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GOLDEN WEST

HENRY R. VOSS, right, a 12-year veteran of Golden West Airlines, Newport Beach, was named president of the commuter carrier in 1979. The airline was acquired in February by three executives of Monogram Industries Inc., Santa Monica.

A look at Golden West:

Number of Planes	15	Cities Served	10
Planes on Order	5	Employees	350
Seating Capacity	329	Revenues (first nine months) 1979	$12.7 million

COMMUTER WINS FIGHT FOR SURVIVAL

Golden Gate: How to Build an Instant Commuter Airline

By WENDY KAUFMAN
Times Staff Writer

EN GATE

S. COLIN, left, owner of Gem irlines, acquired Air Pacific in and then reached a preliminary ent to merge with Apollo. The ommuter carriers will form Gate Airlines.

at Golden Gate, assuming the is completed:

r of Planes	23
on Order	10
Capacity	635
Served	18
ees	470
es	1979
State	$3.2 million
cific	3 million
	12 million
	Total: $18.2 million

Times map by Patrick Lynch

Phileas Fogg's journey was sparked by a wager in a London club: Could he travel around the world in 80 days? The dapper hero of Jules Verne's novel took quickly to the skies and proved his mettle.

Entrepreneur Justin Colin, recently pulled off a financial feat of similar magnitude. In less time than it took Fogg to circle the globe, Colin has put together one of the world's largest commuter airlines.

Two months ago the wealthy New Yorker packed up his Gem State Airline (four planes serving 10 cities in the Pacific Northwest) and moved it 1,000 miles from Northern Idaho to Monterey. Next he bailed out Oakland-based Air Pacific and signed a letter of intent to merge with Apollo Airways, headquartered in Santa Barbara.

Because the companies are privately owned, details of the transactions have not been made public. But aviation sources estimate the Apollo merger is worth more than $10 million. The Air Pacific deal, they say, was basically a "rescue operation" for which Colin paid a bargain price.

Next year Colin expects his carrier, now called Golden Gate Airlines, to ferry about 1 million passengers a total of 75 million miles. If the Apollo merger is consummated, Golden Gate will boast a fleet of 23 aircraft to serve 18 cities, including San Francisco, Monterey, Bakersfield, Los Angeles and Las Vegas.

What Colin is doing—building a small airline empire—is clear. Why he is doing it is another story.

Today many airline executives are crying the blues. Fuel costs are up, passenger traffic is down and industry profits are slipping. One competitor shakes his head and says, "We think he is crazy."

But Colin, 55, claims he is not in the airline business for money. Although he admits aircraft are a "good hedge against inflation" (due to rising resale values) and offer substantial tax advantages (through the investment tax credit and depreciation) he says it is much easier to make money in real estate.

To Colin, whose interests range from sailing his small boat in Idaho's lake country to serving as executive

But Colin says he doesn't consider any of his financial deals a "success." Instead he talks about the satisfactions of exposing millions to the artistry of ballet by taking ABT to television and to the film 'Turning Point.' He says he wants to do the same with his airline: Take something of public value and give it to the people. That, he adds with a smile, is "not something you can do in the securities business."

Colin's initial involvement with his airline came in the spring of 1978 when he invested in four aircraft for Gem State, which was then being organized. When the carrier proved unable to raise enough capital to begin operations, he agreed to finance its start-up.

However, by last summer, Colin had grown dissatisfied with Gem State's performance and decided to take over the airline himself. Although it failed to prosper due to tough competition from Hughes Airwest, Colin was not ready to give up what one observer calls "his great design" to build a commuter empire. He started to look for a new home for Gem State.

Meanwhile, the city of Monterey was seeking a replacement for United Airlines. Fuel prices exceeding $1 a gallon made short flights unprofitable for United and the carrier planned to cut back service to the city. Since smaller planes, such as those owned by Colin, use less fuel, they can fly short routes profitably.

The city and the airline were a good match. Over a weekend Idaho's Gem State became Monterey's Golden Gate.

But the problems were not over. Gate access at both Los Angeles International and San Francisco airports was severely restricted and the airline had nowhere to load or disembark passengers. Colin needed access and, he explains, the "only way to get it was to acquire an airline" that had gate privileges. In January he bought Air Pacific.

By this time Colin also had his eye on Apollo Airways, a well run and profitable commuter line. For weeks he stalked Terrance and Quentin Cedar, founders and managers of Apollo, and by January he persuaded them to

lying High

ters and 30-seat Shorts SD3-30s built in Northern Ireland are among the quietest planes in existence.

Because of this, Golden West is granted unlimited use of Orange County Airport while such majors as Air California and Hughes Airwest—with their bigger, noisier jets—are limited to a set number of arrivals and departures per year. Unlimited use of the airport is a valuable privilege, says Voss, given Orange County's recent business and population growth.

And bolstered by strong financial support, Golden West can now contemplate a new option—expansion. Voss says the airline anticipates increasing its capacity and frequency on some present routes. In addition, it hopes to start new service by early next year into Lake Tahoe and Monterey from Los Angeles.

"We want to expand, but it will be good solid expansion," says Voss, acknowledging that such thoughts were only dreams not too long ago. "We don't want to expand faster than we can control."

Ballet Theater, the airline business holds a special fascination. It is, he says, "difficult, demanding, exciting and fun." "The airline," he continues "is an opportunity to create something that has a function over and above making money."

Perhaps only a man who has already amassed a personal fortune worth millions can afford to talk that way. Colin graduated from Yale Law School in 1952, practiced Law at Cravath, Swaine & Moore in New York and then at the Justice Department.

He joined the investment banking firm of Lazard Freres & Co. in 1966 and founded their arbitrage department. Within a year he became a partner. Four years later Colin founded his own investment firm. He also served as a director of the Chicago Rock Island & Pacific Railroad before it filed for reorganization under the federal bankruptcy laws.

His major investments include Rico Petroleum, which distributes petroleum products in the United Kingdom, and a real estate firm that owns, in partnership with William Zeckendorff Jr., hotels from New York to the 572-room Travelodge at Los Angeles International Airport, formerly a Sheraton property.

Because Colin believes that in business it is "more fun to do it right," he is spending substantial sums on the airline. Colin has ordered four additional DeHavilland Dash 7's at $5 million each and has lured experienced airline executives to Golden Gate by offering them hefty salaries and a financial stake in the airline. Vincent Mulshine, formerly director of financial analysis and control for National Airlines has been named chief executive officer. Harry Kimbriel, a new executive vice president, founded an aviation consulting firm after serving as American Airlines' senior vice president for plannning. Apollo's Cedar brothers will also join the senior management team.

John Smith, regional administrator of the Civil Aeronautics Board, says that Colin brings business acumen to the California commuter industry. Colin saw the need for a well run, well financed commuter network, Smith observes, and seized the opportunity.

The airline already has plans to expand its network. It intends to add more routes in Central California and to inaugurate service to Reno and Las Vegas from addtional cities.

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ident Politically Motivated, Grower Says

domestic and export fiber markets, U.S. cotton growers need Cotton Inc.'s research and promotion program and Dukes Wooters, the man who built an effective and efficient organization.

JAMES B. FISHER
G. Boswell Co.

Tax Incentives Aid Few

The article by James Flanigan ("Joe Homeowner Becomes Big Time Speculator," Business, Feb. 17) makes a strong and compelling case in support of much-needed revisions to our present income tax structure because of its inflationary impact on housing. But the inflationary impact of tax incentives is not limited to housing. It affects the whole spectrum of living costs today. Flanigan noted that it is political dynamite to suggest altering the subsidy for housing, but the overwhelming majority of our American citizens are being substantially hurt by these subsidies, and if they could be alerted to the truth of this situation, it would soon be political dynamite to oppose these much needed reforms.

We must have greatly reduced tax brackets, along with the elimination of tax incentives. This would not necessarily increase or decrease the taxes of the wealthy, but it would help to funnel capital assets to the production of new goods, rather than to increasing the equities of existing goods.

Tax incentives, along with high tax brackets, were introduced by President Rossevelt and His New Deal advisers in the serious depression days of the 1930s. They were designed to help bring our country out of a depression. World War II eliminated the need for this kind of tax structure, but it was not changed, and it was used by the wheeler-dealers of the 1950s and 60s to build hundreds of thousands of fortunes. Today, the insidious effects of these incentives are pushing us into a much more serious kind of trouble than they were designed to get us out of.

The inflationary push of tax incentives is tied to the most basic of economic law, namely the law of supply and demand. Supply is shorted because huge amounts of capital and manpower are applied to non-productive areas of the economy. Consider the thousands of people who do nothing but counsel those in high income tax brackets how to take advantage of tax loopholes. Wouldn't it be better if the talents of these people could be applied to the production of needed goods? Demand is affected because of the huge amounts of hidden wealth represented by the hundreds of billions of dollars worth of stock and real estate equities that have accumulated through the workings of insidious tax incentives. These equities can be turned into cash at will, and this makes a mockery of the Federal Reserve's effort to control money supply through high interest rates. High interest rates will never cut down the supply of money to the wealthy as interest costs can be deducted from personal income, because a 16% rate means only 8% after taxes to a person in the 50% tax bracket.

Only a very small percentage of Americans are actually benefiting from tax incentives, compared to the millions who are being hurt, but this small percentage includes the bureaucracy and our representatives in Washington. Could it be that they are listening to the siren song of easy dollars rather than to the groans of the great majority of American voters who are hurting from today's inflation?

R. W. LOWE
San Diego

Letters to the Financial Editor should be kept as brief as possible and are subject to condensation.

Hectic Days Over, Golden West Is

By BILL SING
Times Staff Writer

Employees of Golden West Airlines must have felt a little like comic Rodney Dangerfield at times during the past decade.

They weren't getting enough respect.

Their Herculean efforts to keep alive the ailing Newport Beach-based commuter carrier—the nation's largest, measured by total passengers—seemed perpetually overshadowed by the well-publicized financial and legal entanglements of Golden West's controversial owners, principally founder C. Arnholt Smith.

Not only did ownership of Golden West change hands three times between 1968 and 1972; more troubling were the fates of those owners: San Diego financier Smith and two of a group of business associates who bought Golden West from him in 1971 were convicted of defrauding investors. A third, San Joaquin Valley agribusinessman Hollis Roberts, filed for Chapter 11 bankruptcy in 1977.

While those developments grabbed headlines, Golden West's managers quietly kept the airline going. For example, as bankers and investors cringed at Golden West's oppressive debt—at one point it had a net book value of minus $7 a share—the airline's managers were arranging for potentially profitable interline connections with big airlines.

Somehow, Golden West managed to stay alive. And during the past year and a half, a series of well-timed developments have vindicated the airline's persistence:

—The Deregulation Act of 1978, so far a mixed bag for the majors, was a godsend for commuter airlines. The legislation has enabled them more flexibility to move smaller, cost-efficient planes into short-haul routes abandoned by the majors.

—The Civil Aeronautics Board granted Golden West certification status in early 1979, boosting it to the same competitive level as the major carriers. It now can list its routes chronologically in the Official Airline Guide, and open up new routes and adjust fares quickly. Banks also generally grant certificated carriers better credit ratings.

—Higher gasoline prices and occasional shortages benefited Golden West by making its routes, such as Santa Barbara-Los Angeles and Orange County-Los Angeles, more attractive compared with driving.

—Finally, in February, a group of Santa Monica-based Monogram Industries Inc. executives—Martin Stone, Harvey Karp and Ellis Ring—bought the airline. The new team moved swiftly to arrange financing for a $26 million purchase of four new Canadian-built DeHavilland Dash 7s, considered the most technically advanced short-haul planes around.

The airline they bought now flies more than 700,000 passengers annually and has grown at a rate of about 12% per year since 1975. Golden West earned its first profits in 1979, according to company President Henry R. Voss, a year when its load factor—the average percentage of seats filled per flight—reached 54%, a comfortable six points above its 48% break-even level.

For Golden West, each percentage point above its break-even level translates into a before-tax profit of about $40,000 a year, says Voss.

Voss, a quiet-spoken former Marine pilot, joined the airline as manager of stations in 1968, the same year it was formed by the merger of several small commuter airlines. He now oversees an airline with far brigh[ter] prospects than the one he joined.

Through its popular "feeder" se[rvice], Golden West flies passengers [to] and from Los Angeles Internatio[nal] Airport (LAX) at little or no cost [to] the traveler. Orange County reside[nts] flying between Los Angeles and Ne[w] York can make the trip from Oran[ge] County Airport to LAX on Gold[en] West on the same ticket. Under [a] joint-fare arrangement devised [by] the CAB, the long-haul carrier re[turns] a portion of the ticket price [to] Golden West to cover its costs.

"In effect, they (Golden West) ar[e] providing the only mass transit [to] LAX," says John Smith, the CAB['s] western regional director.

Golden West's interline connec[tions] now account for about 90% [of] its business, says Voss. "We come o[ut] quite well on it," he says, adding tha[t] in some feeder arrangements the carrier "gets back as much or more" [of] its costs.

Perhaps Golden West's greatest asset is its fleet of 15 aircraft. The carrier's 19-seat DeHavilland Twin Ot-

Letters

Attack on Cotton Inc. Pre

Our company is deeply concerned about the present controversy surrounding Cotton Inc. (Jan. 27) because we believe it is politically motivated. What is at stake is not only a livelihood for thousands of cotton growers, but more cotton products in the retail stores and less government subsidies for commodities.

One of the most persistent areas of contention is that Dukes Wooters, Cotton Inc.'s president, entered into a consulting contract with our firm. Let me explain the background surrounding that situation.

In 1976, Rep. Paul Findley (R-Ill.) led the effort to place a congressional limit on Wooters' salary as a condition of Cotton Inc. receiving a $3 million research grant. I recommended to Cotton Inc.'s executive committee that we refuse to accept the grant, but my recommendation was opposed by other members of the board who felt a strong need for additional funds to defend cotton's market from synthetic fiber producers. I felt that Rep. Findley's intentions were obvious—to destroy Cotton Inc.'s program by forcing its president to resign, and to limit its ability to hire competent leadership.

Rep. Findley's constituency doesn't grow a single bale of cotton and he [is] not concerned that comparable fibe[r] companies were paying salaries tw[o] to four times as much as Wooters wa[s] receiving. Fortunately, Wooters too[k] a voluntary cut in pay so the cotto[n] producers could have the $3 millio[n] research grant. This was completely [a] voluntary act on his part with n[o] promises, and it created a sever[e] personal financial hardship for hi[m]. After the expiration of the appropriations bill which has limited his salar[y] I approached him with a consultin[g] offer. But, before approaching Wooters, the proposal was approved b[y] Cotton Inc.'s board chairman and vic[e] chairman, who cleared it with Cotto[n] Inc.'s attorneys.

Wooter's consulting services wer[e] invaluable to us and had nothing to d[o] with making business referrals. Sin[ce] a one-cent per pound price variatio[n] in our total production substantiall[y] affects our profits, predictions abo[ut] the direction the market is likely [to] take are extremely important to u[s]. We used Wooter's knowledge in th[is] area, and also in our cotton marketi[ng] department where he advised on ne[w] end uses for the type of cotton w[e] grow.

In order to retain their share of th