

# Air battle takes to the skies

## Cascade, Horizon struggle for Northwest passengers

By NORMAN THORPE  
Staff writer

The publisher of The Moscow Idahonian was landing at Pasco airport on Cascade Airways or Horizon Air a while back when he thought he heard an airplane tire blow.

But after he entered the terminal, more passengers were boarded and the tire was ignored.

Finally the publisher, James E. "Jay" Shelledy, walked back out to the plane and told the ground crew. They looked at the tire, then tapped on the pilot's window and had passengers deplane so the blowout could be repaired.

Shelledy won't name the airline involved, saying it could have been either.

"Both airlines try hard and both do an awfully good job," he said. "But, anybody who flies Cascade or Horizon has an arsenal of war stories to tell."

More war stories can be told by top executives of Cascade and Horizon, who are locked in relentless battle for business between the state capitals, commercial centers and county seats of the Northwest.

In the war, upstart Horizon Air, founded in Seattle just four years ago, is the aggressor. It has grown rapidly, partly through acquisitions, and already boards nearly twice as many passengers as Cascade.

Spokane-based Cascade, 16 years old, has had to shake off a conservative past to meet the competition. Thus far, it is managing to do that, and to keep growing. But it can't afford to lose any ground.

The two carriers operate from adjacent counters at many airports, and competition is intense. When Horizon offered passengers free coffee and newspapers before boarding, Cascade matched it. When Horizon joined bigger carriers to offer new advance purchase fares, Cascade did, too.

If either airline reschedules a flight, the other reschedules to leave a couple minutes earlier. And if one acquires larger planes, or jets, the other follows suit.

"I would never want to compete against Horizon, because I know our potential," said Milton G. Kuoft II (pronounced coft), Horizon's chairman, president and chief executive officer.

But, "We enjoy the competition. We think it's made a hell of a lot better airline out of Cascade. We haven't hurt them — we like to think we have helped them."

Cascade chairman, president and chief executive Mark M. Chestnut sharply disagreed: "It's obviously reduced our traffic," he said. "We're bleeding each other in what it amounts to."

But he's not giving up. Each airline is trying to fly circles around the other.

Both have rapidly expanded service, adding new Northwest destinations and increasing the fre-

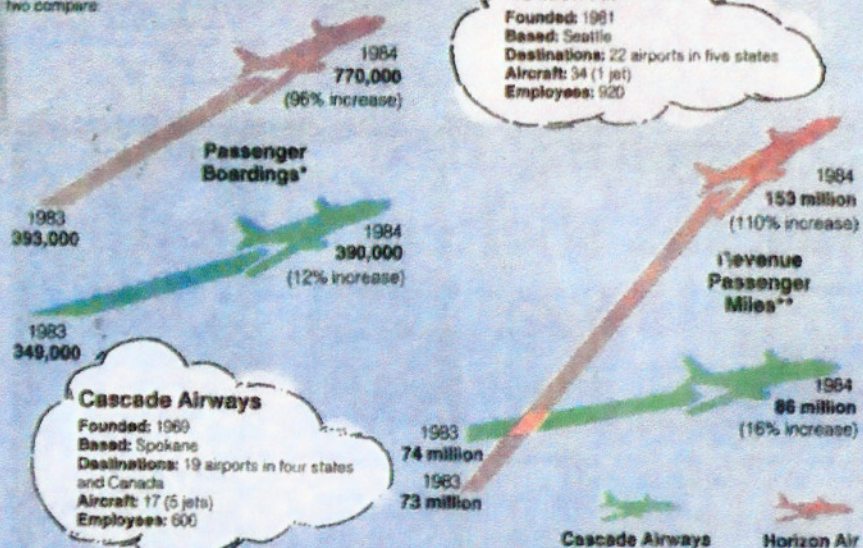


### HORIZON AIR VS. CASCADE AIRWAYS: A COMPARISON

There are two major commuter airlines serving the Inland Empire: Horizon Air and Cascade Airways. Here are how the two compare:

#### Horizon Air

Founded: 1981  
Based: Seattle  
Destinations: 22 airports in five states  
Aircraft: 34 (1 jet)  
Employees: 920



#### Cascade Airways

Founded: 1969  
Based: Spokane  
Destinations: 19 airports in four states and Canada  
Aircraft: 17 (5 jets)  
Employees: 600

quency of flights. Cascade recently opened service to Eugene and Medford, Ore., and resumed service to Olympia, while Horizon added service to Wenatchee and Moses Lake.

Both have also expanded beyond the Northwest — Horizon to southern Idaho and Utah; and Cascade in Montana and to Calgary, Alberta, where it fought Alaska Airlines to win permanent rights to the Canadian destination.

Cascade and Horizon battled each other for Civil Aeronautics Board approval to fly an Oregon-to-San Francisco route; Horizon won, then added a San Francisco-San Valley route.

They vigorously underbid each other for the right to fly to certain towns where air service receives federal subsidies.

Both started flying jets on some routes last year — to compete against bigger carriers and each other — and each claims it thought of the idea first.

And they compete on simpler levels such as awarding free flights to frequent flyers, and booking cargo and package express business.

One wouldn't guess it from the rivalry, but only two years ago these combatants discussed merging, to create one strong regional carrier that could

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\* Passenger Boardings show total number of paying passengers the airlines carried.

\*\* Revenue Passenger Miles show the total miles paying passengers were carried. One passenger carried one mile is one revenue passenger mile.

SOURCES: Cascade Airways and Horizon Air



dominate the local market.

But the merger fell through and the company presidents now discuss each other like spurned suitors.

"I like Chestnutt, but he doesn't like me — he's a scrapper," said Horizon's Kuolt.

Chestnutt responded, "He always says that. I'm sure he doesn't really like me and I don't really like him — but I don't have any animosity toward him."

Kuolt, who initiated the merger talks, said he backed out of the wedding because he didn't want to assume the debts of \$13 million or \$14 million that Cascade was carrying on some of its airplanes.

"Our whole fleet is valued at \$13 to \$14 million," he said. He tried to have Cascade's debt restructured, but failed, so the merger was off.

"That's a copout," Chestnutt said. "Before they ever proposed the merger they knew exactly what our debt structure was."

The problem, he said, was that Horizon proposed a buyout at a certain price, "but when it came down to it they couldn't come up with the money."

"We had the cash," Kuolt said. Another factor, he said, is that Cascade would have been merged into Horizon, making Horizon the surviving company.

"I think they had a problem with that," he said.

"But in retrospect, I think it's good to have two airlines," Kuolt said. "I think we can learn from each other."

There's plenty of room for that. For about all the two men have in common, in addition to founding airlines, is that they both wear mustaches and worried how their photographs would appear with this article.

Kuolt is a flamboyant 57-year-old who donned a hard hat and climbed on a bulldozer to break ground for the company's new headquarters.

A graduate of Central Washington University, he helped manage Boeing Co.'s 737 aircraft program and then left Boeing to found a highly successful Seattle-based recreation company, Thousand Trails Inc.

He took Horizon public in a stock offering last year, raising \$3.9 million to help the fledgling company expand. But Kuolt still holds about 55 percent of the stock.

He preens the company's feathers to promote its image, building a 45,000-square-foot headquarters for it last year south of Seattle-Tacoma International Airport. Kuolt owns the building and rents it to the company for \$436,000 a year, but Horizon will sublease some of it to other tenants, he said.

"The average airline president says the business is flying airplanes," he said, but that's wrong. "All we're doing is providing a service to the public."

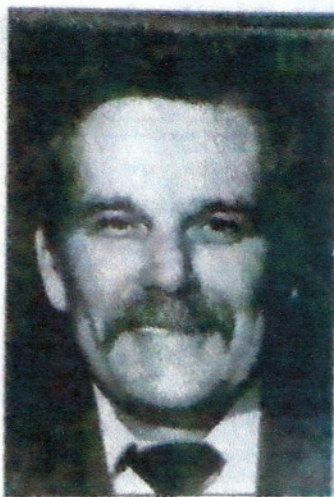
"About 90 percent of airlines are started by pilots or by people wanting a tax shelter," he said. "Those are not good reasons in my view."

Chestnutt didn't see anything wrong with a flyer starting an airline when he founded Cascade at age 35 — after Spokane-based Commute Air Inc., where he was chief pilot, folded.

Now 51, Kellogg-born Chestnutt is a shy — "He's really afraid of people," an employee said — shirt-sleeve executive who personally handles many management details rather than delegate them.



Cascade's Mark Chestnutt



Horizon's Milton Kuolt

The only time anyone else has helped run Cascade was 11 months in 1983 during which an outsider served as president and chief executive until resigning for medical reasons. Chestnutt reassumed those posts in addition to his title of chairman.

To start Cascade, Chestnutt and several other commuter airline veterans raised \$100,000, leased two 15-passenger Beech 99 planes and began flying passengers among Spokane, Pasco and Seattle. That didn't succeed, so they tried all cargo, then passenger traffic again, and eventually business and their routes grew.

Chestnutt piloted some flights himself until growth kept him too busy flying a desk. But his management was conservative and for years the company was largely undynamic.

Cascade still occupies the unassuming former Geiger Field administrative building that has been its headquarters since its early days. Cascade pays only about \$500 a month for 12,000 square feet of decades-old office space. The company is putting its money into aircraft, Chestnutt said.

"That's just what a struggling commuter airline needs is a multimillion-dollar office building," he added in a potshot at Horizon.

But airline deregulation in the late 1970s and the later withdrawal of Republic Airlines from Northwest routes left an opening in the market. Cascade saw an opportunity there, as did infant Horizon, and both started scrambling.

Initially, Cascade discounted Horizon as a threat, but it soon had to pay attention as Horizon moved in on its markets, scheduling competing flights and stealing passengers.

Cascade at first was defensive, but last year it finally it took the lead, adding a fleet of jets — probably the biggest change at Cascade since the company was founded.

"Most people don't like to fly on propeller airplanes," Chestnutt said.

Since August, Cascade has acquired five used 79-passenger BAC 1-11 jets, which it is flying on its major routes, complementing propeller craft used on shorter routes and those with fewer passengers.

The new planes have required the company to retrain flight and maintenance crews and add staff at all levels, including flight attendants, for whom there wasn't room

on the company's smallest planes.

"Our personnel ranks increased probably by 70 to 80 percent," Chestnutt said.

About the same time Cascade moved into jets, Horizon quickly put into service a leased DC-9. Were they copying Cascade?

"No, it was our idea first," Kuolt said. Horizon has since swapped the DC-9 for a used 65-seat F28 that it is flying on some routes. Eventually, it might like to have three F28s, Kuolt said.

For both carriers, the move to jets has been costly, adding lease payments and higher operating and staff expenses. Will the investment will prove worthwhile?

"We won't know until spring traffic, but the indication is it will be quite successful," Chestnutt said.

Horizon reported net income of \$3.4 million for the fiscal year ended Sept. 30, 1984, compared with a \$1.5 million loss the year before. Revenues more than doubled to \$48.8 million from \$18.2 million a year earlier.

But for the new fiscal year's first quarter, ended Dec. 31, the company reported a net loss of \$1.8 million and attributed it partly to the costs of introducing the F28. It will have another, smaller, loss for the second quarter, but for the full year should have very good results, Kuolt said.

Cascade is privately held — mostly by Chestnutt's father and an investment company chaired by his father — so it doesn't disclose its financial results. (The company once planned to go public, and may again consider doing so, Chestnutt said.)

But fiscal 1984, ended Dec. 31, "is going to show a loss primarily because of the very large transition costs," Chestnutt said. To save money during the slow winter season, the company trimmed personnel 15 to 20 percent, furloughing some pilots and other employees and putting some on part time.

"We expect 1985 to be profitable," Chestnutt said. He put Cascade's annual revenues at about \$30 million.

Meanwhile, the competition continues.

Kuolt claims Horizon provides better service to passengers.

"I don't think that their service is any better," Chestnutt said, but he concedes he can't be sure. "I've never ridden on Horizon and I never intend to."





# Little planes don't mean big problems

By NORMAN THORPE

Staff writer

How would you like to run an airline with the nickname, *Crashcade*?

For an airline, keeping a good safety reputation "is a struggle, and it certainly doesn't help at all" to have that kind of moniker, said Mark M. Chestnutt, president of Spokane-based Cascade Airways.

"I don't know why people think they have to have nicknames on airlines," he said, adding that he thought Washington State University students originated the name, along with others such as

Staff photo by KIT KING

Cascade pilot Steve Schmokel, left, co-pilot James Cawley.

Northworst, for Northwest Orient Airlines.

Actually, he said, "We have an excellent safety record."

In the company's 16-year history, it has had only one fatal accident, a 1981 crash four miles southwest of Spokane International Airport. The plane, in which the pilot, co-pilot and five passengers were killed, hit the top of a wooded hill in fog, apparently because of confusion over navigation aids.

Seattle-based Horizon Air hasn't had anything classed as an accident, fatal or otherwise, during its four-year history, said Horizon president Milton G. Kuolt II.

Judy Nauman, a Federal Aviation Administration spokeswoman in Seattle, said that agency gives the two carriers a clean bill of health. "They wouldn't be

flying if we didn't consider them safe," she said.

Cascade had an accident in November, when a plane was apparently blown off the runway at Pullman-Moscow Airport, damaging the plane but causing no injuries. The FAA didn't fault the pilot or the airline, and took no enforcement action, Nauman said.

Earlier last year Cascade also had what the FAA classed as an "incident," when an electrical fire in a plane's cockpit forced it to return to the airport it had just left. But that was attributed to a factory wiring defect, and the company and the pilot weren't faulted.

Horizon had several mechanical problems with its aircraft last year, including

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# Safety

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several false signals from warning lights that prompted engine shut-downs, but only one problem prompted FAA enforcement action.

Horizon is adding insulation on warning lights.

"We don't dismiss that lightly because it's a hell of a thrill for a passenger (to see an engine shut down), and the last thing you want to do is give them a big thrill," Kuolt said.

The public sometimes worries that smaller airlines pilots may be less well trained than those of the major carriers, but that's untrue, Chestnutt said. Many pilots work for Cascade and Horizon because they want to live in the Northwest — not because they are less skilled.

"Our pilots are just as qualified" as those with big airlines, he said. "Some have more (flying) time than many pilots with the major carriers. And they have much more experience with the types of terminals and weather that we have in the Northwest."

One reason they are more experienced, he said, is that they make many more take-offs and landings every day than pilots who fly only a few long-distance flights daily.

Cascade requires its pilots to begin as co-pilots. To be interviewed for co-pilot jobs they must have 1,500 hours of flight time, including 500 in multiple-engine aircraft. But most who are hired have many more hours.

"We have a lot of real experienced pilots," said Steve Schmokel, 41, who pilots one of Cascade's new jets. He has been with the company 12 years and flown 16,000 hours.

"I imagine our average pilot would have 12,000 to 13,000 hours of flight time," he said.

Pilots with a smaller airline get much more opportunity to fly, he said.

"If I were flying with United right now, I would probably have to be a flight engineer for 10 or 12 years then be a co-pilot for another 10 or 12," he said. "With someone like Cascade or Horizon, there's a lot more opportunity for advancement."