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**BONANZA  
AIR LINES, INC.  
ANNUAL REPORT  
1964**

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## BONANZA AIR LINES, INC.

### BOARD OF DIRECTORS

#### EDMUND CONVERSE

President and Chairman of the Board of Directors. He has served as director and chief executive of Bonanza since the company was incorporated.

#### FRANK W. BEER

Became a director of Bonanza Air Lines in February of 1951. He is the senior member of the law firm of Beer and Polley; director of People's State Bank, Mineola, Kansas; director of KOOL and KOLD radio, CBS affiliates; director of F. A. Gillespie and Sons Company, Tulsa, Oklahoma; director of Adams Hotel Company, Phoenix, Arizona.

#### GEORGE L. VARGAS

One of the original incorporators of Bonanza, Mr. Vargas has served as a director since June of 1952. He is a senior partner in the law firm of Vargas, Dillon, Bartlett & Dixon; also a director of Johnson Service Co. of Milwaukee; director of Valley Bank of Nevada in Reno.

#### ROGER CONVERSE

Became a director of Bonanza Air Lines in May of 1955. He is a director of Island Farms, Inc. and Cave des Roys. His other interests include investments, public relations, and real estate.

#### CHESTER M. GLASS, JR.

Became a director of Bonanza Air Lines in January of 1959. Mr. Glass has been active in the investment banking business for 35 years.

#### WILLIAM D. PABST

Elected to the Bonanza Board of Directors in March of 1959. He is executive vice president and general manager of San Francisco-Oakland Television, Inc.; also president and director, St. Claire Finance Corporation.

#### G. ROBERT HENRY

Elected to the Bonanza Board of Directors in March of 1959. He has been Executive Vice President of Bonanza since 1953 and associated with Bonanza top management since 1949.

#### JAMES D. MOYLE

Elected to the Bonanza Board of Directors in February of 1960. A Salt Lake City industrialist, Mr. Moyle is president and director, Superior Oil Company of Utah; president and director, Silver Lake Company; vice president and director, Ideal National Insurance Company, Industrial Uranium Company and Empire Capital Corporation.

#### ROBERT O. REYNOLDS

Became a director of Bonanza Air Lines in May of 1962. He is president of Golden West Broadcasters and Golden West Baseball Co., owners of the Los Angeles Angels baseball team; also president of Board of Trustees, the Webb School of California. He is a member of the advisory board of the Guaranty Bank; and vice president and director, Los Angeles Rams and Gene Autry Hotel Co.

### COMPANY OFFICERS

#### EDMUND CONVERSE, *President*

G. ROBERT HENRY  
*Executive Vice President*

MYRON W. REYNOLDS  
*Vice President, Operations*

ROBERT J. SHERER  
*Vice President, Finance*

LARRY DECKER  
*Vice President, Traffic and Sales*

JOHN D. LINDSAY  
*Vice President, Advertising and Publicity*

DONALD R. NEILSON  
*Vice President, Research and Development and Assistant Secretary*

RICHARD A. ROGERS  
*Vice President, Industrial Relations*

ARTHUR M. TAYLOR, JR.  
*Vice President, Legal and Secretary*

JACK ARANT  
*Vice President Governmental Affairs*

NOLAND H. RYAN  
*Vice President Community Affairs*

FRANK R. CHABOT, *Treasurer*

THOMAS J. VAN BOGART  
*Controller and Assistant Secretary*

WILLIAM C. BURT  
*Assistant Secretary*

## TO OUR STOCKHOLDERS:



The year 1964 saw Bonanza enter into the second phase of its equipment modernization program with the completion of the company's second major equipment financing program. As previously reported, approximately \$11,000,000 is required to finance the three Douglas DC-9 fan/jet aircraft ordered during 1963. Funds were made available to the company in May of 1964 through term loan agreements aggregating approximately \$6,500,000, and from a public offering of \$4,500,000 of 5¼% convertible subordinated debentures and common stock of the company.

Douglas Aircraft Company reports that construction of the DC-9 is progressing ahead of schedule. The first aircraft came off the assembly line in early January 1965, one month ahead of schedule. First flight tests were conducted by Douglas on February 25, and were reported to be extremely gratifying. The company's first DC-9 is expected to be delivered by February of 1966. We are, of course, looking forward to that time.

In order to accomplish an orderly assimilation of the DC-9 into the company's operations every department in the company is busy with necessary preparations. Present plans call for a major expansion of the company's maintenance facilities, including a new hangar and shop facilities designed to accommodate the DC-9. Training programs for pilots and mechanics have already been developed.

During 1964 net earnings before special items amounted to \$677,166 or 65¢ per average number of shares outstanding, as compared to \$874,129 and 96¢ per outstanding share during 1963.

Earnings for 1964 were affected somewhat by an unrestricted low fare program instituted by a competitive carrier in the Las Vegas-Los Angeles market, although by mid-1964 effective remedial action was instituted by the company. A temporarily depressed Salt Lake City economy, resulting from major labor strikes, added to the problem. A 26% increase in service over the company's system in late 1963 resulted in increased costs; due to the normal lag in related traffic development these increases were not immediately matched by additional revenues. As a result of these various factors the 12.6% increase in commercial revenue during 1964 was not reflected in an improvement in net earnings. When viewed in the light of the company's previous year, an outstanding one I might add, the financial results would seem to be less attractive. However, when compared with the overall progress of the company, 1964 emerges as the third most prosperous year in the company's history, exceeding the accumulated earnings for the first 16 years of operation (1946-1961). Bonanza continues to rank among the leaders in the local service industry and again led that industry in passenger load factor in 1964.

During November of 1964 the company suffered the loss of one of its F-27As in a tragic accident during a snowstorm near Las Vegas, Nevada. This was the first fatal accident in this company's 19 year history. The matter is presently under study by the Civil Aeronautics Board for their determination of probable cause.

Late in 1964 the company negotiated with Fairchild Hiller Corporation for the purchase of two additional F-27As to be delivered early in 1965. One is a replacement aircraft and the second is needed to serve the additional traffic requirements on the company's system.

In closing it is appropriate to say that in my judgment the government approval in 1964 to purchase the DC-9 fan/jet airliner, together with the successful completion of the necessary financing program, constitute, in all likelihood, what will be looked upon as the most significant step forward in this company's entire history.

Sincerely,

PRESIDENT AND CHAIRMAN OF  
THE BOARD OF DIRECTORS

### FINANCIAL AND OPERATING HIGHLIGHTS / Calendar Years 1960-1964

	1964	1963	1962	1961	1960
Total operating revenue <sup>1</sup>	\$14,085,367	\$12,762,543	\$10,945,839	\$ 9,282,366	\$ 8,178,132
Earnings before taxes <sup>1</sup>	\$ 1,280,166	\$ 1,695,269	\$ 1,222,980	\$ 914,054	\$ 226,271
Net earnings <sup>1</sup>	\$ 677,166	\$ 874,129	\$ 711,144	\$ 422,054	\$ 107,871
Net earnings per share <sup>1, 2</sup>	\$ .65	\$ .96	\$ .78	\$ .47	\$ .12
Gross annual payroll	\$ 5,541,456	\$ 4,682,436	\$ 4,024,365	\$ 3,575,430	\$ 3,196,299
Revenue passenger miles per employee	214,777	215,719	190,014	156,369	129,120
Available seat miles flown	292,480,000	241,284,000	206,849,000	166,821,000	159,789,000
Revenue passenger miles flown	160,653,000	139,139,000	108,688,000	79,748,000	63,527,000
Passenger load factor	54.9%	57.7%	52.5%	47.8%	39.8%

<sup>1</sup>Reflects adjustments related to retroactive subsidy determinations. <sup>2</sup>Based on average outstanding shares of stock.



## A NEW ERA



G. ROBERT HENRY

While Annual Reports are largely retrospective in nature there sometimes occurs in the life of a company a change so fundamentally affecting its future course that prospective treatment is required. Such is the nature of the company's decision to purchase the Douglas DC-9 fan/jet aircraft and the government's 1964 approval of that purchase. This is but a part of the company's long range program, but it is such a vital part that it warrants special consideration in this report. To place the DC-9 in its proper perspective, however, requires a brief discussion of the nature of that long range program and the policies and objectives that underlie it. It is to that purpose that this section will be devoted.

Bonanza is dedicated to the principle that the inherent advantages of air transportation must be extended to an increasingly broader base of our national populace. Two things are absolutely essential to the achievement of this objective: Constant progress in the operating efficiencies of the industry and constant improvement in the safety of air travel. Low cost, of course, permits low fares—which are a basic requirement for the greatly broadened use of air transportation. Reliability of equipment and personnel provide the obvious key to air safety.

The emergence of the jet aircraft has permitted miraculous progress in these critical areas of cost and reliability. Its full cost achievements are as yet beyond count. Its mating of man and

advanced flight equipment technology is producing an incredible reliability factor.

These are a part of the promise that the DC-9 holds for Bonanza. It will bring to the high density short-haul markets of Bonanza all of the bright prospects that the larger jets offer in the major long-haul markets of the domestic trunk airlines. Great masses of the public will be benefitted by the course Bonanza is setting.

We are still faced, of course, with the problem of "subsidy"—a not unkindly word if viewed properly as a developmental tool to be employed in the creation and maintenance of a required but not self-sustaining public service. Generally speaking, though, subsidy should be considered transitory in nature, as it was in the case of the trunk airlines and the railroads. It should be used only as a means of sustaining a public service until it becomes *possible* to convert it into a self-sufficient enterprise.

Bonanza now looks forward to that opportunity and prospect. Again the Douglas DC-9 fan/jet aircraft is a key factor. The DC-9, in and of itself, is expected to permit substantial reductions in subsidy in the years ahead. Its anticipated efficiency and reliability, and its expected generation of new traffic through its superior performance of a highly attractive public service are expected to reduce materially the company's need for subsidy support.

To eliminate entirely that need, however, it is the conviction of the company that further improvements in route structure and operating authority are required. Such improvements can only be obtained by grant from the Civil Aeronautics Board. While this generally involves the processing of a long, intricate and not always productive proceeding, it must be remembered that it is the responsibility of the CAB to foster and develop a *sound* national air transport system in accordance with the dictates of the "public convenience and necessity."

Bonanza is fully cognizant of the responsibilities of the Civil Aeronautics Board. Bonanza recognizes also that the company itself has a basic obligation to the CAB, the public and its own stockholders and employees. That obligation is to continue to present to the CAB a full and intelligent opportunity for that agency to meet its assigned regulatory and developmental responsibilities, in so far as those responsibilities relate to the role and future of this company in

the overall pattern of the nation's air transport services.

Guided by its deepest convictions respecting public service and managerial responsibility the company intends in the near future to present its program for *subsidy elimination* to the Civil Aeronautics Board. It will do so in the hope and expectation that the "public convenience and necessity" benefits to be derived from this program are sufficiently great and challenging to warrant the CAB's full endorsement of priority consideration and ultimate approval.

The criteria which this route program must embrace in order to meet the high standards deemed essential by this company are in substance as follows:

1. The proposals must and will lead to improved public service in the area involved.
2. The proposals must and will greatly stimulate the public use of air transportation in the markets affected.
3. The proposals, either separately or in combination, must and will have no unduly adverse impact on the economic welfare of any existing scheduled airline operating in the area involved.
4. The proposals must and will take full advantage of the extraordinary efficiencies and attractions of modern jet equipment such as the DC-9.
5. The new air service patterns to be developed must and will effectively and efficiently integrate into the company's existing services.
6. Except to the degree of economic self-sufficiency to be obtained, the proposals must not and will not present a significant departure from the character of the services currently being provided by the company.
7. The proposals must and will be designed to eliminate eventually the company's entire need for subsidy support from the Civil Aeronautics Board.

This is an attainable program. Concurrence in it by the Civil Aeronautics Board, however, is an obvious prerequisite to attainment. The company will soon present such a program and will vigorously urge its consideration and approval by the Civil Aeronautics Board.

Perhaps a word of caution should be expressed with respect to a full understanding



of the program. The program should not be misconstrued to suggest that Bonanza will not continue to provide and continue to improve its existing public services. Nor that Bonanza is not willing to provide any other public service that the Board should find required by the public convenience and necessity, even though such service requires subsidy support.

Also it must be noted that there may be occasions when the company finds itself required to seek a subsidized new route authority that it deems required in the long run for the appropriate establishment and preservation of a sound route structure, even though a subsidy requirement would attach thereto in the developmental stages of that route segment.

It is the company policy, however, to seek to establish a sound route structure in which the stronger components will permit our own underwriting and support of the weaker markets required to be served in the public interest.

In summary it is the unequivocal conviction of the company that the Douglas DC-9 aircraft will soon permit your company a flight from the present economic and public service plateau into a bright new era that hitherto has been beyond all reach. It is indeed a shining prospect, but the aid of all hands will need be devoted to the task for its successful achievement.



## SALES AND ADVERTISING



LARRY DECKER

The company's advertising and traffic promotion efforts were employed with considerable diversity during 1964. Numerous additions and

improvements in customer service were directed to all segments of the system. Each of these efforts received substantial advertising support.

The DC-9 purchase and associated activities in preparation for its delivery were the subject of an appreciable amount of Bonanza publicity during the year. Additionally, preparations are being made to support the many activities which will accompany the company's entrance into the pure jet field. These promotion and publicity programs will commence in 1965, and continue on through 1966 when the DC-9 becomes part of the company's fleet.

In line with the company's continuing sales program designed to expand the company's sales effort to its maximum efficiency, and as a result of increased traffic potential over the past several years, sales areas covered by district sales personnel were expanded during 1964 into Idaho, Montana, northern California, Texas and New Mexico.

The several vigorous advertising programs normally pursued through newspaper, outdoor and radio media were supplemented by special impact programs directed toward new services



JOHN D. LINDSAY

impact programs directed toward new services and potential new traffic.

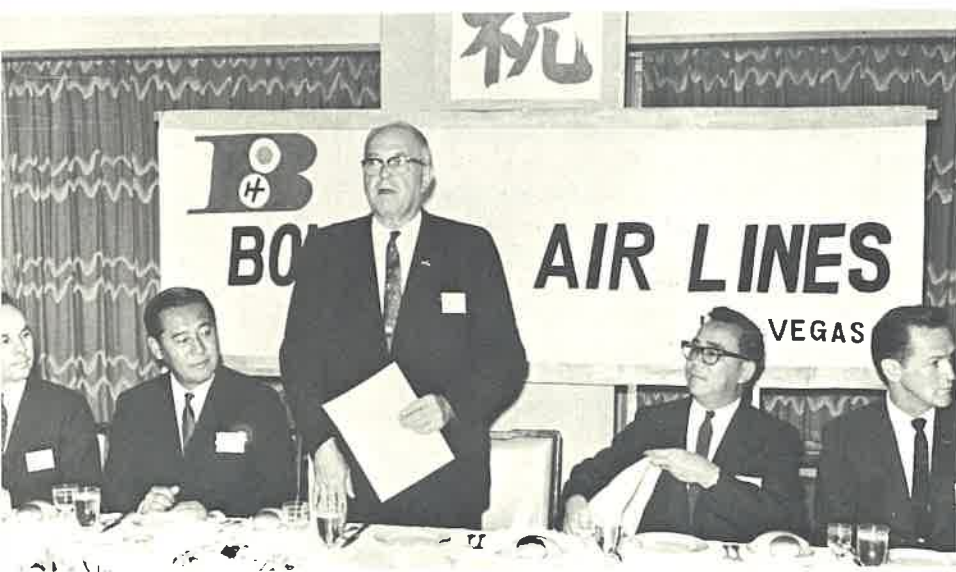
BonanzaLand and the Visit U.S.A. programs

both continue to attract large numbers of foreign visitors to the area served by Bonanza, and the company's effort along these lines was further strengthened with the opening of a sales and information office in Tokyo, Japan. The Orient is expected to be a major source of additional traffic in the future.

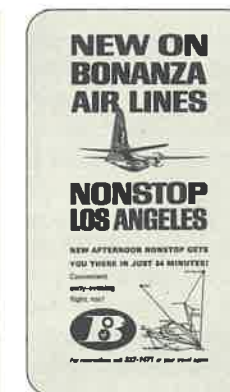
The new "BonanzaLand" film completed its second year of circulation, and in November of 1964 this outstanding film won the "Golden Eagle" award of the Council for International Non-theatrical Events (CINE). The award was presented at ceremonies at Washington, D.C.

In the fall of 1964 Bonanza embarked on another effort to improve passenger service by introducing cocktail service aboard selected flights throughout the system. The service has proved to be very successful.

Additionally, the fifth hostess exchange program has been finalized and the company will during 1965 exchange a hostess with Alitalia. This program has been very beneficial to the company.



Edmund Converse, Bonanza President, is shown speaking at a press luncheon in Tokyo in November, 1964. This meeting was part of the festivities that attended the opening of the company's new sales office in the world-famed Imperial Hotel.





## ROUTE DEVELOPMENT



DONALD R. NEILSON

The company's continuing efforts to maintain its position among the leaders in the local service industry require a continuing analysis of the company's route structure, service needs of the communities we serve, and the methods of providing for these needs through an efficient and economic operation. The task of sound route development in the ever expanding southwest has as its goal a twofold purpose: a constantly improving public service and the ultimate elimination of the company's reliance on federal subsidy. These goals require the closest possible coordination of research, community relations and governmental activities.

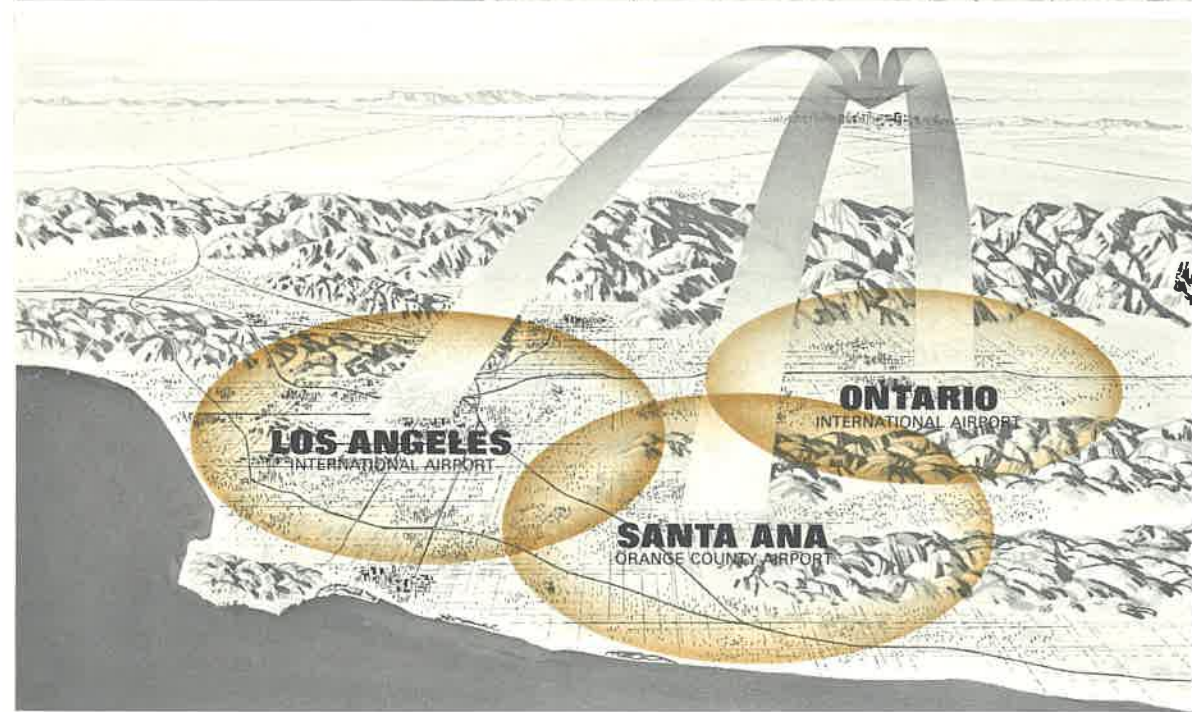
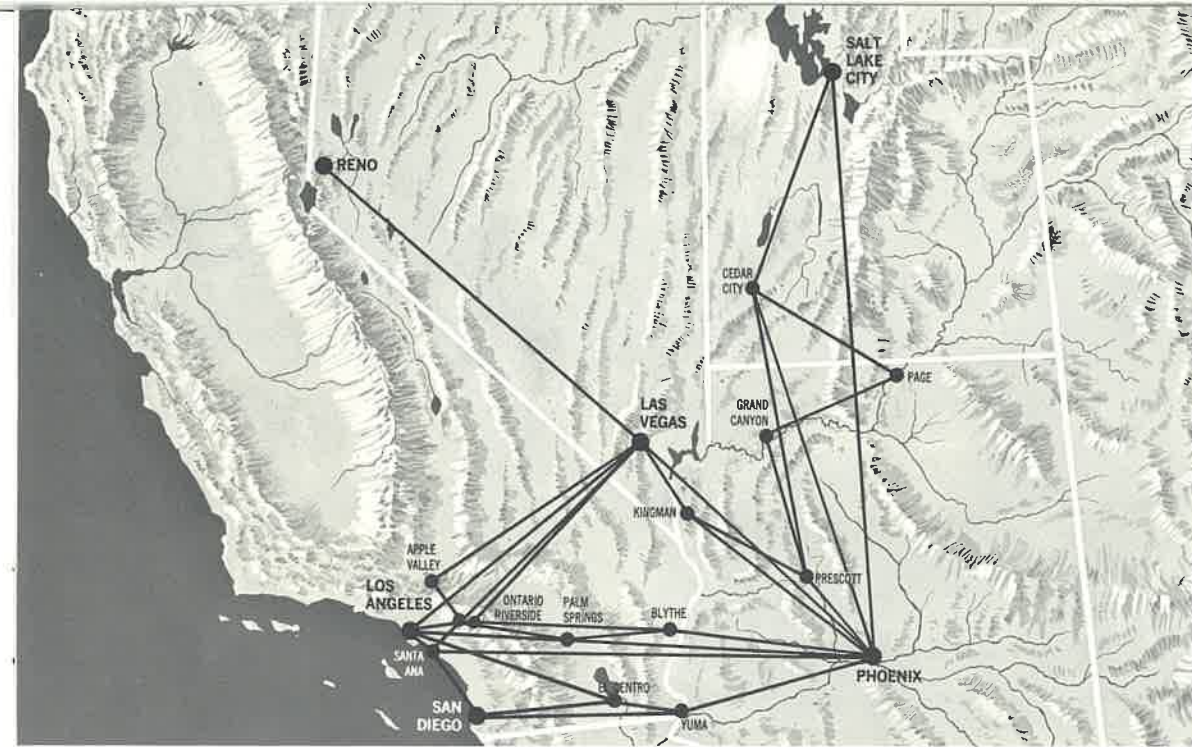
During 1964 with these goals in mind the company filed two significant route applications, a Las Vegas-Grand Canyon nonstop application and a Santa Ana/Laguna Beach-Las Vegas nonstop application. The first proceeding is designed to link Las Vegas and Grand Canyon with direct air service, thus tying together these two major tourist areas. Additionally this kind of service will provide a much needed convenience to the traveling public throughout the Los Angeles-Las Vegas-Grand Canyon-Phoenix area.



JACK ARANT

Bonanza's certification for the Las Vegas-Grand Canyon route has been recommended by the Bureau of Economic Regulation of the Civil Aeronautics Board. The Santa Ana application was filed in the conviction that this authority was necessary to serve the growing public need

NOLAND H. RYAN



*With the inauguration of nonstop flights between Santa Ana (Orange County Airport) and Las Vegas April 1, 1965, Bonanza became the only airline with this convenient, direct service for the 9 million people living in the Los Angeles megalopolis.*

for more direct service between the densely populated Orange County area and Las Vegas. The authority was granted by the CAB on February 16, 1965, for a trial period of two years and should prove a significant stimulus for the development of substantial traffic in this market.

Permanent certification of the company's Las Vegas-Los Angeles route is presently pending before the CAB. This route, the only one of the company's routes not permanently certificated, has been served under a temporary certificate since July, 1957, and has become one of the

most vital segments on the company's entire system. Permanent certification has been recommended by the Civil Aeronautics Board's Bureau of Economic Regulation and has not been opposed by any party to the proceeding. The grant of permanency therefore seems virtually assured. Decisions on this application and in the Grand Canyon case are expected in the not too distant future.

A new program for vastly improved route and operating authority is now in the process of formulation and will soon be presented to the Civil Aeronautics Board.



## FLIGHT AND GROUND OPERATIONS



MYRON W. REYNOLDS

Much of 1964 was devoted to the development of plans and programs in preparation for the arrival of the DC-9. The entire operations department has been working continuously and will continue to work on through 1965 formulating detailed plans for the integration and implementation of the new fan/jet into the company's operational system. Fan/jet programs already formulated include maintenance, ground operations, technical training programs and handling techniques.

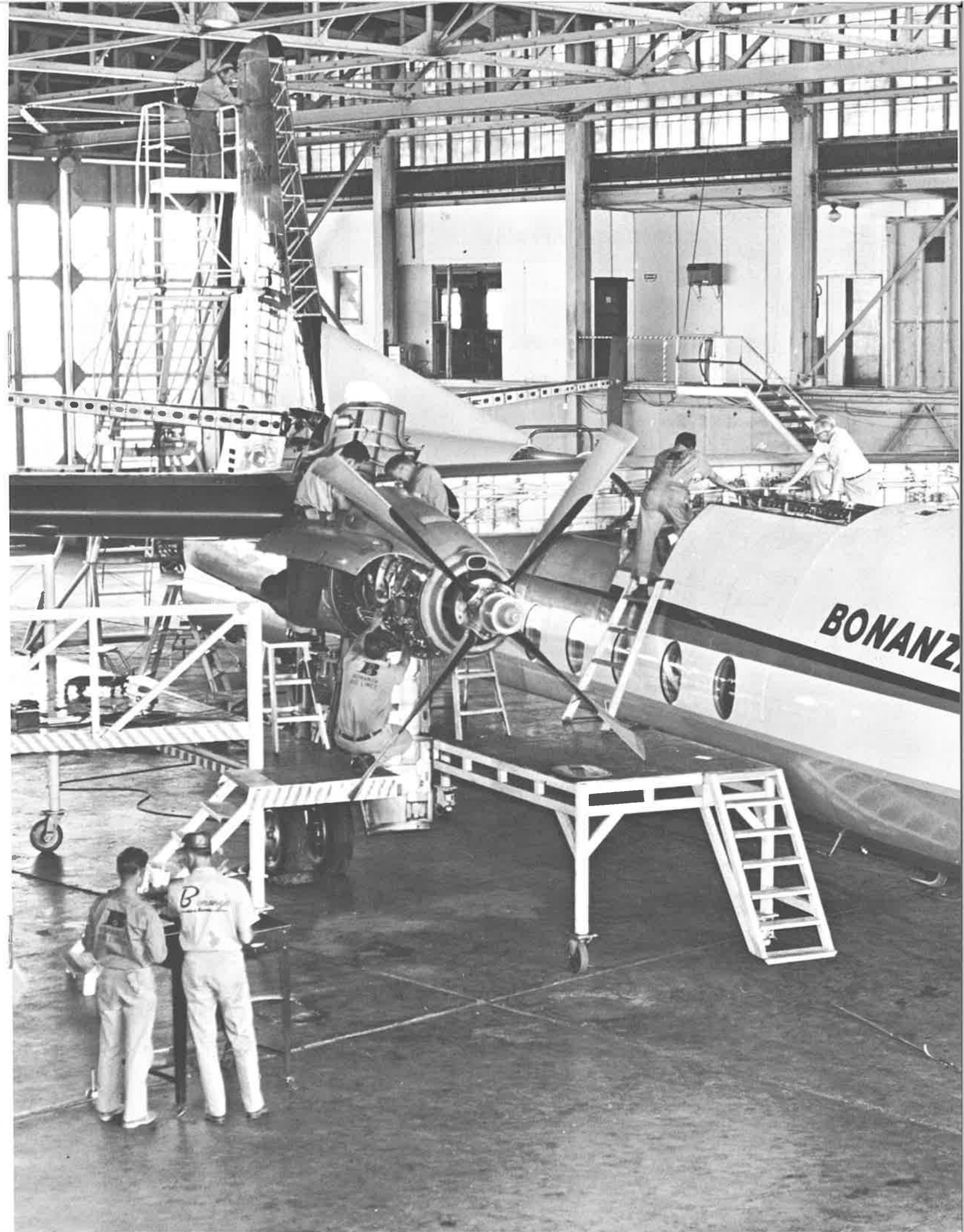


An important part of a new equipment undertaking necessarily involves spare parts provisioning, specification and procurement of ground support equipment; and these rank high among the many activities presently under way. This advanced planning is designed to make possible the most efficient utilization of the DC-9 at the earliest possible date after it is received. In order to accomplish this objective the company is planning a substantial hangar addition large enough to accommodate the DC-9, as well as sufficient space to house necessary ground support equipment, shop and training facilities and parts storage.

The company's continuing policy to maintain the most modern up-to-date fleet possible resulted in further modernization of the company's F-27A fleet during 1964. New navigational aids were installed on all aircraft and numerous technical improvements were made during the year.

During 1964 the company departed from its historic configuration of 40 seats in the F-27A in order to effectively meet additional competition in the Las Vegas-Los Angeles market. This was accomplished by converting three aircraft to a 48-seat configuration which, in conjunction with the company's new "Budget-Aire" fare, has helped restore Bonanza's competitive position in that market.

For the fourth consecutive year the Federal Aviation Agency again chose Bonanza to provide the F-27A training for its inspectors.



## CORPORATE AFFAIRS



ARTHUR M. TAYLOR, JR.

During 1964 Bonanza's DC-9 acquisition program required the coordinated efforts of the company to secure the necessary government approval of that purchase, to negotiate and conclude adequate term loan agreements with various lenders and to finalize the registration with the Security and Exchange Commission of the public offering of the company's convertible subordinated debentures and common stock. The success of this financing program not only provided the necessary funds to acquire these new pure jet aircraft, but in addition added approximately 1,000 persons to the 6,250 stockholders who have already invested in Bonanza's future.

Negotiations are presently underway to provide the much needed shop maintenance hangar and office facilities to accommodate the jet expansion which will result from the integration of the DC-9 into the company's operations. In addition to the financing and expansion aspects of the DC-9 program the company, in furtherance of its overall route development program, was involved during 1964 in numerous



WILLIAM C. BURT

proceedings before the Civil Aeronautics Board involving requests for new authority or efforts to secure more realistic operating authority over existing segments of the company's system. Some beneficial results of these proceedings have already been reported.

During the year negotiations were concluded with Pratt & Whitney Aircraft Division, United Aircraft Corporation for spare jet engines for the DC-9, with Fairchild Hiller Corporation for the acquisition of two additional F-27As, and with numerous suppliers of materials and services required by the company in its day-to-day operations.

The economic and population growth in the area served by your company which has played an important part in Bonanza's emergence into the pure jet era, has also been reflected in the fact that seven of the cities on the company's system are busily engaged in airport expansion programs of varying proportions. The company is presently engaged in negotiations with these cities to determine reasonable rates and charges for the new or improved facilities.

*NOTE: William C. Burt, Assistant Secretary and Washington Counsel, together with Albert F. Grisard, has represented the company before the CAB in all route matters.*

## INDUSTRIAL RELATIONS



RICHARD A. ROGERS

Year end employment was up 7.6% over the year end 1963 with the main increases occurring

in reservations, stations and pilot personnel.

Union contracts continued to provide our employees with earnings within the upper range of industry pay for comparable employment. Similarly, in order to maintain a sound competitive position in the industry new surveys were undertaken and completed during 1964 which resulted in general salary adjustments for other employee groups where appropriate.

Looking forward to the arrival of the DC-9 in early 1966, increased emphasis has been placed on training. During 1964 management and supervisory groups attended seminars conducted by the company to further develop their management skills. In addition, new training programs are under way in the areas of customer service, reservations and ticket counter personnel. Numerous technical training programs are being designed, improved or strengthened to meet the demands of DC-9 service.

The company's group insurance plan was reviewed and improved in several ways during 1964 resulting in improved benefits to the company's employees.





## FINANCIAL RESULTS



ROBERT J. SHERER

Earnings from operations in 1964 were \$677,166 or an equivalent of 65¢ per share on the average outstanding shares of stock during the year. Special items of \$193,789 relating to prior years contributed another 19¢ per share to the retained earnings figure. The all time high earnings of 1963 of \$874,129 or 96¢ per share from operations were not equalled due to a number of factors which occurred in 1964 that were not present in 1963.

Near the end of 1963 the company inaugurated additional service between Phoenix and Los Angeles under authority granted to permit flights to operate without serving every point on each flight on the route. Normally the development of traffic and revenue in any new service lags behind the incurrence of additional costs related to such service in its initial period of operation. For this reason a less favorable balance of revenue and expense initially occurs than that experienced after traffic has been more fully developed. This circumstance was present following the inauguration of service near the end of 1963 and for the first half of 1964.

In the Los Angeles-Las Vegas market a low economy service fare offered by a competing airline served to divert a portion of the company's passengers to such low fare service for the first half of 1964. The company established a competitive fare in this market on July 1, 1964 through an increase in the seating capacity of its aircraft and by

obtaining approval for the removal of all restrictions on its promotional excursion fare. In the latter half of 1964, the company substantially regained its competitive position in this market as a result of the fare adjustment and the higher passenger capacity in its aircraft.

One other factor that affected the company's earnings was a strike in a major industry in Salt Lake City during most of the third quarter of 1964. Inasmuch as the economy of the area was affected the company's traffic was similarly depressed. Recovery in this area is now indicated.

The special items taken into retained earnings in 1964 arose from a revision of accounting treatment for investment tax credits earned in 1962 and 1963. The company, pending treatment to be accorded such items by the Civil Aeronautics Board, had deferred the investment tax credits and commenced amortization in 1962 and 1963. Amortization of the credits to earnings was to be made over an eight year period from the date of purchase of the capital assets which had engendered the tax credits. However, the amortization of such credits did not conform to the practices prescribed by the Civil Aeronautics Board in its administration of the subsidy program as ultimately determined in 1964. Accordingly, it was considered proper to take the balance of such credits to retained earnings in 1964 and forego the amortization method. Offsetting the investment tax credit was an adjustment for subsidy estimated to be refundable to the Civil Aeronautics Board for 1962 and 1963.

Commercial operating revenues for 1964 were \$10,773,627 or an increase of 12.6% over the 1963 level. Federal subsidy of \$3,311,740 represents an increase of approximately 1.6% due principally to the additional service provided to the intermediate cities between Phoenix and Los Angeles. Operating expenses rose to \$12,560,321 for an increase of 16.5% over 1963. Such increase in operating expense was mainly attributable to the additional services provided, as set forth previously, which constituted an increase in revenue aircraft miles flown of 19.9%. Operating expense per revenue aircraft mile showed reduction to \$1.65 from the \$1.70 level experienced in 1963.

A decline in non-operating expense from the \$317,450 amount in 1963 to \$244,880 in 1964 resulted principally from interest saved through prepayment of outstanding loans in 1964. Provision for federal and state taxes based on income declined due to the reduced level of taxable earnings and to a reduction in rate of the federal corporation tax made effective in 1964.

While the company's federal subsidy showed a slight increase in 1964 over 1963 this increase was related to the first six months of 1964 and resulted from the increase in service. On July 1, 1964 a revised subsidy rate formula was made effective which reduced the company's subsidy in the latter half of the year approximately \$192,000 below the same period of 1963.

Funds provided through the sale of common stock and convertible subordinated debentures of the company were applied in part to the deposit requirements of the contract with Douglas Aircraft Company for the purchase of three DC-9 aircraft. Additionally a portion of the funds was employed in prepaying outstanding loans. The company has contracted for the purchase of a new F-27A aircraft for delivery on April 1, 1965 and funds presently on hand will be used for such purchase.

A replacement F-27A aircraft was purchased from Fairchild Hiller Corporation from insurance proceeds received following the loss of an aircraft in November.

## Summary of Source and Disposition of Funds for 1964

Source of funds:	
Net earnings and special items . . . . .	\$ 870,955
Deferred investment credit . . . . .	(223,024)
Depreciation and overhaul amortization . . . . .	1,466,912
Deferred taxes . . . . .	18,180
Amortization of deferred charges, net . . . . .	27,999
Proceeds from sale of capital stock . . . . .	1,745,596
Convertible debentures issued . . . . .	3,200,000
Total . . . . .	<u>\$7,106,618</u>
Disposition of funds:	
Investment in property and equipment . . . . .	\$1,030,182
Deposits on equipment purchase contracts . . . . .	2,234,179
Deferred loan costs . . . . .	250,830
Reduction of long-term debt . . . . .	1,157,929
Increase in working capital . . . . .	2,433,498
Total . . . . .	<u>\$7,106,618</u>

## OPERATING AND FINANCIAL STATISTICS

### Calendar Years

	1964	1963	1962	1961	1960
<b>Traffic and Capacity</b>					
System route miles operated as of last day of period . . . . .	2,106	2,106	2,135	2,153	2,135
Total aircraft miles flown in revenue service . . . . .	7,618,013	6,354,940	5,445,869	4,397,396	4,678,137
Scheduled aircraft miles flown . . . . .	7,599,716	6,349,638	5,443,441	4,390,038	4,554,843
Percent of scheduled aircraft miles flown . . . . .	99.2%	99.3%	99.0%	99.2%	99.1%
Revenue passengers carried . . . . .	620,497	536,377	425,475	316,040	257,719
Revenue passenger miles flown (000) . . . . .	160,653	139,139	108,688	79,748	63,527
Available seat miles flown (000) . . . . .	292,480	241,284	206,849	166,821	159,523
Passenger load factor . . . . .	54.9%	57.7%	52.5%	47.8%	39.8%
Available ton-miles flown (000) . . . . .	28,673	23,494	20,188	16,243	15,592
Revenue ton-miles flown (000) . . . . .	16,014	13,818	10,785	7,948	6,362
Overall load factor . . . . .	55.9%	58.8%	53.4%	48.9%	40.8%
Average number of employees . . . . .	748	645	572	510	492
Revenue passenger miles per employee . . . . .	214,777	215,719	189,682	156,369	129,120
<b>Financial</b>					
Total operating revenue (000) <sup>1</sup> . . . . .	\$ 14,085	\$ 12,763	\$ 10,946	\$ 9,282	\$ 8,178
Passenger revenue (000) . . . . .	10,244	9,156	7,441	5,698	4,543
Total commercial revenue (000) <sup>2</sup> . . . . .	10,773	9,565	7,810	5,968	4,900
Public service revenue (subsidy) (000) <sup>1</sup> . . . . .	3,312	3,198	3,136	3,315	3,278
Total operating expense (000) . . . . .	12,560	10,750	9,426	8,075	7,569
Total operating expense per revenue ton-mile of traffic . . . . .	0.784	0.778	0.874	1.016	1.190
Public service revenue required to provide operating break-even need: (Total (000) ) . . . . .	1,787	1,185	1,616	2,107	2,669
Per available ton-mile flown . . . . .	0.062	0.050	0.080	0.130	0.171
Per revenue ton-mile of traffic . . . . .	0.112	0.086	0.150	0.265	0.420
Break-even need as percent of commercial revenue . . . . .	17%	12%	21%	35%	54%
Commercial revenue as percent of operating expenses . . . . .	86%	89%	83%	74%	65%
Net earnings <sup>1&amp;2</sup> . . . . .	\$ 677,166	\$ 874,129	\$ 711,144	\$ 422,054	\$ 107,871

<sup>1</sup>Reflects adjustment related to retroactive subsidy determinations.

<sup>2</sup>Adjusted for 1963 and 1962 investment tax credits reported as special item in 1964.

<sup>3</sup>Operating revenue less public service revenue.



ASSETS	1964	1963
Current assets:		
Cash . . . . .	\$ 2,382,057	732,603
Receivables:		
United States Government Departments . . . . .	451,354	454,807
Traffic . . . . .	297,872	276,544
Other . . . . .	108,769	54,318
	857,995	785,669
Less allowance for doubtful accounts . . . . .	12,000	12,000
Net receivables . . . . .	845,995	773,669
Spare parts, service materials and supplies, at average cost . . . . .	549,592	507,351
Prepaid expenses . . . . .	64,946	112,259
Total current assets . . . . .	3,842,590	2,125,882
Properties and equipment, at cost (Note 1):		
Flight equipment . . . . .	11,689,058	11,333,236
Ground equipment . . . . .	977,731	912,837
Buildings and improvements on leased property . . . . .	698,189	688,018
Other property and equipment . . . . .	3,305	26,251
Construction in progress . . . . .	169,559	211,840
	13,537,842	13,172,182
Less allowance for depreciation and amortization . . . . .	4,855,737	4,053,347
Net properties and equipment . . . . .	8,682,105	9,118,835
Deposits on equipment purchase contracts (Note 6) . . . . .	2,419,815	185,636
Unamortized development and preoperating costs . . . . .	142,272	162,156
Deferred loan costs and other assets . . . . .	245,736	3,021
	\$15,332,518	11,595,530

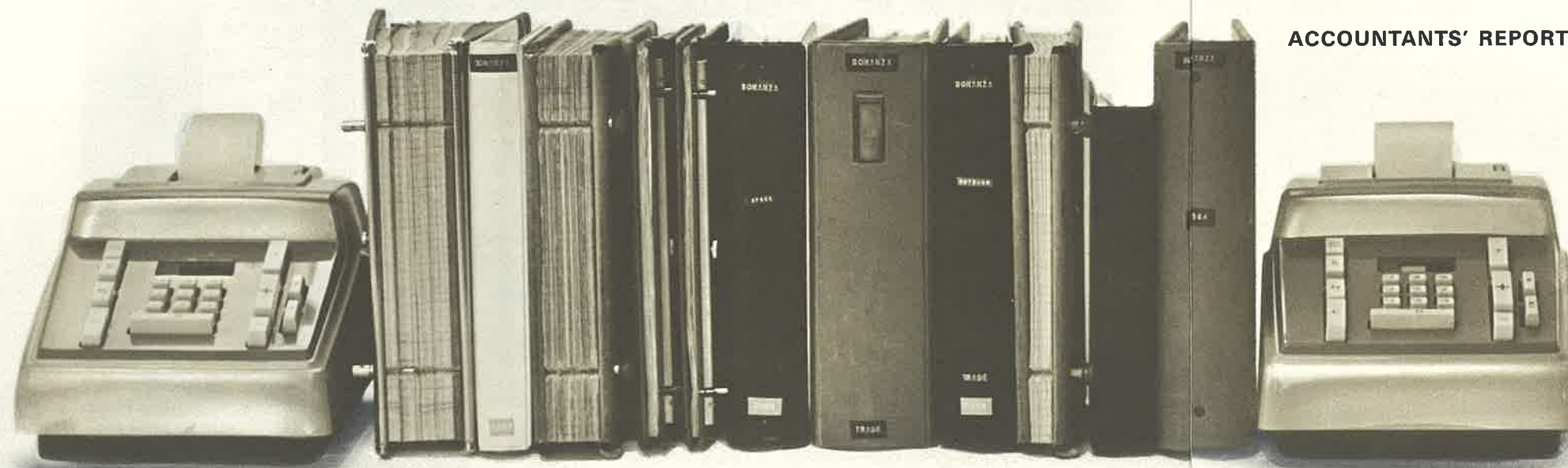
See accompanying notes to financial statements.

LIABILITIES	1964	1963
Current liabilities:		
Current portion of notes payable . . . . .	\$ 592,565	977,511
Accounts payable . . . . .	560,749	463,702
Amounts collected for others . . . . .	138,754	154,874
Accrued salaries and wages . . . . .	349,547	299,887
Other accrued liabilities . . . . .	176,874	212,458
Unused transportation . . . . .	70,380	56,412
Federal income taxes — estimated (Note 3) . . . . .	183,678	624,493
Total current liabilities . . . . .	2,072,547	2,789,337
Notes payable to banks (Note 1) . . . . .	3,101,903	4,259,832
5¼ % Convertible subordinated debentures (Note 2) . . . . .	3,200,000	
Deferred federal income taxes (Note 3) . . . . .	179,000	160,820
Deferred investment credits (Note 4) . . . . .		223,024
Commitments and contingent liabilities (Note 6) . . . . .		
Stockholders' equity:		
Common stock, \$1.00 par value per share:		
Authorized 3,000,000 shares: issued		
1,127,605 and 915,115 respectively (Notes 2 & 8) . . . . .	1,127,605	915,115
Additional paid-in capital . . . . .	2,822,799	1,289,693
Retained earnings (Note 2) . . . . .	2,828,664	1,957,709
Total stockholders' equity . . . . .	6,779,068	4,162,517
	\$15,332,518	11,595,530

See accompanying notes to financial statements.

## BONANZA AIR LINES, INC. BALANCE SHEET

December 31, 1964 with  
comparative figures for 1963



### ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & Co.  
CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors, Bonanza Air Lines, Inc.:

We have examined the balance sheet of Bonanza Air Lines, Inc. as of December 31, 1964 and the related statements of earnings, retained earnings 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, the accompanying balance sheet and statements of earnings, retained earnings and additional paid-in capital present fairly the financial position of Bonanza Air Lines, Inc. at December 31, 1964 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change in accounting for investment credits as set forth in Note 4 to financial statements, have been applied on a basis consistent with that of the preceding year.

Los Angeles, California  
March 1, 1965

PEAT, MARWICK, MITCHELL & CO.



**STATEMENT OF EARNINGS**

Year ended December 31, 1964  
with comparative figures for 1963

	1964	1963
<b>Operating revenues:</b>		
Passenger and excess baggage . . . . .	\$10,345,445	9,249,267
Mail, express and freight . . . . .	338,883	258,259
Charter and incidental . . . . .	89,299	57,009
Public service (subsidy) . . . . .	3,311,740	3,259,749
	14,085,367	12,824,284
<b>Operating expenses:</b>		
Flying operations . . . . .	3,037,464	2,563,508
Maintenance . . . . .	2,391,942	1,970,516
Passenger service . . . . .	625,309	520,137
Aircraft and traffic servicing . . . . .	2,556,436	2,246,523
Promotion and sales . . . . .	1,683,060	1,483,627
General and administrative . . . . .	1,137,576	995,376
Depreciation . . . . .	1,076,229	937,838
Amortization of development and preoperating costs . . . . .	52,305	62,986
	12,560,321	10,780,511
Earnings from operations . . . . .	1,525,046	2,043,773
<b>Non-operating revenue (expense):</b>		
Interest (Note 9) . . . . .	(262,515)	(304,526)
Other, net . . . . .	17,635	( 12,924)
Earnings before taxes on income . . . . .	1,280,166	1,726,323
Provision for taxes on income (Note 3) . . . . .	603,000	922,000
Net earnings . . . . .	677,166	804,323
<b>Special credits (charges):</b>		
Prior years' investment credits (Note 4) . . . . .	223,024	—
Adjustment of prior years' subsidy (Note 5) . . . . .	(29,235)	—
Loss on sale of equipment, less applicable taxes of \$11,000 . . . . .	—	( 9,000)
Net earnings and special items . . . . .	\$ 870,955	795,323

See accompanying notes to financial statements.

**STATEMENT OF RETAINED EARNINGS  
AND ADDITIONAL PAID-IN CAPITAL**

Year ended December 31, 1964

	Retained Earnings	Additional Paid-in Capital
Amount at beginning of year . . . . .	\$1,957,709	1,289,693
Net earnings and special items . . . . .	870,955	—
Excess of proceeds over par value from sale of 192,000 shares of common stock, less expenses of \$196,704 . . . . .	—	1,483,296
Excess of proceeds over par value of 20,490 shares of common stock issued under options (Note 8) . . . . .	—	49,810
Amount at end of year . . . . .	\$2,828,664	2,822,799

See accompanying notes to financial statements.



THOMAS J. VAN BOGART



FRANK R. CHABOT

**BONANZA AIR LINES, INC. Notes to Financial Statements**

December 31, 1964

**NOTE 1. Notes Payable to Banks**

The notes payable to banks as of December 31, 1964 are summarized as follows:

	Monthly Payments (Including Interest)	Final Maturity	Outstanding Dec. 31, 1964
5½% note payable . . . . .	\$51,621	1968	\$1,905,293
6% note payable . . . . .	12,490	1970	736,142
6% notes payable . . . . .	27,173	Various	1,053,033
			3,694,468
Less current portion . . . . .			592,565
			<u>\$3,101,903</u>

The notes are secured by chattel mortgages on twelve F-27A aircraft. The company has prepaid monthly instalments on a portion of the notes through March 31, 1966.

In connection with the loan agreements relating to two of the above notes, the company has agreed, among other things, to maintain certain minimum working capital and stockholders' equity (net worth) requirements.

**NOTE 2. 5¼% Convertible Subordinated Debentures**

The debentures, which mature May 1, 1979, are subordinated to the bank loans and are convertible into shares of common stock of the company at the initial conversion price of \$11-1/9 per share. The conversion price increases to \$12-1/2 per share on May 1, 1968 and to \$14-2/7 per share on May 1, 1972. The trust indenture relating to the debentures provides for a sinking fund payment of \$160,000 annually beginning May 1, 1969 and for the payment of interest semiannually.

The indenture further provides for certain restrictions on the payment of cash dividends which, as of December 31, 1964, were more restrictive than the provisions of the agreement relating to the bank loans. Accordingly, \$1,990,081 of retained earnings at December 31, 1964 was so restricted.

**NOTE 3. Taxes on Income**

The company's Federal income tax returns for 1963 and subsequent years are subject to review by the United States Treasury Department.

Differences in the treatment of certain expenses result in substantial variations between net earnings as reflected in the company's financial statements and as reported in its income tax returns. These differences are primarily in connection with aircraft preoperational costs which were expensed for tax purposes in the year in which incurred, although such costs are being amortized on the books, and the use of accelerated depreciation methods for tax purposes.

The 1964 provision for income taxes is summarized as follows:

<b>Charged to operations:</b>	
Current taxes . . . . .	\$632,568
Deferred taxes . . . . .	18,180
	650,748
Less investment credits (note 4) . . . . .	47,748
	603,000
Included in special items . . . . .	(31,000)
Provision for taxes . . . . .	<u>\$572,000</u>

**NOTE 4. Investment Credits**

In 1964 the company elected to record investment credits as reductions of Federal income taxes in the year in which the credits are realized, whereas in prior years the tax benefit of the investment credits was being amortized over eight years. Accordingly, the 1964 provision for taxes on income has been reduced by \$47,748 and the previously deferred credits of \$223,024 applicable to 1962 and 1963 have been recorded as a special credit in the statement of earnings.

**NOTE 5. Public Service Revenue**

During 1964, the public service subsidy for 1962 and 1963 was reduced by \$104,066. This amount, less amounts capitalized and the resulting \$31,000 reduction of income taxes, has been included as a special charge in the statement of earnings.

**NOTE 6. Commitments and Contingent Liabilities**

At December 31, 1964, the company had on order one F-27A aircraft scheduled for delivery in early 1965 and three DC-9

aircraft and related spare engines scheduled for delivery in 1966. Said purchases represent commitments of approximately \$9,010,000 in excess of related deposits. The company has arranged to borrow \$6,500,000 from a group of banks to partially finance these purchases.

As of December 31, 1964, 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, 1964 or the results of its operations for the year then ended.

The estimated minimum annual rentals under long-term leases, the majority of which expire prior to 1990, were approximately \$132,000 at December 31, 1964.

**NOTE 7. Retirement Plans**

The company has contributory retirement plans for all eligible employees, which are implemented by trust funds. The plans are cancellable by the company. The cost of these plans charged to operating expense in 1964 totalled \$291,567 for both current and past services. As of December 31, 1964, the remaining portion of the originally computed past service liability amounted to \$179,647, which management contemplates funding at the annual rate of \$71,859.

**NOTE 8. Common Stock Reserved**

The company has a restricted stock option plan for its officers and key employees. The plan provides for the granting of options to purchase an aggregate of 10% of the total outstanding 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, 1964, options to purchase 60,000 shares have been granted, options have been exercised on 26,910 shares and options to purchase 14,100 shares have been canceled, thereby leaving 18,990 shares subject to outstanding options as of that date; the options were exercisable through May 20, 1968 at prices ranging from \$3.38 to \$6.65 per share and represented total option prices aggregating \$96,508.

**NOTE 9. Capitalized Interest**

Interest expense included in the statement of earnings for 1964 does not include \$81,547 which was capitalized as aircraft acquisition costs.

**ANNUAL MEETING**

The Annual Meeting of Stockholders of Bonanza Air Lines, Inc., is held on the third Monday of May in each year. This year the Annual Meeting will be held at 10:00 A.M. on May 17, 1965, in the company offices, 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 9, 1965.

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



**BONANZA AIR LINES, INC.**



**TRANSFER AGENTS:**

First National Bank of Nevada, Las Vegas, Nevada  
Bankers Trust Company, New York, New York

**REGISTRARS:**

Bank of Nevada, Las Vegas, Nevada  
First National City Bank, New York, New York

**CORPORATE OFFICES:**

Bonanza Air Lines, Inc., McCarran Field  
P.O. Box 391, Las Vegas, Nevada