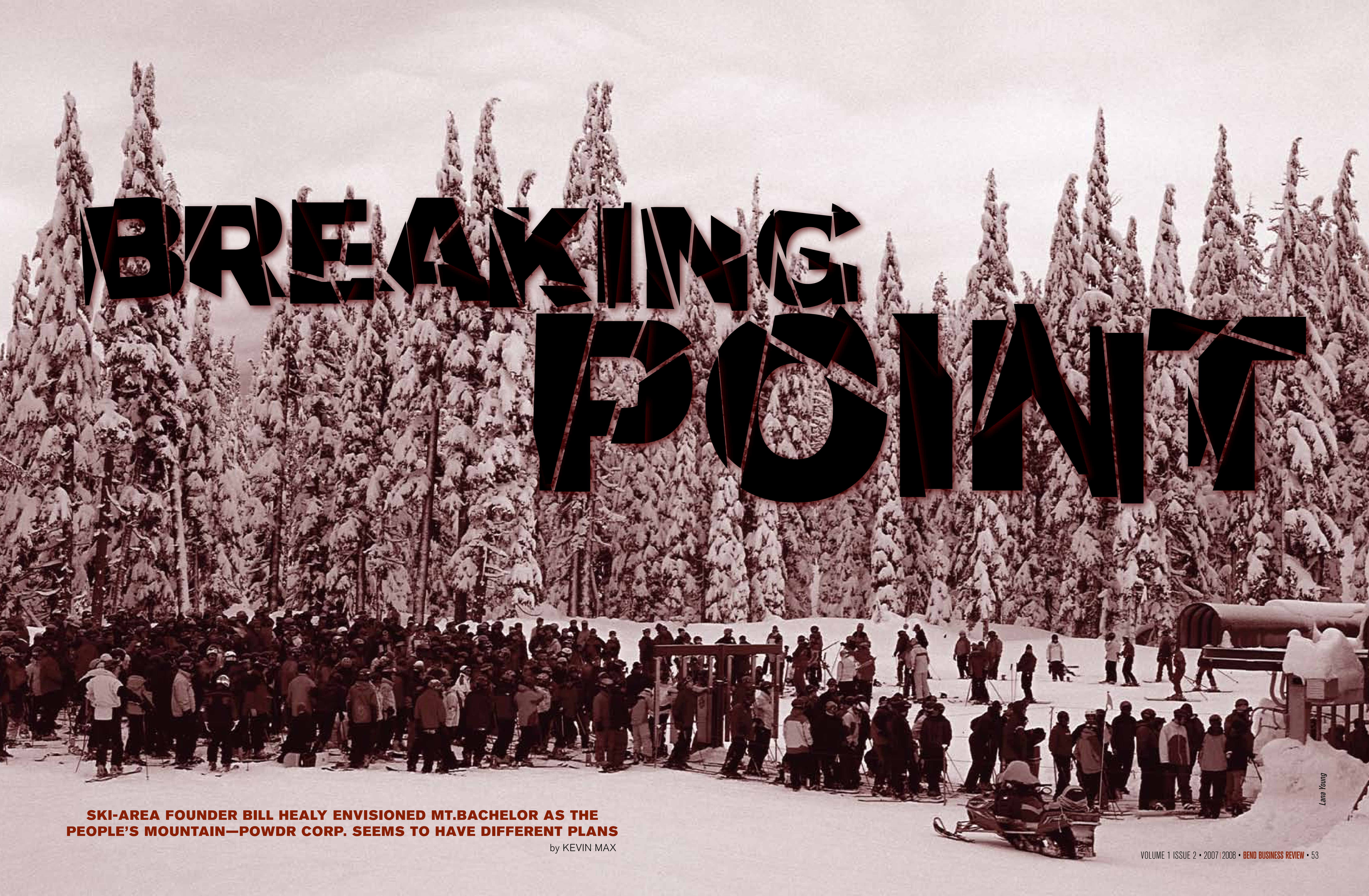

BREAKING POINT

SKI-AREA FOUNDER BILL HEALY ENVISIONED MT.BACHELOR AS THE PEOPLE'S MOUNTAIN—POWDR CORP. SEEMS TO HAVE DIFFERENT PLANS

by KEVIN MAX

Lana Young

Alan Huestis

In 1957, Gene Gillis, a former Olympic skier and Bend native, had just come back from a meeting with Squaw Valley investors who were willing to commit $50,000 for a ski area at Mt. Bachelor, provided Gillis, mountain evangelist Bill Healy and others could come up with a matching amount.

Healy peddled shares for $25 each to Bend residents with the following caveat: “There is no assurance that the securities subscribed will earn any income. The buyer executes this subscription purely out of the civic interest in skiing at Bachelor and not with the anticipation of making a profit.”

Friends, skiers and believers in Bend bought into Healy’s dream that Bachelor would be a mutual benefit for all. The Deschutes County Commission allocated $18,000 for an access road, and local judges and commissioners drafted a letter to get the state to cover part of the cost for snow plowing the road. Olaf and Grace Skjersaa agreed to open a ski shop in the lodge, and the food came from Omer and Al Schatz, who owned the downtown Skyline restaurant. When Don Peters, a U.S. Forest Service employee with vast knowledge of other ski areas, was off duty, he consulted for Healy.

It was in this communal spirit that Mt. Bachelor was born. It was “a year of the greatest community support, when local government, private citizens and the Forest Service joined hands, even broke a few rules to get the project going,” Healy told Peggy Chessman Lucas in her book, *Mt. Bachelor: Bill Healy’s Dream*.

Under Healy, Mt. Bachelor had a strong connection to the community. There were three days of free lessons and rentals for fifth and sixth graders. There was Sharelift, an annual project that raised money for local sports and extracurricular school activities whose funding had been cut from the state budget.

For years in the early ’60s, many families would gather at the mountain after skiing for potluck picnics, according to Chessman Lucas. “Bachelor was fast becoming a place for families,” she observed.

Mt. Bachelor has grown to be a vital component of Central Oregon’s four-season tourism economy. It is one of the largest employers in the region and a seasonal engine for tourism revenue. In 2005 (the year for which the latest data are available), the tourism industry accounted for 5,200 jobs, while visitors spent $416 million in Deschutes County, according to a study from Dean Runyan Associates, a Portland-based research firm. Annual skier visits are typically around 500,000, supporting area hotels, restaurants and other retailers.

But now, going into the seventh year of Powdr Corp.’s ownership of Mt. Bachelor, the only utterance of “community” at the mountain is more closely paired with “frustration,” as many mountain users say they’re paying more and getting less in return. Powdr’s cost-cutting strategy has led to a prolonged struggle with increasingly visible consequences that have struck a chord with locals, former board members and employees, and a state safety agency.

“I DON’T KNOW HOW MT BACHELOR CAN RAISE PASS PRICES ON EXPECTATIONS THAT THEY’RE GOING TO DO BETTER—YOU WOULDN’T BUY A CAR THAT WAY.”

—BENJI GILCHRIST,
Bend resident and former member of Mt.Bachelor’s board of directors

“I don’t know how Mt. Bachelor can raise pass prices on expectations that they’re going to do better—you wouldn’t buy a car that way,” said Benji Gilchrist, a Bend resident and former member of Mt. Bachelor’s board of directors. “That’s incredible!” Gilchrist’s family was original Mt. Bachelor shareholders, dating back to 1957.

In 2001, Utah-based Powdr Corp., acquired Mt. Bachelor in a hostile takeover, circumventing Mt. Bachelor’s board and taking their offer to its shareholders. Powdr took the company down a leaner path, making across-the-board cuts in operations and personnel, bringing in foreign workers at minimum wage, paring the ski season by weeks and putting a stop to a free-ski program for local elementary students.

Bill Healy’s dream had become Powdr Corp.’s portfolio holding.

When Powdr Corp. first took over in 2001, it cut the ski season by weeks, and the next season reduced the price of season passes from $810 to $699, a level they remained at until 2006. Since then, passes have jumped 33 percent to $929, and corporate passes have tripled to $3,000, making Mt. Bachelor one of the most expensive season tickets in the Pacific Northwest.

This pricing strategy is paying off, however. Adjusted gross revenues, at Mt. Bachelor, of which season passes and lift tickets are the preponderance, jumped 21 percent to $24.4 million in the 2006-07 season from 2000-01, according to Forest Service documents.

Bachelor’s new president, Matt Janney, who came from Powdr Corp.’s Lake Tahoe-area, Alpine Meadows, said on the company-controlled blog: “And finally, yes our daily ticket and pass prices have gone up but so has our cost of doing business. We know you don’t want to hear that—it sounds too easy. But there it is, and it’s the truth.”

Neither Janney nor past president Dan Rutherford nor Powdr Corp. would answer inquiries for this story.

The cost of doing business has indeed increased across the industry, but at other ski areas that has led to a variety of management responses including deep discounts.

Intrawest, for example, offers a three-for-one season pass at Winter Park, Copper Mountain and Steamboat resorts for $999. And for $379, Colorado skiers can buy Vail Resorts’ Summit Pass that includes some of the best skiing in the Rockies at Keystone, Breckenridge and Arapahoe Basin resorts. Vail Resorts’ mountain operating expenses for its five resorts increased 4.4 percent for the year ended July 31, 2007, and 13 percent the prior year, according to its filings with the Securities & Exchange Commission.

Closer to home, Mt. Hood Meadows, whose individual season passes once sold for more than $1,000 is continuing its fifth year of 4X4 season passes, where any four people can come together (families included) to buy passes for $400 each, a sum of $1,600. Bachelor, however, dropped the family pass this year and offers only a minor discount to family members, as narrowly defined by four or more people, where the parents are legally married and the children are living at home. Under these restrictions, a family with two parents and two teenage kids pay $2,456.

“The market’s changed, and the times have changed,” observed Dave Tragethon, executive director of communication at Mt. Hood Meadows

Ski Resort. "I think that some ski areas have recognized that and some haven't. With the 4X4 pass, we're creating advocates for the sport and creating big incentives for people who wouldn't normally know about the mountain."

Skier visits at Mt. Hood Meadows have increased 14 percent over the past six seasons, five of which came under the 4X4 pass.

Hoodoo Ski Area near Sisters offers a $19 lift ticket on "Tightwad Tuesdays," two passes for the price of one on Thursdays, a season pass is $495, and a family of six pays $1,760. Hoodoo's skier visits have risen 56 percent since 2001.

But the home turf seems to matter less to Mt. Bachelor, which last season began selling discounted five-day ski tickets to all skiers in Oregon and Washington through Joe's sporting-goods stores, except the Joe's in Bend. Mt. Bachelor's ad in Joe's winter catalog reads, "All Joe's Sports & Outdoor stores in Oregon and Washington (except Bend) are offering a 5-pack of Mt. Bachelor lift tickets for only $229."

Mt. Bachelor's lease with the U.S. Department of Agriculture reads: "Discriminatory pricing, a rate based solely on race, color, religion, sex national origin, age disability, or place of residence, is not allowed …"

Rick Wesseler, a Bend/Fort Rock Ranger District manager of Mt. Bachelor's permit, said that the Forest Service is aware of Mt. Bachelor's marketing strategy. "We do not see this as discriminatory because anyone from Bend can still purchase this at any other Joe's store," he said.

Managers from Joe's stores in Beaverton, Portland and Salem, however, would not sell the passes by phone, citing reasons that either they couldn't verify a credit card (though the verification process for buying items online from the company's website is essentially no different), or they could not guarantee the delivery of a mailed pass.

"The locals are the foundation," said Kathy DeGree, a 28-year veteran of Mt. Bachelor, who left in 2001 when Powdr Corp. took over the area. "If you can't win the game at home, how are you going to win on the road?"

Mt. Bachelor's skier visits have increased just 3 percent since 2001 and have fallen over a 10-year horizon according to data reported to the Pacific Northwest Ski Areas Association.

A FOR-PROFIT FEEL

While raising prices for the ski product, Powdr Corp. has been busy cutting costs. These cuts may be just a bottom-line number for Mt. Bachelor, but they take on real dimensions in the public realm.

"People are paying top dollar for their passes, but I'm not seeing top-dollar maintenance," said Brian Joseph, a Bend resident and season pass holder for 13 years. "Lifts are slower and break down more often. When the lifts aren't running full speed, you're not getting full service."

Skiers and snowboarders have taken their grievances to local media about Mt. Bachelor's lifts, being closed, too slow or stopping altogether, leaving them hanging in frustration and doubt.

Two days after Christmas in 2005, the Pine Marten lift came to an abrupt halt, throwing seven people from it and drawing sharp criticism about Powdr's commitment to mountain upkeep. Within a week of that incident, 80 skiers and snowboarders had to be lowered off a malfunctioning Rainbow lift, while the engine on the Skyliner chair broke and was replaced with a slower diesel-burning engine.

The following season, April 2006, the gateway chairlift Pine Marten malfunctioned and was stopped for 20 minutes, an oil line broke disabling the Outback Express chair, and the opening of Skyliner Express was delayed by 20 minutes due to maintenance issues.

Rick Brooks, director of maintenance, told *The Bulletin* that day: "Personally, I don't think we're having more stops than usual this year. In fact, we've had significantly less problems than last year that stemmed from mechanical issues." By that fall, though, the lift had been substantially replaced, as was Brooks, who didn't return calls seek-

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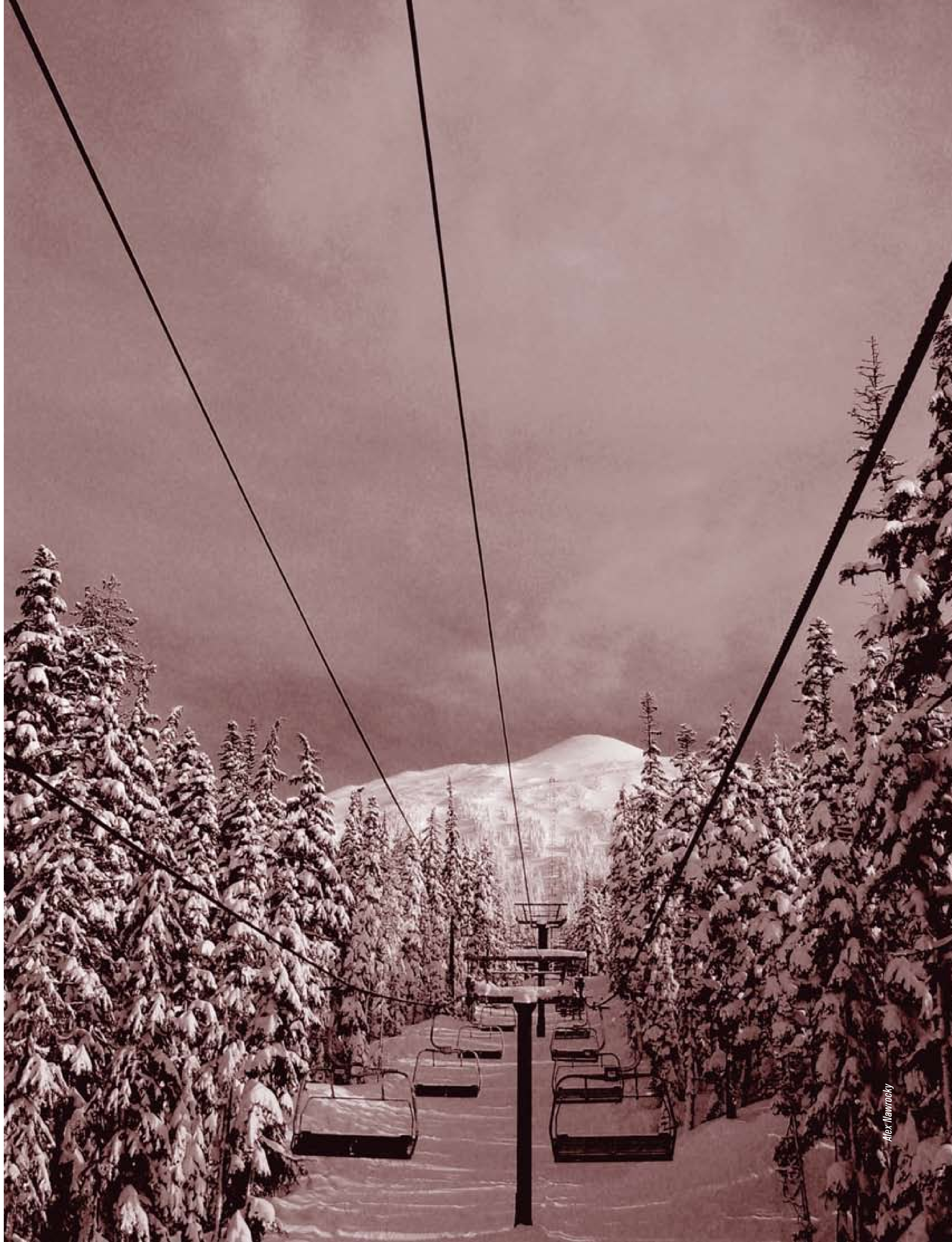
Alex Nawrocky

ing comment.

The lift was substantially replaced, but the maintenance problems persisted.

Janney addressed the issue through the company-controlled blog on August 29: "We are implementing new changes from our lift manufacturer, which we hope will reduce the number of stops on the lifts from last year. We feel that we will be able to address most of the problems from last season with these changes. And by the way, thanks to all of you out there who have mentioned that particular issue to me in the past couple of months, just in case I hadn't heard about it yet. LOL [Laugh out loud]."

There were no replies and no archived blog entries.

Reduced operations in the name of profit doesn't sit well with Joseph, a business owner who now has a new skier in the family. The Sunshine Lodge, which is at the base of Bachelor's best beginner terrain, will not open until Christmas break, he said. "That means I'm not taking my 4-year-old son up to the mountain until Christmas."

SAFETY AND OSHA FINES

Not only were lifts slowing and stopping, but, according to Oregon Occupational Safety and Health Administration (OSHA), "years of neglect" led to the injury of four workers.

On October 20, 2006, Mt. Bachelor employees were stretching a cable on the Sunshine Accelerator chairlift when the 20,000 pounds of tension on a plate clamp caused it to snap, sending the lift cable into a violent strike that injured four people, according to OSHA's investigation.

Howard Dunlap, a lift maintenance worker, whose injuries were the most severe, had two fractured vertebrae, a broken arm, a broken leg, cracked ribs, a dislocated shoulder and torn ligaments in his right arm. The injuries of the others—Owen Evans, Micah Holzhouser and Sara Magness—were less severe, ranging from cracked ribs and torn ligaments to bruises and cuts.

OSHA senior safety officer Richard Gray concluded in his investigation that, among other things, the torque wrench used "had not been checked for at least two years;" that the mountain's own procedure of gradually stretching the cable had been replaced with a direct pull from a Caterpillar D9 tractor (a procedure neither used nor recommended in other ski areas in Oregon); and ultimately, the accident "was an accumulation of a break down in the process over a number of years."

In June, Mt. Bachelor paid fines of $10,700 related to safety transgressions.

INVESTMENT OR DIVESTMENT?

In the resort industry, capital investment is king. Ski resorts are increasingly competing for a shrinking pool of new skiers and snowboarders, while trying to win over ski veterans and families with better value and service.

"YOU CAN TELL WHO'S DELIVERING THE MINIMUM COMPARED TO WHO'S GIVING CUSTOMERS THE RIGHT EXPERIENCE TO KEEP PEOPLE COMING BACK"

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president of New York-based Reach Advisors

Vail Resorts has injected about $100 million in capital improvements in its five resorts this season. Snowmass in Aspen is trumpeting $25 million in upgrades that include a kids' adventure center. Crested Butte is undertaking a $200 million makeover of its base village, and Arapahoe Basin will uncover 400 new acres of terrain this winter.

It is capital investment that brings corporate brass from their offices to announce these figures in broad public displays and prove their ongoing commitment to customers and their long-term faith in the company. To investors, a new lodge and development of a hospitality property means the company and management are investing for the long haul, say industry experts. Opening new terrain and adding to the grooming fleet are signs that management has its customers at heart. Conversely, the absence of capital investment is a long-term indicator of another ilk.

"You can tell who's delivering the minimum compared to who's giving customers the right experience to keep people coming back," said James Chung, president of New York-based Reach Advisors, a marketing strategy and research firm that works with resorts. "Skiers can smell deferred maintenance from a mile away."

The rate of capital investment before Powdr Corp. came to town was brisk. In the seven-year span from 1986 to 1993, Mt. Bachelor, Inc. invested $25 million in the mountain, according to a 1993 interview with board member, the late H. Dean Papé, as chronicled in *Mt. Bachelor: Bill Healy's Dream*. Papé said he also expected the company to invest several million dollars each year for the next seven years.

"When we bought out smaller investors, our mission was to increase the development of the mountain and plow back most of the profits to make it a first class resort," Papé trumpeted. "I don't know of any board where the members are less concerned about earnings per share or dividends."

But in Powdr's first season at Bachelor, the shift from talking about people to talking about profit and cost-cutting was a Kool-Aid with immediate consequence. Then-president of Mt. Bachelor, Dan Rutherford, told *The Oregonian* in December 2001: "In the past, we've done a lot of things out of compassion, and because we've done it this way for 25 years, and we think it's the right thing to do … Now, you've got a business plan, and you're looking at it and saying, 'Maybe we don't always need to do it this way,' and 'Does this make the most financial sense?' We need to realize this is a for-profit business." Rutherford left Bachelor in fall 2007 and would not return calls seeking comment.

Mt. Bachelor, however, has never been a charity organization. In the 15 years before Powdr Corp.'s takeover, with the exception of two years, Mt. Bachelor Inc. had earned a profit—profit just had a lower ranking among the company's priorities.

Randy Papé, the son of H. Dean Papé and his successor on the Bachelor board, noted in 2001 that Mt. Bachelor had

Paul Clark (2)

CHANGE IN SKIER VISITS OVER 6 AND 10 YEARS

	6-YEAR CHANGE	10-YEAR CHANGE
MT.BACHELOR	3.15%	-0.77%
MT.HOOD MEADOWS	14.31%	40.71%
HOODOO	55.81%	145.84%
TOTAL, OREGON	7.23%	19.69%
TOTAL, PACIFIC WEST (AK, AZ, CA, NV, OR, WA)	-14.81	-7.51%
TOTAL, INDUSTRY	1.21%	1.75%

Kirk Delall

THE PLANS WERE TO INVEST IN NINE NEW CHAIR LIFTS, FIVE NEW LODGES AND AN "EXTENSIVE EXPANSION OF CROSS COUNTRY AND DOWNHILL FACILITIES,"

ACCORDING TO MT. BACHELOR'S OPERATING PLANS IN 2000-2001.

invested in the mountain at a rate of about $4 million per year, in the five-year period leading up to Powdr Corp.'s takeover.

The plans were to invest in nine new chair lifts, five new lodges and an "extensive expansion of cross country and downhill facilities," according to Mt. Bachelor's operating plans in 2000-2001. Those plans have become more a vestige of Bachelor's past owners, as it has been carried forward, unchanged, in subsequent operating plans under Powdr Corp.

Powdr had different plans for the mountain. In its inaugural year, Powdr Corp.'s chief, John Cumming, told *The Bulletin* his first mission was to "right the ship." Instead he began drilling a hole in its hull by cutting a reported $1.3 million from Bachelor's budget and selling its downtown offices for $1.2 million. At the same time, he said Powdr would spend $1.5 million that season, in what amounts to a net annual disinvestment of almost $4 million compared with the prior levels.

Cumming further offered, at that time, that an additional $4 to $6 million could be invested over the next five years, if the mountain was profitable. Executives at Powdr and Mt. Bachelor would not say whether those investments occurred.

Over Powdr's tenure at Mt. Bachelor, the company has remodeled the West Village Lodge, bought new grooming Cats, added a terrain park and replaced the Pine Marten chair, as the aging lift's constant malfunction drew the ire of many visitors.

Though Powdr's holding are private, and the company won't divulge its financial data, in October 2007, Mt. Bachelor marketing director Carly Carmichael told local media that Mt. Bachelor had made $7.5 million in capital construction projects over the past two years, attributing $3.5 million to replacing the old Pine Marten lift.

"They seem to me to have a maintenance crew that would only take care of things when they were broken," said former board member Gilchrist. "If you look at how the chairs ran then and now, it's a 100 percent different."

In December 2006, Mt. Bachelor sold its Simpson Avenue park-and-ride property to developers for $10.1 million, without solid contingency plans for creating a new lot for Bachelor employees and customers. Add to that figure, the $1.2 million from the sale of its downtown offices. Taken all together, Mt. Bachelor's stated investment of $7.5 million still falls short of its combined $11.3 million in asset sales of Mt. Bachelor property. Even if Powdr Corp. reinvested just the funds from these asset sales over its tenure, that rate of investment would still be multiples lower than its predecessors.

Neither representatives from Powdr Corp. nor Mt. Bachelor would comment on where the proceeds from Mt. Bachelor's sold assets are re-invested.

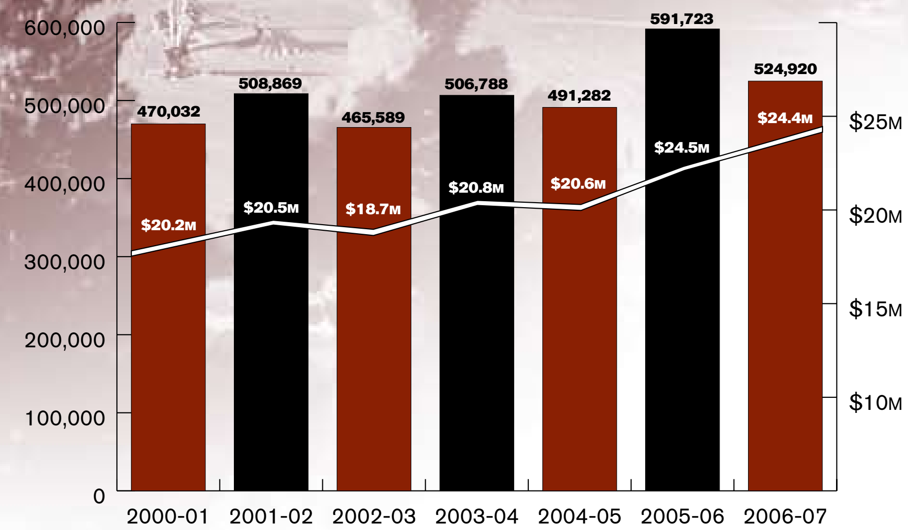
While capital investment seems to come in drips to Bachelor, it pours into Powdr's flagship Park City Mountain Resort. The capital investment tradition, at least at the Park City resort, seems one that is well engrained.

In 1997-98, Park City Mountain Resort saw $7 million in improvements, according to the company's website. Of note were new chairlifts, a new terrain park and increased snowmaking capabilities. The following season, Park City Mountain Resort announced to Utah's *Deseret News* a $150 million expansion that included new lifts, restaurants and shops, condos and a hotel. An additional $35 million would be used for a five-year capital improvement plan, through 2004—an annual rate of $7 million. This season, Park City committed $5 million for new terrain, a new heated resort plaza and expanded snowmaking, according to a company press release.

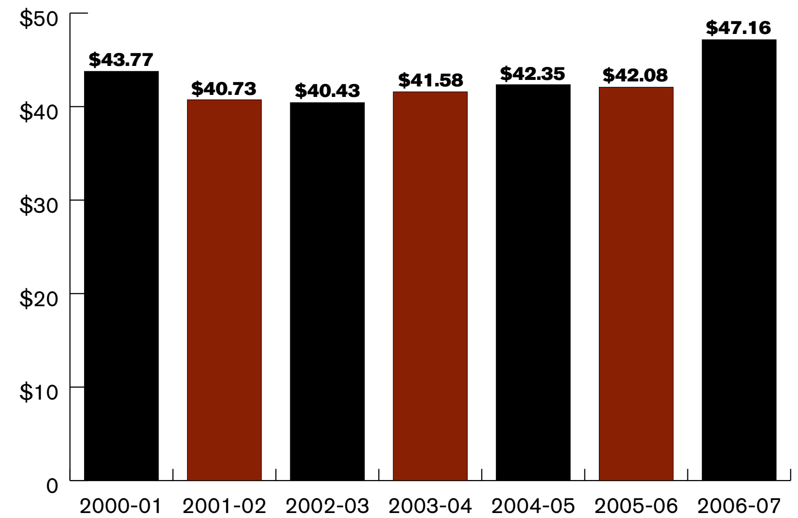
As Powdr Corp. is privately owned, insight into its finances is limited. But over the years, media accounts and public statements of its resort managers' have offered glimpses of the corporation.

Powdr's modern history began publicly with billionaire Ian Cumming. Cumming, the chairman of the board and chief executive

ADJ. REVENUE/SKIER VISITS



ADJ. GROSS REVENUE/SKIER*



* Adjusted Gross Revenues is revenue from alpine and nordic lift tickets, ski school operations multiplied by a prorated pecentage attributable to use of National Forest System lands, plus revenue from year-round ancillary facilities.

Patrick Windsor

"I WOULD LIKE TO SEE A MORE CONCERTED EFFORT BY EMPLOYERS TO RECRUIT U.S. WORKERS FOR THESE POSITIONS FIRST BY OFFERING THEM HIGHER WAGES AND BETTER BENEFITS."

—U.S. SENATOR BERNARD SANDERS

officer of the $10.8 billion (market capitalization) New York-based plastics, wood products and real estate conglomerate Leucadia National Corp., established Powdr Corp. in 1994, when he paid $42 million for Park City Ski Resort.

Cumming eventually ceded control of Powdr Corp. to his sons, John and David, putting them in top spots. Powdr Corp. was then spun off into a privately held entity, whose entire stock, according to Dun & Bradstreet research, is held by the two Cummings sons, Nick Badami (chairman) and Rick DesVaux (chief financial officer). Badami, the former chairman of BVD apparel company, owned Alpine Meadows and Park City Ski Resort before Powdr bought them and made him the chairman of Powdr's board.

Though the board has kept a low profile in the media, a recent glimpse into Powdr Corp. management came in 2007, when Powdr, together with SP Land Corp., acquired Vermont's Killington Resort and installed as its president Chris Nyberg, a Mt. Bachelor slope supervisor from the '70s.

Saying that Powdr president John Cumming gives his managers "a high degree of autonomy," Nyberg told a local newspaper, the *Rutland Herald*, that Powdr's resorts retain their profits to reinvest in that resort. "We can take that money and put it back into our business, as opposed to perhaps going some place else," Nyberg said.

At Mt. Bachelor, however, the cost-cutting "matrix" hasn't left much room for a "high degree of autonomy," and capital investment at Mt. Bachelor hasn't equaled even what Powdr reaped from selling assets.

Powdr Corp. chief financial officer DesVaux would not say whether the company's mountain properties retained their profits for reinvestment or if those profits were sent back to the Utah headquarters.

Another claim about Powdr's philosophy came in December 2003, from Rachel Woods, a spokeswoman for Powdr Corp.'s Alpine Meadows, Boreal and Soda Springs resorts. Woods told *The Sacramento Bee,* after slashing the price of daily lift tickets at those resorts, "We're looking to the long term—there's a vision in the company to make skiing more affordable."

Yet prices for lift tickets and season passes at Mt. Bachelor have continued to far outpace its nearest competitors, and its management hasn't publicly talked about a Powdr Corp. vision of making skiing more affordable.

LAST, BUT NOT LABOR: DÉJÀ VERMONT, ALL OVER AGAIN

With its acquisition of Killington/Pico, the largest ski area in the Northeast, Powdr Corp. became a major player in the ski industry on both coasts. Its manners, some Vermonters would argue, haven't improved with its muscle.

In February, Powdr Corp., together with real estate developer SP Land Co. paid $88 million for Killington and adjacent Pico ski areas. The trouble started almost immediately.

The company fired an undisclosed number of employees in year-round jobs at Killington and Pico, brought in 180 part-time foreign workers with H-2B visas, cut back Pico's seven-day schedule to Thursday through Sunday and refused to honor Killington's lifetime passes.

The labor law implications of the fired workers brought U.S. Senator Bernard Sanders, (I-Vt.), to the fore in calling for an investigation by the U.S. Labor Department.

"I would like to see a more concerted effort by employers to recruit U.S. workers for these positions first by offering them higher wages and better benefits," Sen. Sanders said. "I am concerned that in too many instances employers are driving down wages and benefits in this country by importing guest-workers from abroad who are paid very low-wages, have very few rights and are easily exploited."

Signs of how Powdr Corp. approached labor management were already evident at Mt. Bachelor. In 2001, the company, cut 100 jobs from the mountain operations, cut incentive raises, reduced many positions to minimum wage and, in 2005, brought in Peruvian labor in the form of students who pay their own travel and living expenses.

"We need to be a profitable business, that's our job," Jannette Sherman, then-communications manager said at a conference in October 2005. "We haven't raised season pass prices in three years. But if we increased our seasonal workers' wages, those pass prices would increase. We wish we could pay them more, but that's just not where we are as a business right now; that's not where the industry is right now."

From the rank and file, the view is different. Bob Gordon, 63, a retired firefighter, started at Mt. Bachelor in 1993 as a lift operator and worked his way up to ski instructor.

"When Bachelor owned the mountain, they gave incentive raises," he said. "They weren't big, but enough to say that they respected us. But when Powdr Corp. took over, there weren't any raises other than what was required by minimum wage. Incentive pay disappeared."

Gordon said that Powdr also eliminated training sessions for instructors. "You could see the difference at ski lessons, because as many as half of the instructors were new, and they had a tougher time," he said. Gordon has since left and now teaches at Hoodoo Ski Area.

In April 2006, the Oregon Bureau of Labor and Industries warned Mt. Bachelor to take steps to comply with state and federal labor laws after the agency received multiple complaints "alleging that Mt. Bachelor has failed to provide rest and meal periods as required."

"As an employee I thought there was less morale," said Steven Dodson, who left Mt. Bachelor last year after eight years as its volunteer-host program manager. "Some times all it takes is someone coming around and saying, 'I really appreciate what you're doing' and that means as much as an extra dollar in your paycheck … If you're going to reward management for making their bottom line, share that with the people who helped them do it—even if it's just $100, it says something. If you have grumpy employees, you'll have grumpy guests."

WHAT IMPROVEMENTS AT MT. BACHELOR WOULD YOU MAKE? EMAIL KEVIN@BENDLIVING.COM