

Is Big Daddy Really Back?

*Insiders are wondering if Muse Air should be called 'Revenge Airways',
but the real question is whether Lamar Muse can perform monetary magic once again.*

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The man they call "Big Daddy knew he had big trouble when John D. Murchison wouldn't look up at him. Lamar Muse's ice blue eyes have a way of probing, searching the eyes of adversaries and allies alike, looking for a cue or a sign- something that will aid him in the scores of little personal conquests that make up his average business day. Today was no different.

Muse was in the midst of a power play: the old resignation trick. This gray-haired golden boy of the airline industry had tendered his resignation to the Southwest Airlines board of directors with total confidence that the board would decline it and then sever one of its members, Southwest co-founder Rollin W. King. Muse had decided he had simply had enough of this cocky Mr. King. And Big Daddy had decided to play a little hardball and put King out of the picture once and for all. He had laid the groundwork for the power play by telling John Murchison, son of fabled oilman Clint Murchison Sr. and one of the principal bankrollers of Southwest Airlines, that he was submitting his resignation as a test of his own strength and power with the board. He assumed that acceptance of his resignation would be out of the question. After all, Muse was the man who, as president and chief executive officer, had turned Southwest into one of the biggest financial success stories in the history of modern aviation.

He had fought Southwest's battles, fending off the other airlines and the politicians as well, and had turned this commuter service into a monetary mother lode. Muse had made the men who gathered around that large wooden boardroom table on March 28, 1978, one hell of a lot richer than they had been before they met him. And he knew it. And he knew they knew it, too. That's why he assumed that their decision not to accept his resignation would be perfunctory.

Big Daddy figured the board members would throw themselves at his wing-tip-shod feet; he would accept their apologies and then dispatch Rollin King from the board room and that would be the end of that. But when Muse walked into the board room that day and saw Murchison staring somberly down at the table, he knew it was the end of something else: his career with Southwest Airlines.

"The first order of business," Murchison announced as soon as everyone was seated, "is to accept this resignation." Muse didn't bother to stay for the vote. He bolted from his chair and stormed out of the room, mumbling profanities about the men who had done him in. And although he won't admit it, deep within him he knew he would be back. This is only round one, he told himself; the fight's not over yet.

TO THIS DAY, when Muse speaks of that board - men who were his friends and business associates, men whom he helped appoint to the board, men who shared his conservative philosophy -he speaks of them in harsh tones. Expletives boom forth like the roar of jet engines. There are certain choice phrases reserved for Murchison.

Indeed, hadn't it been Lamar Muse who was the very essence of Southwest's success? Weren't Lamar Muse and Southwest inseparable? Hadn't they melded into one? Hadn't it been his financial genius that had made the company one of the most profitable in aviation history? Hadn't the board said he was the perfect man for the job? Hadn't he worked his buns off during the last seven years? And in only a few minutes, it had all dissolved.

The fabric of which Southwest was woven had begun to unravel years ago, in fact, only a short while after Muse signed on as president and chief executive officer in early 1971. Muse believes that King became vindictive toward him almost immediately after he took control of the company.

It had been Rollin King, a Harvard Business School graduate and member of a wealthy Midwestern family, who had come up with the idea in 1966 to serve Dallas, Houston and San Antonio with an intrastate air service. He had approached longtime buddy Herbert Kelleher (an honors graduate in law from New York University) about his idea, but Kelleher had only laughed. He thought his old buddy King might even be a bit loco. But Kelleher thought about it and realized that bigger things had been spawned from crazier ideas. So, on the Ides of March in 1967, the two men (along with now-deceased John Peace) incorporated a company named Air Southwest.

King gathered his investors from high places, men of political and economic clout, like John D. Murchison, George Brown, Dolph Briscoe, Robert Strauss and Jake Jacobsen. In all, almost half a million dollars was raised between 1967 and 1969.

When push came to shove 10 years later, it would be things like money and prestige and clout that sent shivers of discord through the brass at Southwest. Although they sold love to the public, all was not love behind closed board-room doors. Theories abound as to the reasons for the rift. There are five recurring themes: (1) Muse and King simply couldn't stand each other, (2) Muse was too ambitious and too quickly wanted to expand Southwest into the Chicago market, (3) Muse was empire-building by paving the way for his son, Michael Muse, as eventual Southwest president, (4) the Southwest board had grown too fat and complacent with success, and (5) King and/or Kelleher wanted managerial control of their airline. A combination of those reasons is probably behind the feud.

In any case, the split between Muse and King was obvious; it seems many of the other troubles sprang from that rift. A confidential memo from King to Muse in 1978 illustrates some of the feelings between the men. It reads: "Since you weren't around until late 1970, I guess I ought to forgive your misstatement of the facts about raising money before then. However, since you combined it with a misstatement about what came after, I judge it was meant to insult me, which it did."

King was referring to a position taken by Muse that he had been the principal capital-raiser for Southwest. Muse responded to King with the following: "No insult intended...just stating the facts... hope you enjoy your winter vacation." Then, written in longhand, but later crossed out and not included in the official memo, Muse added: "Except for one-half million dollars raised in 1968, every dollar of financing provided for Southwest has been raised personally by me."

Southwest had become a contest of egos in an industry that spawns histories and reputations that take on a bigger-than-life proportion. Observers say, too, that Muse had gotten too much media treatment, treatment that made him appear as a founder -if not the founder -of Southwest, something that particularly grated on King's nerves. As counsel, Kelleher was in the limelight often enough in court.

The rift between Muse and King widened. Muse had devised an elaborate plan to move into the Chicago area, and start a new airline that would be named Midway Air. It would be fashioned, of course, after the two-tiered fare structure made so successful in Texas. King preferred a more cautious approach to Chicago, if at all. He chided Muse for committing the company and stockholders to what might mean an \$80 million indebtedness for the venture.

Muse's plan was this: He would be made chairman of the board, president and chief executive officer of Midway Air. He would move to Chicago for two years to get the company on stream and making a profit. Then, in 1981, Michael Muse (who then would be 32 years old) would move to Chicago as president of Midway. In the meantime, Michael would be elevated to a senior vice presidency at Southwest. Then, with Michael in Chicago, Lamar would return to Dallas as chairman of the board of the holding company that owned both airlines. An important element to the plan, which Muse had been negotiating in extreme secrecy, included hiring Dallas City Manager George Schrader away from the city and placing him at the head of Southwest Air. Then, when Muse returned to Dallas, Schrader would move up as president and chief executive officer of the holding company.

Of course, after Muse lost the showdown in 1978, nothing was made public of Schrader's intentions. (He has since left City Hall for private business.) Another incident that piqued King's wrath was Muse's decision to place \$150,000 as deposit on possible purchase of six airplanes from Boeing. King voiced strong fears that Muse had committed the company to purchase \$60 million worth of airplanes. Muse had to turn to Paul Y. Seligson, an aviation expert with Wilner & Scheiner law offices in Washington, to assuage King's fears and explain that the deposit was refundable and did not commit the company to purchase. King was concerned that the board had compromised. "I can understand Rollin's concern that the board's freedom of action not be compromised," Seligson wrote. "I do not think the filing of this material with the CAB [Civil Aeronautics Board] has done so."

One accusation led to another. Charge led to countercharge. When the showdown at last occurred, the lines had been drawn. Muse felt that he had been double-crossed. He had told Murchison things in confidence, but apparently Murchison had told others. The other board members present on Muse's Resignation Day were Gene Bishop, chairman of the board and chief executive officer of Mercantile Texas Corp.; Samuel E. Barshop, chairman of the board and president of LaQuinta Motor Inns Inc. of San Antonio; and Sidney Adger, senior vice president of Milchem Inc. of Houston. Kelleher would resign that day, too, but it would be only a formality; he would take over as interim president and chief executive officer until Muse's successor could be found.

Muse came away bitter with the whole board, but especially bitter toward Murchison. "Hell, I knew ol' John and Rollin socialized, but I didn't know he would do anything Rollin told him. . .the bastard."

In 1970, Lamar Muse had retired from the aviation industry and had gone to live in Conroe, just outside Houston. But he was only 50 at the time and agrees that he wasn't quite ready for pasture. He had, however, put in about 25 years of grueling work as mastermind of the financial success of four different airlines in New York, Atlanta, Dallas and Detroit. He was reading a newspaper in 1970 when he noticed an advertisement for a littleknown carrier in San Antonio that was seeking a president and chief executive

officer of its airline operation. He responded. That was when he first met Rollin King. But times were better then, and King told Muse that he and Kelleher had heard of his successes and had been looking for a man of his stature to run Southwest.

Southwest had a three-plane fleet at that time, and in January 1971, when Muse took the helm, the company was far from operating in the black. Through its private investments and public stock offerings, the company had raised about \$7 million by late 1971, but the airline was still losing millions of dollars. The situation was grim. Then Southwest had a bright idea: It reopened Houston Hobby Airport to air service, reasoning that its close-in location would attract travelers away from Houston Intercontinental, an expensive taxi ride some 20 miles from town. Traffic increased overnight.

Southwest, of course, had been flying to Dallas Love Field, a little matter that didn't set well with Braniff and Texas International. All other airlines had agreed in 1968 to move from Love to Dallas/Fort Worth. Southwest, because it did not even exist in 1968, had never signed such a contract and could never be held legally accountable despite numerous efforts from competitors and the cities of Dallas and Fort Worth. Even the powerful congressman Jim Wright attempted to legislate the tiny Southwest into landing at D/FW. The D/FW Regional Airport Board and the cities of Dallas and Fort Worth sued Southwest to force it to move to D/FW. All those efforts failed, but the uproar over Southwest's landing at Love Field would continue in and out of court until 1977. The arguments continue even today, but, as Muse has said, "As long as Dallas Love Field remains open, they'll never run Southwest off."

Southwest's initial \$20 one-way fare did not go unnoticed by Braniff and Texas International. In October 1972, Southwest introduced night flights at half-fare, which at that time meant \$13 one-way, or \$25 round-trip any time after 7:59 p.m. and all day Saturday and Sunday. Again, Braniff and TIA watched with raised eyebrows.

Then, on Feb. 1, 1973, Braniff began what has come to be called the \$13 War when it reduced its prices between Dallas and Houston. Braniff bought full-page ads in Dallas newspapers heralding the get-acquainted sale that would fly Braniff passengers between Dallas and Houston for \$13. The object, of course, was to put Southwest out of business. Braniff, with a bigger system and revenues from other routes, could absorb a loss on the Dallas-Houston route.

But Muse and Southwest fought back. "That's when we came up with the slogan: 'Nobody's going to shoot Southwest Airlines out of the sky for a lousy \$13,'" Muse recalls. "I decided we had to make this Braniff's fatal mistake. We had to turn it around on them. We had to make Braniff look like the predator."

If public sympathy is what Southwest sought, sympathy is what it got. Passenger service increased to record numbers. And to fatten the kitty, Southwest offered complimentary fifths of Chivas Regal Scotch or Crown Royal Canadian Whiskey to imbibing passengers and leather ice buckets to those disinclined to drink.

Of all the crises that Southwest would face during the first 10 years, the war over landing at Love Field probably brought the loudest cries. Dallas and Fort Worth had argued for years over a compromise airport. It was decided that the best solution was to go out to the farm lands near Grapevine and begin laying concrete. In so doing in 1968, the cities had the airlines sign the Regional Airport Concurrent Bond Ordinance that, at least, required carriers certified by the Civil Aeronautics Board to leave Love Field (Dallas) and Greater Southwest (Fort Worth) for D/FW. Obviously, the airport board was thinking of lucrative landing fees to help retire astronomical bonds. As an intra-state, short-haul airline, however, Southwest was not required to be certified by the CAB. Kelleher and King and Muse were smart enough to know that their carrier would fail if they didn't use innercity landing strips. They ignored D/FW.

Southwest's Love Field usage enraged the major carriers. Naturally the CAB carriers saw Southwest as a threat to their own revenues. It is a long, long story, the story about the battle over Love Field. It involves six-digit figures in legal fees, days and weeks and months -ultimately years -of litigation, and it captured a massive number of newspaper headlines and television stories. Much of the arguing, too, took place long before D/FW even opened in 1975. And there would be similar disputes over Southwest's landing in the Rio Grande Valley. Seemingly, Southwest would stay in the courts forever. And in the meantime, Muse and Southwest would become embroiled in the national debate over deregulation of the airlines industry; Muse was a forceful and persuasive advocate of deregulation.

Now, 10 years after its maiden flight, Southwest boasts the highest operating profit of any domestic air carrier. It has grown from being, initially, the employer of 225 to being the creator of more than 1,900 jobs and has returned more than \$38 million to its employees through a profit-sharing plan that was originated by Lamar Muse.

Statistics show that Southwest's 1980 operating income increased 68.5 percent over 1979, which, in turn, had represented a 37.2 percent increase over 1978. Revenues in 1980 were up 56.5 percent to \$213 million from the previous year. Earnings per share,

adjusted for splits, rose by 64.4 percent from \$2.47 in 1979 to \$4.06 in 1980. Southwest's fleet increased from three planes in 1971 to 25 planes in 1981, and the daily passenger load for the same time frame jumped from 150 to 15,000. Almost six million passengers boarded in 1980.

The fact that its average fare per passenger in 1980 was \$34.18 attests to a theory Muse has long maintained -if properly run, a short-haul airline can be competitive with the automobile. "If you could make a savings available to the passenger at costs comparable to driving his car, and save him 50 to 75 percent of his en route time, you have got yourself a customer. We proved that beyond a shadow of a doubt," Muse says. "What it took to develop this kind of traffic was the willingness to experiment boldly. We had to bring the price down enough to attract the people who did not travel at all, or who wasted fuel by going in their own cars. We could not do this by cutting prices 15 to 20 percent, but when we cut them 40 to 50 percent we gained enough new business to make money at it."

When Muse arrived at Southwest, he certainly was no novice. He had mastered the business through hard work and long hours. Trained in college to be an accountant-although he never finished college and does not have a degree -he accepted the challenge from Trans Texas Airways (now Texas International Airlines) in 1948 to become secretary-treasurer and later chief financial officer for that fledgling company. He stayed with TIA for 12 years, long enough to see the company begin to grow.

Muse left TIA and Texas for the world headquarters of American Airlines in New York City. There, the small-town boy from Palestine served as assistant vice president of corporate planning. But even living in Houston had not prepared Muse for the big-city life of New York. He grew extremely weary of commuting the three-hour round-trip required to get from his home in Westport, Conn., to his office in New York City and back. He suffered such conditions for two years.

Then in 1962, after a short return to Texas, he moved to Atlanta, where he was vice president and chief financial officer at Southern Airways, which would later merge with Republic Airways. While in Atlanta he met another Texan, a man named Jack Bradford. Bradford, it seemed, was the main stockholder in a Dallas/Fort Worth-based regional carrier named Central Airlines. Bradford wanted Muse to run his airline. Muse was interested in coming west toward home. They struck a deal. In May 1965, Muse became president and chief executive officer of Central Airlines and remained in that capacity until 1967, when Central merged with Frontier Airlines. Next he was off to Michigan and the challenge that awaited him at Universal Airlines in Detroit.

Universal was in a tailspin, dangerously close to economic and financial catastrophe. It had been losing millions of dollars. But Muse had nearly 20 years in the industry when he moved to Detroit. He took with him his own form of magic, the financial genius and business patterns that had already been tested in fire. And after being in Detroit only one year, he had Universal showing a \$2.8 million profit. By the next year, 1970, Universal would show a \$4.5 million profit. Muse, as president and chief executive officer, had engineered a master stroke, an almost unbelievable turnaround in only three years.

Muse was convinced Universal would go on to bigger and greater things. Already the corporation was the nation's largest cargo carrier, maintaining a fleet of 80 airplanes for serving the automotive industry. Then, as Muse tells it, Universal's owners got the itch to buy aviation's newest, hottest item -the Boeing 747. Muse viewed the wide-bodied jumbo jet as a sort of dinosaur in the sky, a mammoth metallic beast that was too big and too expensive for Universal. Not so, said the owners, and an ensuing disagreement sent Muse packing his bags.

"I told them they would buy that plane over my dead body," Muse says. "And it was shortly after I said that that I took my first retirement." Muse says his opposition to the plane was not without sound reasoning. "I was against the 747 because on a seat-per-mile cost basis it was much more expensive than the DC-6s we were using. The 747 seated 474 passengers, while a DC-6 seats 251. It is hard enough to get 250 people together at any one time to go to any one place. There just was no economic advantage to the 747."

Universal's owners decided to buy the plane anyway, so Muse returned to Texas once again. He hadn't completely settled into his retirement routine in Conroe when he heard Universal had filed bankruptcy. "That family that owned Universal really got its plow cleaned, too. They had personally signed the notes, and the bank took everything they had. I really felt sorry for those people."

After Universal, Muse would go on to the really big years at Southwest, and when he resigned he was ready for retirement the second time around. "I have thoroughly enjoyed it," he says. "Barbara [his wife] and I would wake up in the morning with nothing to do and go to bed at night with only half of it done."

Indeed, Muse has been having a good time since 1978. He and second wife Barbara (first wife Juanice died of cancer in 1974) have taken motorcycle trips down the isolated desert of Baja California and into the chilly mountains of the Pacific Northwest. Lamar bought himself a \$200,000 ocean-going pleasure cruiser that he and Barbara plan to pilot up the Alaskan coast next summer. He enjoys working at his 50-acre farm near Franks-ton, only about 20 miles from his boyhood home.

Lamar Muse has come a long way since his youth in the sleepy East Texas town of Palestine, seat of Anderson County. He was born June 4, 1920, the son of Nan Urquhart and Hiram Marion Muse, each of Scottish/Irish extraction. His father - "a good, soft-hearted, frugal man whom I loved very much" - was a locomotive engineer who drove the Sunshine-Special from Palestine to Houston and back every other day. His mother stayed at home and raised young Marion Lamar and his brother and sister. He never took a shining to his first name, and as an adult abbreviated it with the initial M.

Although he stands a solid 6 foot 2 inches tall, he never cared much for football or basketball, but had a love affair with music. He was swept up in the Big Band craze of his youth, and he and high school buddy Hal Holland would take off on cross-country railroad trips to hear name bands. "Shoot, I learned to dance at the Palomar listening to Benny Goodman," Muse says.

Lamar and Hal even formed a high school dance band called The Texans. Lamar played saxophone and Hal played trumpet. Lamar and Hal Holland have stayed close through the years since the band days. They frequently went on double dates together and attended Southwestern University together. Holland recently flew the cream-colored Muse Air Super 80 to Dallas to spend a weekend with Lamar at Lake Palestine.

"I can't really think of anything in our pasts that would have indicated where Lamar would be today," says Holland, a geologist with a Houston oil firm. "I don't suppose either one of us ever thought about it much. I know we never talked about airplanes; airplanes didn't play much of a part in anybody's life back in those days. No, I don't even remember Lamar ever saying he had a burning desire to be rich either. The one thing we did talk about, though, was music. We loved music. Our high school grades even suffered somewhat because of our interest in music. While others were in study hall, we were composing music for the next dance. Music was our main interest."

As it turned out, Lamar and Hal were each offered music scholarships to attend Southwestern University in Georgetown. Otherwise, as Hal recalls, neither of them had even thought about college. It was at Southwestern that Lamar would take an accounting course, which would set him off on a 30-year career in aviation.

Muse contends it was pure happenstance that got him into aviation. He further contends that had it not been for the president of Southwestern, who helped persuade Lamar to attend college, he might not have ever been exposed to accounting. As it turned out, it was his job as a finance officer at the old Trans Texas that got Muse his first aviation job. "I suppose Lamar really found his niche in the airline business. He has done a lot more than any of us expected. He has done well," Holland says.

Had fate taken any different twists during his lifetime, Muse would not have recently been seated in his high-backed Rom Weber office chair, at his desk, in his office on the sixth floor of Executive Inn on Mockingbird, reading in-plane commentary cards aptly called Muse Notes.

Holding up a stack of cards, he says, "The only way an executive can know what's going on in his company is to see the customer complaints and to sign all the general account checks." So far, he says, passenger complaints aboard Muse Air's two DC-9 Super 80 aircraft have been minimal. "Here's one fella' who says he couldn't live with the no-smoking rule so he says he'll have to fly with someone else."

Yes, Lamar, or - as he has been portrayed in a million-dollar advertising campaign, Big Daddy - appears to be back. The man who brought you Southwest Airlines, the man who did great things to Universal, Central, Southern, American and Texas International -he's back. But this time it's different. Lamar Muse is the boss. He is the chairman of the board. He doesn't have to answer to anyone except himself, and that's okay because he knows the airline business as well as anybody on Earth. Although son Michael founded the corporation and is its president and chief operating officer, father Lamar is the guiding hand behind the scenes, always ready to pull a string or two if need be.

"I told him that to begin with, he would have to do all the work and I would have to have all the fun," Muse says. The big question, of course, is whether Muse Air can make a success of itself during a time of economic strife when other airlines are on the brink of going under.

Even though Muse Air stock is considered a high risk, the overall consensus of the investment community is that since Muse has done it before, he's a safe bet to do it again. "Lamar Muse has a great track record," says Jerry Caddell of Eppler, Guerin & Turner Inc. "He has learned what to do and what not to do. He has experience with bankers and investors, and even in investments you learn to go with a winner."

The critical juncture in Muse Air's success or failure is in reaching a break-even load factor. (Load factor is airline jargon for the

percentage of paid seats above cost on average flights.) In Muse Air's case, on a 155-seat plane, the load factor breakeven point is 48 to 49 percent, or 74 of 155 seats. Flight statistics for September, which is the new company's second full month of operation, showed a 33 percent load factor, up from 26 percent in August.

How is it that Lamar and Michael Muse have put two jets in the skies when during the past 30 to 40 years only a handful of such companies have opened for business? Well, for one, Lamar Muse might have made a lot of people rich at Southwest, but he also made a sizable fortune himself. He says he made his first million by 1976. Even though his salary was not the astronomical sum other airline presidents are paid - Lamar's salary was about \$65,000 when he resigned - it would be an understatement to say he did well on the sale of stocks that he had accumulated over the years. Lamar and Michael amassed such a large fortune through Southwest that they were able to put up about a half-million of their own dollars to get Muse Air off the ground.

The capital to start Muse Air was acquired through the sale of 2.2 million shares of stock and 1.1 million stock warrants. At \$17.50 per share, the stock raised almost \$40 million. After expenses, Muse Air received \$35,306,245 from E.F. Hutton, the stock's underwriter.

Elliott Bradley, vice president of E.F. Hutton, says Muse Air represents something very unusual in the investments world in that Hutton underwrote the stock offering even though Muse Air had no history of operation, no earnings, no revenue -not even a plane in the air. (The offerings were made on April 30; the first Muse craft took to the sky on July 15.)

Muse's philosophy is that it's better to keep planes in the air at lower fares than on the ground and out of productive service because of higher fares - and that's the factor he's betting on to capture part of the million-passenger per year Dallas-Houston market.

During a speech to Dallas graduates of the Harvard School of Business, Muse was asked about the low-fare pricing structure at Muse Air. What would he do if Southwest should reduce its Dallas-Houston fares, as in the \$13 War? Muse thought for a moment, then said, "Well, the worst thing Southwest could do to us would be to do something stupid. They should, to the maximum extent possible, ignore us. And to help them do that, we came into the market with comparable prices. Yes, they could kill us off. They could charge \$1 if they wanted to."

He paused a moment, then added: "And we'd match 'em too, fare for fare. We'd have to."