of the 22 cities that were removed from the route system in October. "There were cities we pulled out of that we shouldn't have," he said in an interview. "We are reassessing a lot of those things as well as other opportunities."

"If some city looks like it's got the traffic and the yield that would justify putting service in, we'll do it. But before we do, we've got to get some profitable time under our belt. We've got to strengthen what we've got now."

O'Gorman has been working to keep Frontier alive since he arrived in Denver April 25 after putting Aloha Airlines on a profitable course. He was president and chief executive of the Hawaii company for two years. Previously he served three years as senior vice president of Air Cal, a large West Coast regional airline.

When O'Gorman reached Denver - where he had once worked for United Airlines as passenger services manager before becoming a United vice president - Frontier was floundering. The Wall Street Journal had suggested the company might fail. The airline reported a \$14.2 million loss in the first quarter of 1985.

RKO Enterprises, a subsidiary of GenCorp of Akron, Ohio, had been trying for 16 months to sell its 45 percent interest in the airline. M.C. Lund had resigned after five months as Frontier president. He blamed differences with the RKO-controlled board.

Lund had not been successful in moving ahead with an employee buy-out plan. Negotiations with Texas Air Corp., which controls arch-rival Continental Airlines and wanted to acquire Frontier, had broken off.

Fearing that a bankruptcy of Frontier would leave them holding worthless tickets, frequent fliers were jumping ship. The situation was bleak.

In the four ensuing months, O'Gorman and four of the five unions of Frontier employees have made enormous progress toward salvaging the airline and returning it to a competitive stance, said Art Ammann, research director of Boettcher & Co., Denver based investment firm.

"Frontier is reorganizing, and there is a high probability that the employee stock ownership program will be a done deal before the end-of-the year," Ammann said.

Under the plan members of the Air Line Pilots Association, Association of Flight Attendants, Air Line Employees Association and Transport Worker's Union - some 3,300 of Frontier's 4,150 union employees -- will acquire about 80 percent of the company's stock.

The remaining union, the International Association of Machinists, is still discussing the plan with Frontier officials.

Non-union employees will be able to buy up to 10 percent of the stock, and management officials will be entitled to stock options for the remaining 10 percent.

The four participating unions agreed to pay cuts and changes in work restrictions that O'Gorman said will result in annual operating cost reductions of \$32 million.

Lorraine Loflin, spokeswoman for the flight attendants, said her union agreed to work at least 10 additional hours a month and take a 10 percent pay cut.

The annual pay of a senior captain will drop from \$94,000 to \$62,000 the Air Line Pilots Association said.

Frontier sold 25 of its 51 Boeing 737 jetliners to United Airlines for \$265 million. Much of the money will be used to buyout the company's publicly held stock. The remainder will be applied to the company debt.

Frontier will replace the 737s with leased aircraft - other 737s and larger McDonnell Douglas MD-80s, O'Gorman said.

"The whole crux of running an airline comes down to how your costs compare with that of the other guy and whether or not you can produce sufficient revenue," he said.

"I think that with what we've done in putting this (employee) buy-out together, we have costs as low as anybody's in the industry. People Express and some of the other upstarts in the industry might have lower costs, but we're not really competing against them."

Frontier is competing mainly against United and Continental. Both have extensive hub operations at Denver, Frontier's only hub. Frontier's inability to compete with them in the past two or three years had much to do with its troubles, O'Gorman said.

"A lot of things came to a head almost simultaneously. United became very aggressive here. United is big and powerful. They are the major competitor here."

"Then Continental emerged as a low-cost carrier. Virtually overnight Frontier had to drop its fares to compete with Continental. Continental had ousted its unions and had substantially lower costs than Frontier."

"When you've got those two things happening in a city (Denver) on which you are almost totally dependent, you've got some very serious problems," O'Gorman said.

United and Continental "have virtually unlimited resources," he said. "If we tried to compete head-on with them all the time and in every place they could drive us out of business."

"We're not going to do that, We will bob and weave and stay out of their way. What we can do effectively we will do, and when we can't, we'll do our own thing. If we're careful enough, we can make it work."

O'Gorman said Frontier hopes to attract passengers by emphasizing on-time performance, providing better cabin service, possibly upgrading food quality and adding first-class sections. It has been a coach-class airline for years. "Our goal," he said, is a consistent level of quality service."

"We're increasing our advertising. It will be better advertising, and we'll put it in cities other than Denver, where we've tended to concentrate it in the past. We are going to have aggressive marketing programs."

Will O'Gorman's plans work? They might, replied financial analyst Ammann. "How successful Frontier will be might be a function of how many more concessions the employees are willing to make."

"If there is no recessionary period soon, Frontier can become a successful quality airline again. If there is, the employees might have to make more concessions."

Ms. Loflin, the flight attendants' spokeswoman, said the \$32 million in employee concessions "are not the end, but a start. There can be more savings. Four labor groups have made concessions. There is the fifth (the Machinists union) to be heard from."

Financial analysts "are going to see the company turn around because the employees want it that way," she said. "We have succeeded in preserving Frontier Airlines."