



BONANZA AIR LINES, INC.

Annual Report 1959



EDMUND CONVERSE is President and Chairman of the Board of Directors. He has served as director and chief executive of Bonanza since the Company was incorporated 15 years ago.



FRANK W. BEER has served as a director since February, 1951. Mr. Beer is Senior Member of the law firm, Beer, Seaman and Polley, of Phoenix, Arizona.



ROGER CONVERSE of Los Angeles, California, has served as a director since May, 1955. His many interests include investments, motion pictures and public relations.



CHESTER M. GLASS, JR., of Los Angeles, partner in the investment firm, William R. Staats & Co., became a director in January, 1959.



G. ROBERT HENRY, Executive Vice President of Bonanza Air Lines since 1953, has been associated with Bonanza top management since 1949. He became a director in March, 1959.



JAMES D. MOYLE, Salt Lake City industrialist, was elected to the Bonanza Board of Directors in February, 1960.



WILLIAM D. PABST of Oakland, California, is Managing Operator of San Francisco-Oakland Television, Inc. Mr. Pabst has been on the Board of Directors since March, 1959.



GEORGE L. VARGAS was one of the original incorporators of Bonanza Air Lines and has served as director since June, 1952. Mr. Vargas is Senior Partner in the law firm of Vargas, Dillon and Bartlett in Reno, Nevada.



WILLIAM T. WAGGONER, JR., of Phoenix, Arizona, has been a director since September, 1958. Mr. Waggoner has ranching and oil interests in Arizona, New Mexico and Texas.

**BONANZA
BOARD
OF
DIRECTORS**

**BONANZA AIR LINES, INC.
COMPANY OFFICERS**

EDMUND CONVERSE
President

G. ROBERT HENRY
Executive Vice President

MYRON W. REYNOLDS
Vice President—Operations

WILLIAM J. MITCHELL
Vice President—Traffic and Sales

ROBERT J. SHERER
Treasurer

THOMAS J. VAN BOGART
Assistant Treasurer

RALSTON O. HAWKINS
General Counsel and Secretary

EARL E. JOCHIM
*Director, Research and
Development and
Assistant Secretary*

WILLIAM C. BURT
Assistant Secretary

TO OUR STOCKHOLDERS:

1959 was the "Jet" year for Bonanza Air Lines. In March your Company started the integration of the Fairchild F-27A jet-prop Silver Dart into its route system. The year also marked the first decade of federally certificated interstate airline service as well as the thirteenth full year of scheduled operation.

The revolutionary Silver Dart enabled Bonanza to set new records in virtually every index of operation; passenger and cargo volume, revenue miles, available capacity and commercial revenues registered all-time highs.

The Company did not commence the phase-in of the Silver Dart on any route segment until March; yet by the end of the year, six of these fast, pressurized aircraft were operating on four of Bonanza's five route segments. The jet-prop Silver Dart has proved that it can do all that your management expected it to do, and more. This performance has resulted in a tremendous reception by the public as can be seen by the following:

	1958	1959	% INCREASE
REVENUE PASSENGER MILES	42,336,000	55,694,000	32%
PASSENGERS	182,086	226,574	24%
COMMERCIAL REVENUE	\$2,862,000	\$4,056,000	42%

Significantly, these gains were made in the face of the longest steel strike our nation has ever experienced, a copper mining strike and a strike at the Glen Canyon Dam project in northern Arizona, all of which had a depressing effect on your Company's growth.

During 1959, Bonanza initiated service to six new cities in Arizona, California and Utah. These cities are Flagstaff, Grand Canyon and Page, Arizona (site of the \$400,000,000 Glen Canyon Dam project), Oceanside, California, and Kanab and St. George, Utah.

Bonanza's certificate to serve Grand Canyon, Arizona, was awarded in the fall of 1957, the same time as its Phoenix-Salt Lake route award; but due to a variety of airport problems, the Company was unable to provide service until the 1959 summer tourist season. The traffic results at this world-famous tourist mecca were so gratifying that the Company asked for and received a CAB permit for operations during the 1959-1960 winter season.

1959 also saw your Company vigorously participate in a route proceeding which, from a route-strengthening standpoint, is undoubtedly one of the most important in Bonanza's history. The CAB Examiner's recommendation is expected momentarily in this case; the proceeding is known as the *Pacific Southwest Local Service Case*.

The most recent development in your Company's operation took place when it received a change in

service pattern authority from the CAB on January 13, 1960. This permitted Bonanza to operate its Las Vegas-Los Angeles segment via only one stop at Ontario/Riverside in addition to a flight serving both Apple Valley and Ontario/Riverside. The authority also permitted non-stop shuttle service between Los Angeles and Apple Valley. As recently as February 11, 1960, Bonanza started flying these new patterns. Bonanza is able, as a result of this authority, to provide Silver Dart one-stop flights on the Las Vegas-Los Angeles segment. Thus your Company is now providing Silver Dart service on all five of Bonanza's route segments. The integration of the Silver Dart on Bonanza's system has, of course, reduced the usage in scheduled service of the DC-3 aircraft owned by your Company. As a result, one DC-3 has been assigned to charter service exclusively and is based in Los Angeles. Three additional DC-3's have been listed for sale on the aircraft market. As of this writing, one DC-3 has been leased for three years with an option to the lessee to buy.

In July your Company entered into a merger agreement with Apache Airlines in Arizona. This agreement, subject to CAB approval, provides that Bonanza take over Apache's Arizona state-certificated routes. These routes are identical with Bonanza's proposed application in the *Southern Rocky Mountain Area Local Service Case* between Phoenix, Tucson, Nogales and Fort Huachuca, and complement the Company's application for a Phoenix-El Paso segment via Tucson, Fort Huachuca and Bisbee/Douglas.

Also in July your Company exercised its option with Fairchild for the purchase of four additional F-27A Silver Darts. Growing public demand for the Company's Silver Dart service and the anticipated growth of your Company's system makes it imperative that Bonanza move forward as rapidly as possible into an all jet-prop operation. Your Company will, of course, only undertake this program with the full approval and concurrence of the Civil Aeronautics Board.

1960 opens new horizons for your Company. Despite the most rugged winter weather conditions experienced in over ten years, Bonanza broke its all-time traffic record with 21,398 passengers boarded in the short month of February. Continued traffic development, route strengthening through restriction modifications, and strong route extensions, together with further phase-out of the DC-3 as new Silver Dart service is added, will be our targets.

Management is most grateful for the unwavering support of the Company's stockholders and employees without whose vision and loyalty our combined progress would not be possible.

Sincerely,


EDMUND CONVERSE, President



Bonanza's Silver Dart: A symbol of the Jet Age.

THE SILVER DART

The year 1959 saw six jet-powered F-27A Silver Darts integrated into the Bonanza system. Passenger acceptance of this extremely modern 40-passenger aircraft was such that it even exceeded management's highest expectations. Added to the tremendous passenger appeal generated by the airplane was its outstanding operating performance. In addition, the Silver Dart's dependability placed Bonanza among the leaders in on-time performance among the U.S. airlines operating jet-powered equipment, and was instrumental in your Company's achievement of the highest 1959 schedule completion record in the domestic airline industry.

In the short space of nine months the Silver Dart has made such an impact on Bonanza passengers and Bonanza personnel that it is difficult to determine which of its many outstanding features is the most appreciated. The flight crews and the passengers have been impressed with its short take-off and rapid-climb abilities. Many passengers have commented favorably about the on-ground and in-flight air conditioning so important in the temperature extremes on the Company's system. Also among its many impressive features are the large panoramic windows which have probably occasioned more obvious passenger pleasure than any single item because of the extraordinary and unobstructed view afforded the passenger from any seat in the airplane. There are, of course, such other fine features as pressurization and weather radar—elements which the passengers sometimes take for granted, but which are so essential for passenger comfort.

Well in advance of the introduction of the Silver Dart, the Company initiated a completely new and comprehensive Silver Dart ground and flight training program for pilots, dispatchers, mechanics and station agents. Your Company's management had great confidence that such a training program would pay return benefits many times over in terms of increased safety, efficiency



Young and old alike enjoy convenient loading, comfortable seating and full visibility afforded by Bonanza's Silver Dart.



The Silver Dart is jet-powered by the dependable precision engines of Rolls-Royce.

SILVER DART (continued)

and productivity, and this has certainly been the case. Bonanza's Supervisor of Operations Training not only conducted the initial ground school training but also maintains the instruction on a continuing basis. The concentrated in-flight training for pilots was, and continues to be, administered by the System Chief Pilot. As a result of careful planning and conscientious application, Bonanza's training program has been widely recognized as one of the best in the airline industry.

Incident to this intensive Silver Dart training program was a plan that would qualify all of Bonanza's pilots and co-pilots to obtain an "Airline Transport Rating," the highest civilian flying license issued in the United States. The Federal Aviation Authority has long required that airline captains have an Airline Transport Rating license, but there has been no such requirement for co-pilots. It has always been the Company's policy, however, to up-grade the second-in-command pilot when possible in the interest of maintaining an extremely high margin of safety. The plan has now reached fulfillment and all of Bonanza's pilots and co-pilots hold an Airline Transport Rating. Bonanza's situation in this respect may well be unique in the airline industry and is another indication of your Company's pace-setting progression into the jet age.

In 1959 your management recommended to the Board of Directors that four additional Silver Darts be ordered under the option agreement held by the Company, and such recommendation was unanimously approved. The anticipated and foreshadowed growth of your Company necessitated such advance planning. Moreover, your management is of the firm belief that its public service obligation requires completion, at the earliest possible date, of the Company's program for transition to an all jet-powered operation. This program is in its advanced stages and will, when completed, constitute a historic milestone in the annals of aviation progress and public service.

GROWTH

A decade of constant progress by Bonanza in scheduled interstate service is reflected graphically in the accompanying charts. Passenger miles, ton miles, and passengers enplaned have increased ten-fold in the last ten years. Bonanza flew almost five times as many plane miles in 1959 as were flown in 1950.

Passenger miles in 1959 were 32% greater than in 1958, a rate of growth ranking second highest in the thirteen carrier local service industry; and fourth highest in the entire domestic airline industry. The same ranking was achieved in rate of growth in total ton miles of revenue traffic, showing a 31% increase for your Company.

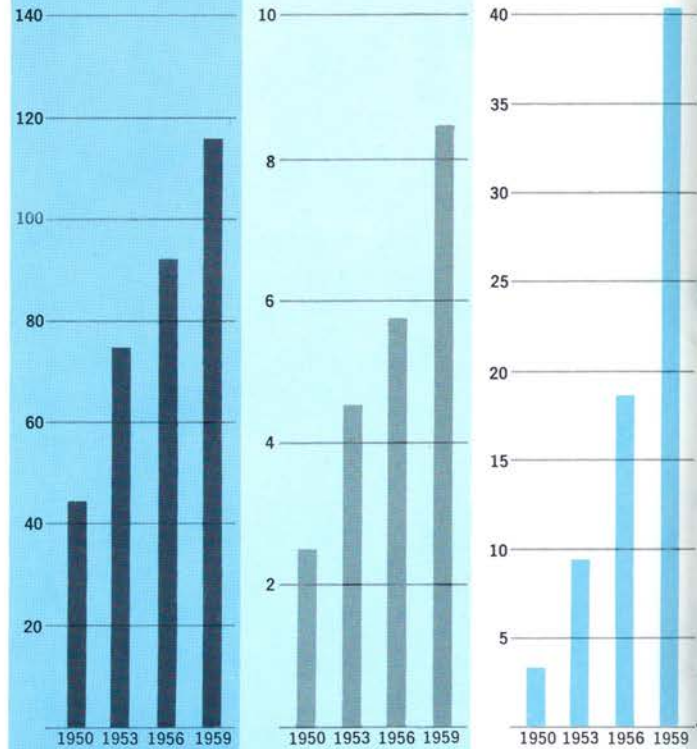
Commercial revenues have increased from \$279,000 in 1950 to \$4,056,000 in 1959. In 1959 commercial revenue was over \$1,000,000 greater than that earned in 1958, an increase of 42%.

For the fourth consecutive year the Company led the domestic airline industry in operating performance by completing 99.2% of its scheduled miles. Considering that the Company introduced the entirely new Silver Dart aircraft into operation during the year, this is truly an outstanding achievement.

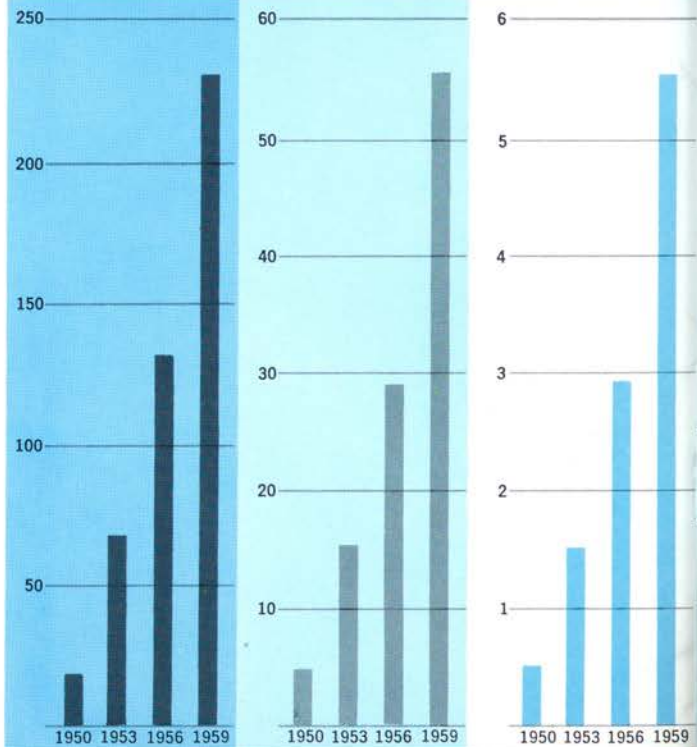
Once again employee productivity increased substantially in the past year. Passenger miles per employee increased nearly 20% from 97,000 in 1958 to 116,000 in 1959, while total commercial revenue per employee increased 29%.

Integration of the F-27A Silver Dart into Bonanza's system produced certain cost increases as was expected. Industry experience has shown that introduction of a new and larger type of equipment into a carrier's system results in an initial expense increase, even on a unit cost basis, and that increased revenue from the new equipment generally lags behind the cost increases during the integration period. The Civil Aeronautics Board has historically recognized the additional costs inherent in the phasing-in of different equipment.

Available seat miles, Bonanza's saleable commodity, were increased 33% in 1959 over 1958, while revenue passenger miles, as mentioned, were increasing 32%. It is anticipated that in 1960 the increase in passenger miles will be substantially greater than the increase in available seat miles, thus reflecting a much greater utilization of available capacity. Operating costs per seat mile increased very slightly in 1959 over 1958, but this increase was accompanied by increased commercial revenue per seat mile. The resulting effect was a slight decrease in break-even need per seat mile. Seat mile costs in the latter part of 1959, however, were notably below those in the comparable 1958 period and every effort will be made in 1960 to improve upon this favorable trend.



Passenger Miles Per Employee (Thousands) Commercial Revenue Per Employee (Thousands) Dollars of Total Commercial Revenue (Hundreds of Thousands)



Passengers Enplaned (Thousands) Passenger Miles (Millions) Ton Miles (Millions)

INDUSTRIAL RELATIONS AND PERSONNEL



Reservations/Space Control is an intricate part of passenger handling.



Regular inspection programs are maintained by highly specialized maintenance personnel.



Friendliness is a byword with Bonanza stewardesses.



Regular classroom training sessions are scheduled for maintenance personnel.

Bonanza has obtained an outstanding labor relations record in the airline industry through its increasing attention to employee problems and welfare. Of employee complaints received, over 90% are resolved prior to reaching a "grievance" or dispute level. Employees are kept informed on Bonanza's progress and growth through news items in the company house organ—the "Big B"—and through departmental supervisors. Additionally, both the Company and the employees benefit from employee idea contributions submitted through the Employee Suggestion Program.

The progress made in the field of the Company's labor-management relations in the year 1959 was outstanding. Four of the five Company labor agreements were renegotiated. Bonanza's airline pilot agreement and hostess agreement were signed in March and February, respectively, with both to remain in effect 18 months from the date of signing. The agreement with the Company's aircraft maintenance mechanics was opened by mutual consent in order to adjust wages to a more realistic figure in line with the industry and to extend the contract to a new expiration date of June 1961. During the latter part of 1959 the dispatchers' contract, due to expire on January 1, 1960, was renegotiated for a four-year period.

The advent of the Silver Dart resulted in a sizeable increase in traffic and in all other Company activity. Six new stations were opened on Bonanza's system. The maintenance, inspection, communications, accounting, dispatch, station, stores, training, flight operations and numerous other functions and responsibilities were multiplied. Yet the total over-all employment increased by only 10% to 480, with a very significant decrease in turnover rate. This reduction in turnover may be attributed to several factors, including (a) closer liaison with the accredited airline training schools, allowing the acquisition of higher caliber and better trained station and reservations personnel, (b) more thorough screening of all applicants, (c) an employee development program which keeps the employees posted on their advancement and the areas in which they need improvement as well as providing them with a better understanding of the supervisors' requirements, and (d) an intensified and continuing training program.

In addition, the Company offers the employees an educational assistance program, liberal on-line pass privileges, a retirement program, a group medical and hospital program and numerous other employee benefits.

As indicated by the foregoing, your Company is greatly pleased with the loyalty and the competency of its employees, and it endeavors to provide them with every possible advantage consistent with good economic judgment and sound administration.

ROUTE DEVELOPMENT AND PLANNING

Bonanza took an active part in three Civil Aeronautics Board route proceedings in 1959—in one case as an applicant for new route authorizations, in two cases as an intervenor.

In March, April and May of 1959 the Company vigorously participated in hearings before CAB Examiner William F. Cusick, who presided over a proceeding known as the *Pacific Southwest Local Service Case*. In this case, Bonanza is seeking authority from the CAB to provide, among other things, the following services: (1) Silver Dart non-stop service between Los Angeles and Las Vegas, with five daily round trips; (2) Silver Dart Las Vegas-Oakland/San Francisco service, both non-stop and via Fresno; (3) Silver Dart Las Vegas-San Diego service, both non-stop and via Palm Springs; (4) Silver Dart Oakland/San Francisco-Reno service via Sacramento; and (5) service over a San Diego-Reno route via various intermediate cities in the San Joaquin Valley. Receipt of major awards in this proceeding would substantially strengthen the Company and materially reduce its requirements for public service payments from the Government. Upon issuance of the CAB examiner's recommendation, which is expected soon, the case will go directly into the hands of the Civil Aeronautics Board. The year 1960 is therefore expected to produce the final decision in this important case.

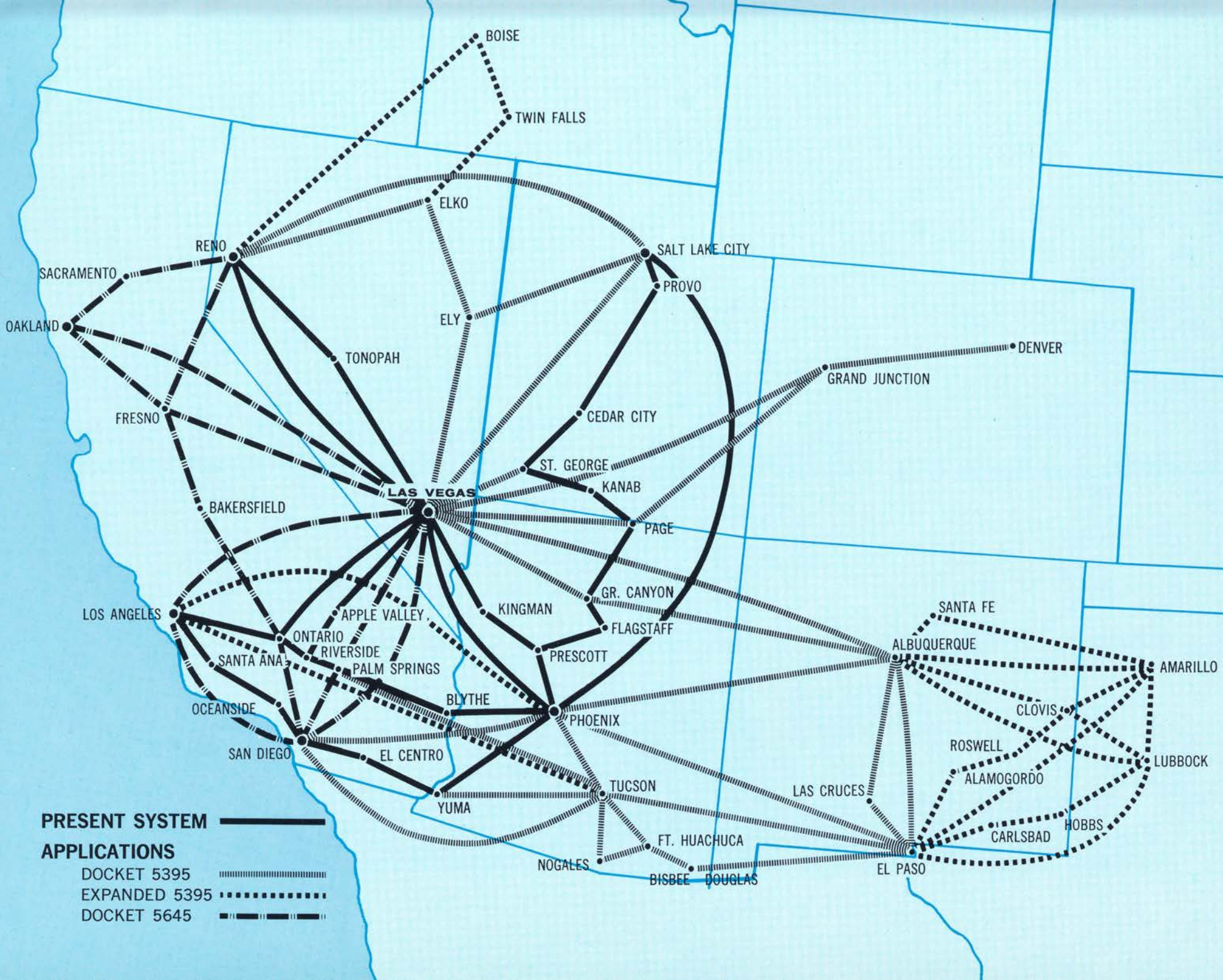
Bonanza intervened in two proceedings known as the *Reopened Pacific Northwest Local Service Case* and the *Southern Transcontinental Service Case*. The Company exhibits and testimony in these proceedings were designed to protect not only its present system interests but also its proposals and requirements for future expansion and development.

In addition to the above cases, Bonanza has become a party in the recently designated *Southern Rocky Mountain Area Local Service Case*. As the boundaries of the case are now defined, the Company expects consolidation of its applications for authority to provide service to cities in Colorado and New Mexico as well as to El Paso, Texas. Bonanza has also applied for additional operating authority in the four states it now serves—Arizona, California, Nevada and Utah. The Company also expects these applications to be

included in the case. Bonanza has several applications on file which would likely be included if the case is expanded beyond its present boundaries.

During the year 1959, six new communities were added to Bonanza's system service. Two of the cities, Grand Canyon, Arizona and St. George, Utah, certificated in late 1957, had not been served earlier due to the unavailability of adequate airport facilities; three cities, Kanab, Utah, Flagstaff and Page, Arizona, were provided service as a result of an award granted by the CAB in February 1959. One city, Oceanside, California, is receiving service by Bonanza under an exemption authority.

The tremendous impact of the F-27A jet-prop Silver Dart can be most readily seen in the section of this report covering growth. Since March 1959, when Bonanza proudly introduced this attractive new airplane to its traveling public on the Reno-Las Vegas-Phoenix and the Phoenix-Salt Lake City segments, demand has required the addition of a number of Silver Dart flights. The Company has always tried to meet traffic demands and develop additional traffic potentials whenever possible, and here was no exception. Service was commenced with two Silver Dart round trips in April 1959 between Phoenix and Los Angeles via Yuma, El Centro, San Diego and Santa Ana. In September 1959 a second Silver Dart non-stop was added between Las Vegas and Reno. Bonanza received delivery of its sixth Silver Dart in October, thereby permitting the Company to integrate further this fine aircraft into its operations. Thus, October saw a fourth Silver Dart round trip added between Las Vegas and Phoenix via Kingman, Arizona to supplement the then existing three non-stops; a second Silver Dart non-stop round trip was added between Phoenix and Salt Lake City; and Silver Dart service was initiated between Phoenix and Los Angeles via Blythe, Palm Springs and Riverside/Ontario. In February 1960 the Company inaugurated service with the Silver Dart between Las Vegas and Los Angeles via Ontario, thus providing jet-prop service to the only Bonanza segment which had not received it theretofore. The institution of this service completes the first step of the Company's plan for an all jet-powered operation.



PRESENT SYSTEM

APPLICATIONS

- DOCKET 5395
- EXPANDED 5395
- DOCKET 5645

**MAIL AND
PUBLIC
SERVICE
REVENUE**



**ACCOUNTANTS'
REPORT**

Mail and public service revenue received by the Company during 1959 were paid under temporary rates established by the Civil Aeronautics Board, thereby extending the period for which final revenues from this source are to be determined to a two and one-half year period dating back to July 1, 1957. The revenues received under such temporary rates were intended, together with commercial revenue, to approximately equal operating expenses plus interest on indebtedness.

The Company sought a conference proceeding with the CAB during 1959 to determine final rates for the expired period from July 1, 1957 through December 31, 1959 as well as for future periods of operation. In its petition of October 22, 1959 the Company formally requested the commencement of such proceeding at the earliest date available on the schedule of the CAB. To date no specific time has been set for the convening of a proceeding but the Company is hopeful that it may be scheduled during 1960.

The ultimate determination of a final rate for the period from July 1, 1957 through December 31, 1959 is expected to provide the Company with additional net revenue in excess of \$250,000 after income tax comprising a 7 percent return on investment less amounts advanced under temporary rates covering interest on indebtedness.

On January 22, 1960, the CAB announced a program of establishing final mail and public service rates for future periods of operation by the end of 1960, for all local service airlines presently operating under temporary rates. In response to the request of the CAB with respect to the scheduling of such proceeding, the Company urged that the earliest available date be reserved and that effort be made to commence the proceeding prior to July 1, 1960.

Although the CAB has announced no decision in the *Local Service Rate of Return Investigation*, all procedural steps have been completed and the matter stands ready for decision. In the interim period, pending decision in that case, the CAB continued to apply a 7 percent return on investment for past periods of operation and a 9½ percent return on investment for the profit element of a rate for future periods of operation. It is anticipated that the 9½ percent measure of profit will be employed in determining the Company's rate to be fixed on a prospective basis in 1960, unless final decision in the investigation has been announced with a different percent for profit computation, prior to the completion of the Company's rate proceeding.

In announcing the program for the determination of final mail and public service rates during 1960, the CAB indicated that its study of group rates for local airlines has not been resolved in all particulars but that it would continue study of the plan. The Company has strongly supported the adoption of such a method of determining rates because of the greater flexibility which would be made available for planning and conducting its operations with the advance knowledge of the probable profit result that could be expected.

The Board of Directors
Bonanza Air Lines, Inc.:

We have examined the balance sheet of Bonanza Air Lines, Inc. as of December 31, 1959 and the related statements of income, deficit and additional paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to any retroactive adjustment of mail revenue as mentioned in Note 6, the accompanying balance sheet and statements of income, deficit and additional paid-in capital present fairly the financial position of Bonanza Air Lines, Inc. at December 31, 1959 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Los Angeles, California
April 8, 1960

PEAT, MARWICK, MITCHELL & CO.

BONANZA AIR LINES, INC.

STATEMENT OF INCOME

Year ended December 31, 1959

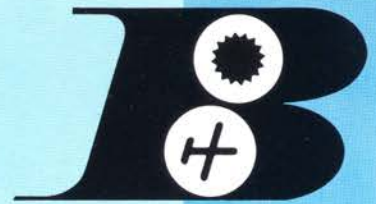
(with comparative figures for 1958)

	1959	1958
Operating revenues:		
Passenger	\$3,814,884	\$2,707,905
Mail (Note 6)	2,454,792	1,800,969
Express, freight and excess baggage	125,672	110,702
Charter and other transport services	89,316	36,721
Other	26,447	6,297
	<u>6,511,111</u>	<u>4,662,594</u>
Operating expenses:		
Flying operations	1,746,686	1,419,408
Maintenance	1,377,211	928,743
Passenger service	276,352	221,835
Aircraft and traffic servicing	1,427,059	1,153,101
Promotion and sales	470,129	342,231
General and administrative	515,243	371,947
Depreciation	433,449	189,236
Amortization of development and preoperating costs	111,888	44,017
	<u>6,358,017</u>	<u>4,670,518</u>
Operating income (loss)	153,094	(7,924)
Non-operating income	13,888	10,347
	<u>166,982</u>	<u>2,423</u>
Non-operating expenses:		
Interest (Note 7)	131,354	11,325
Other	6,924	714
	<u>138,278</u>	<u>12,039</u>
Income (loss) before Federal income taxes	28,704	(9,616)
Provision (credit) for deferred Federal income taxes (Note 2)	17,300	(7,100)
Net income (loss)	11,404	(2,516)
Additional prior years' mail revenue, less deferred Federal income taxes, \$9,200 and \$43,600 (Notes 2 and 6)	8,362	40,309
Net income (loss) and additional prior years' mail revenue	<u>\$ 19,766</u>	<u>\$ 37,793</u>

Statements of Deficit and Additional Paid-In Capital

Year ended December 31, 1959

	Deficit	Additional Paid-in Capital
Amount at beginning of year	\$ 172,959	\$1,162,377
Net income and additional prior years' mail revenue	19,766
Excess of proceeds over par value of 6,415 shares of stock issued under option	8,754
Excess of indebtedness cancelled over par value of 13,143 shares of stock issued in consideration therefor	32,857
Amount at end of year	<u>\$ 153,193</u>	<u>\$1,203,988</u>



ASSETS

	<u>1959</u>	<u>1958</u>
Current assets:		
Cash	\$ 479,581	\$ 318,776
Receivables:		
United States Government Departments	556,984	415,674
Traffic, less allowance for doubtful accounts, \$4,000 and \$11,000	37,932	138,452
Other	58,485	51,001
Net receivables	<u>653,401</u>	<u>605,127</u>
Spare parts, service materials and supplies, at cost	164,717	92,392
Prepaid expenses	203,252	51,775
TOTAL CURRENT ASSETS	<u>1,500,951</u>	<u>1,068,070</u>
Investments, at cost	2,621	2,821
Properties and equipment, at cost (Notes 1 and 3):		
Flight equipment	6,241,065	1,615,080
Ground equipment	584,149	344,884
Buildings and improvements on leased property	405,793	390,014
Other property and equipment	14,980	15,347
Construction in progress	9,862	121,789
	<u>7,255,849</u>	<u>2,487,114</u>
Less allowance for depreciation and amortization	1,631,192	1,004,793
Net properties and equipment	<u>5,624,657</u>	<u>1,482,321</u>
Deposits on equipment purchase contracts	1,000	533,933
Unamortized development and preoperating costs	266,952	176,013
Deferred charges	31,968	20,527
	<u>\$7,428,149</u>	<u>\$3,283,685</u>

See accompanying notes to financial statements.

BONANZA AIR LINES, INC.

BALANCE SHEET

as of December 31, 1959

(with comparative figures for 1958)

LIABILITIES

	<u>1959</u>	<u>1958</u>
Current liabilities:		
Current portion of long-term debt	\$ 425,489	\$ 33,691
Accounts payable:		
Purchases	348,061	369,910
Traffic	14,084	190,557
Amounts collected for others	102,078	69,096
Accrued salaries and wages	171,158	158,770
Other accrued liabilities	197,861	49,316
Unused transportation	<u>30,181</u>	<u>13,605</u>
TOTAL CURRENT LIABILITIES	<u>1,288,912</u>	<u>884,945</u>
Long-term debt, less payments due within one year (Note 1)	<u>4,156,747</u>	<u>523,685</u>
Deferred Federal income taxes (Note 2)	<u>63,000</u>	<u>36,500</u>
Commitments and contingent liabilities (Note 3)		
Retirement plan (Note 4)		
Stockholders' equity:		
Common Stock, \$1.00 par value per share.		
Authorized 1,500,000 shares; issued and outstanding 868,695		
and 849,137 shares respectively (Note 5)	868,695	849,137
Additional paid-in capital	<u>1,203,988</u>	<u>1,162,377</u>
	2,072,683	2,011,514
Less Deficit	<u>153,193</u>	<u>172,959</u>
Total stockholders' equity	<u>1,919,490</u>	<u>1,838,555</u>
	<u>\$7,428,149</u>	<u>\$3,283,685</u>

- **NOTE 1. LONG-TERM DEBT.** The long-term debt as of December 31, 1959 is summarized as follows:

	<u>Outstanding Dec. 31, 1959</u>	<u>Payable</u>
Notes payable to banks:		
5½ % note maturing December 1, 1962, secured by a chattel mortgage on all DC-3 aircraft	\$ 300,000	\$15,000 monthly (including interest), commencing April 1, 1961
5½ % notes maturing June 1, 1968, secured by a chattel mortgage on six F-27A aircraft	4,169,871	\$51,621 monthly (including interest)
Equipment purchase contracts, maturing in 1964 or prior	112,365	\$1,910 monthly plus interest at 4½ % per annum
	<u>4,582,236</u>	
Less current portion	425,489	
Net long-term debt	<u>\$4,156,747</u>	

- **NOTE 2. FEDERAL INCOME TAXES.** Differences in the treatment of certain items of income and expense result in substantial variations between net income (loss) as reflected in the company's financial statements and as reported in its income tax returns. These differences are primarily in connection with the year in which temporary mail revenue adjustments are recognized as income, and route development and preoperational costs which are expensed, for tax purposes, in the year in which incurred, although such costs are being amortized on the books.

Deferred Federal income taxes have been computed after giving effect to net operating losses for tax purposes, which are available for carry-over to subsequent years.

The company's Federal income tax returns for 1956 and subsequent years are subject to review by the United States Treasury Department.

- **NOTE 3. COMMITMENTS AND CONTINGENT LIABILITIES.** At December 31, 1959 the company had on order four additional F-27A aircraft which are scheduled for delivery in 1960. The purchase of these aircraft, representing a commitment of approximately \$2,832,000, is contingent upon the company obtaining the necessary financing therefor.

As of December 31, 1959, the company was contingently liable for claims and lawsuits in which it is or may be a defendant; however, management and its counsel believe the ultimate liability, if any, will not materially affect the financial position of the company at December 31, 1959 or the results of its operation for the year then ended.

- **NOTE 4. RETIREMENT PLAN.** The company has a contributory retirement plan for all eligible employees, which is implemented by a trust fund. The plan is cancellable by the company. The cost of this plan charged to operating expense in 1959 totaled \$132,005 for both current and past services. Management contemplates that the remaining past service costs of the plan will be funded over a period of approximately nine years and will require annual payments of \$71,859 (including interest).

- **NOTE 5. CAPITAL STOCK RESERVED.** In July 1959, the company adopted a restricted stock option plan for its officers and key employees. The plan provides for the granting of options to purchase an aggregate of 85,000 shares of the company's capital stock at prices not less than 95% of the fair market value of said stock on the dates of granting the options. The options are exercisable generally in equal instalments over a period of five years. As of December 31, 1959, options to purchase 40,300 shares at prices aggregating \$141,006 had been granted and were outstanding as of said date.

As of December 31, 1959, 40,000 additional shares of capital stock were reserved under options granted to several underwriters in 1958. Said options are exercisable at a purchase price of \$2.75 per share and expire in June 1963.

The company has agreed to acquire all of the outstanding capital stock of an Arizona intrastate airline, in exchange for a maximum of 18,595 shares of the company's capital stock. This acquisition is subject to approval of the Civil Aeronautics Board.

- **NOTE 6. MAIL REVENUE.** The company has received mail and public service revenues under temporary rates established by the Civil Aeronautics Board following petition by the company on July 1, 1957. During the two and one-half year period subsequent to the original petition, four adjustments to the temporary rate have been authorized with the fourth amending order issued on April 5, 1960. An additional amount of \$275,773 was authorized in the fourth amendment over rates previously established for the period July 1, 1957 through December 31, 1959, of which \$17,562 related to the periods prior to 1959. The company has requested the Civil Aeronautics Board to determine final rates for this period; however, no accruals have been included in the financial statements to reflect the effect of such final rates. In the opinion of management, based on current rate policies of the Civil Aeronautics Board, operating results for the period July 1, 1957 through December 31, 1959 will be favorably affected when the rates for such period are finally reviewed and settled.

- **NOTE 7. INTEREST ON INDEBTEDNESS.** Interest expense as reflected in the statement of income does not include \$37,380 in the year 1959 which was capitalized as a part of the cost of acquiring six F-27A aircraft.

The Annual Meeting of Stockholders of Bonanza Air Lines, Inc., is held on the first Monday of May in each year. This year the Annual Meeting will be held at 10:00 A.M. on May 2, 1960, at the Company's General Offices, McCarran Field, Las Vegas, Nevada.

The record date for the determination of stockholders entitled to receive notice and to vote at the meeting and any adjournment thereof has been fixed by the Board of Directors as of the close of business on April 1, 1960.

Stockholders are cordially invited to attend the meeting or send in their proxies.

BONANZA AIR LINES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1959

ANNUAL MEETING



SALES AND ADVERTISING

In anticipation of the introduction of Silver Dart service to the traveling public in the explosively growing southwestern area of the nation, your Company's sales, promotion and advertising efforts were greatly accelerated during the early part of 1959. This intensified program was continued throughout the year as additional aircraft were delivered and placed into service. Not only was this ultramodern aircraft new to our public but so also were many of the scheduled services being added because of it.

Your Company continued its strong penetration into the vacation package field, with several new tours being offered. The tour program has brought substantial recognition to the Company through several thousand recognized travel agencies in the United States and abroad. The sales benefits from the increasingly popular tour vacations are expected to mount in succeeding years, as the cumulative effects of the broadening program are realized.

The availability of jet-prop Silver Dart service on Bonanza's system has provided a notable stimulus to the joint promotional efforts undertaken by your Company in conjunction with the trunk airlines, travel agencies, hotels and various national and regional businesses and organizations. Tie-in advertising in connection with the new Silver Dart service was also greatly accelerated during the year.

The year reflects an increased use by Bonanza of virtually all fields of advertising media reasonably available to the Company, including, among others, radio, television, newspaper, magazine, outdoor and transit. Direct mail advertising was also used extensively.

While necessarily and properly a large amount of the advertising program has been directed toward point-to-point or destination type promotion, a larger than usual amount has been devoted to a so-called prestige or institutional kind of advertising to create a public awareness in 1959 of the astounding rise in the stature of your Company. The program in all respects has been exceptionally well received and highly productive.

In addition to the near-phenomenal 1959 increase of 32% in passenger traffic over the same basic route structure operated in 1958, exceptional advances were also made in other traffic categories; total mail ton miles increased by more than 25%; freight ton miles were up over 11%; and other ton miles increased by 20%.

Also reflecting the greatly improved services and the intensified sales efforts of your Company were notable gains in interline sales, excursion travel, military and government traffic, charter services and the use of Company on-line credit cards.

A new combination city ticket office and reservations office was opened in 1959 in the Beverly Hills area of Los Angeles. The expected growth in traffic from the Los Angeles area makes this addition one of the most important of Bonanza's sales facilities and outlets. A new sales office has also been opened in San Diego, in keeping with the growing importance of this area to your Company's total system traffic potential. In addition, your Company also maintains sales offices in Reno and Las Vegas, Nevada; Phoenix, Arizona; Ontario, California and Salt Lake City, Utah.



SERVING:

APPLE VALLEY, CALIF.
BLYTHE, CALIF.
CEDAR CITY, UTAH
EL CENTRO, CALIF.
FLAGSTAFF, ARIZ.
GRAND CANYON, ARIZ.
KANAB, UTAH
KINGMAN, ARIZ.
LAS VEGAS, NEV.
LOS ANGELES, CALIF.
OCEANSIDE, CALIF.
ONTARIO, CALIF.
PAGE, ARIZ.
PALM SPRINGS, CALIF.
PHOENIX, ARIZ.
PRESCOTT, ARIZ.
PROVO, UTAH
RENO, NEV.
RIVERSIDE, CALIF.
ST. GEORGE, UTAH
SALT LAKE CITY, UTAH
SAN DIEGO, CALIF.
SANTA ANA, CALIF.
LAGUNA BEACH, CALIF.
TONOPAH, NEV.
YUMA, ARIZ.

TRANSFER AGENT: *First National Bank of Nevada, Las Vegas, Nevada*

REGISTRAR: *Bank of Nevada, Las Vegas, Nevada*

CORPORATE OFFICES: *Bonanza Air Lines, Inc., McCarran Field
P. O. Box 391, Las Vegas, Nevada*