

Ken Meys

DIRECTORS

- S. M. Archer, *Chairman*
- George E. Gardner
- R. M. Hardy
- Croil Hunter
- T. E. Irvine
- Joseph T. Johnson
- L. M. Leffingwell
- William Stern
- Camille L. Stein
- Edwin White
- E. I. Whyatt

OFFICERS

- Croil Hunter - - - - - *President*
- George E. Gardner - - - *Vice-President*
- E. I. Whyatt - *Secretary and Treasurer*
- Camille L. Stein - - *Assistant Secretary*
- L. S. Holstad - - - *Assistant Treasurer*



General Offices: St. Paul Municipal Airport, St. Paul, Minnesota.

First Trust Company of St. Paul, St. Paul, Minnesota
Principal Registrar and Transfer Agent

City National Bank and Trust Company of Chicago,
Chicago, Illinois
Co-Registrar

Continental Illinois National Bank and Trust Com-
pany of Chicago, Chicago, Illinois
Co-Transfer Agent

Annual meeting of shareholders last Monday in August.

**NORTHWEST
AIRLINES,
INC.**



**ANNUAL REPORT
To Shareholders**

**Year Ended
June 30, 1940**

NORTHWEST AIRLINES, INC.

St. Paul, Minnesota
August 23, 1940

TO THE SHAREHOLDERS OF NORTHWEST AIRLINES, INC.:

There is submitted herewith the annual statement of your company for the fiscal year ended June 30, 1940. For the year the company made a net profit of \$296,407.78 after providing for \$81,638.26 in income and excess profits taxes. This amounts to \$1.27 for each common share outstanding at the end of the year, after allowance for dividends on preferred. As a result of the year's profit, the deficit which appeared at the beginning of the year has been turned into a surplus of \$161,475.91.

During the year we established Douglas DC-3 depreciation bases as follows: hull and radio, 5 years; engines, 6,000 flying hours; propellers, 4,000 flying hours. These are in line with depreciation bases used by other airline operators, and we consider them adequate.

A comparison of figures on the profit and loss statement shows an important increase in the volume of business done. Gross income increased \$1,044,174.22. Of this, \$783,163.74 was an increase in passenger revenue. This increase in passenger revenue clearly indicates the growth in passenger travel, not only over your company's lines but over all airlines throughout the United States. Our increase in traffic revenue was 80.78% over the previous year.

During the year we completed the changeover of our fleet to Douglas DC-3's, and DC-3 equipment is now used on all schedules except those between Fargo and Winnipeg and between Minneapolis-St. Paul and Duluth. At the present time we own eleven of this type of aircraft and have two more on order for delivery before the end of 1940. We also have four Lockheed Electras in service to Winnipeg and Duluth. It is interesting to note that available information indicates that Northwest Airlines is now operating a larger percentage of its total mileage with 21-passenger airplanes than any other of the five major airlines in the United States, with the result that the average number of seats available per airplane mile flown is higher than any of these lines. From such figures as are available, we believe that, while Northwest's cost per airplane mile has risen to somewhat above the average of the five major lines, our cost per seat mile flown is considerably below the average of the same lines. The lowering of seat mile costs is the basic factor that makes profits possible provided a reasonable load factor can be attained. Our average fare per passenger mile is 4.05 cents, which is less than the average for the country. We believe this is a sound position because it is probable that the trend of fares nationally will be downward as the size of equipment increases and the airlines find it necessary to attract passengers from the lower income brackets. Our average fares are now on a comparatively competitive basis with other forms of transportation, and our traffic increases, we believe, have justified the pioneering job we have done in the territory which we serve by maintaining comparatively low passenger fares.

We have during the year signed agreements with the Air Line Mechanics Association International and the Air Line Communication Employees Association. These agreements and a higher limit on co-pilots' pay have resulted in a wage increase of approximately \$45,000 annually. In this connection, I am pleased to say that relations between the management and employees are entirely satisfactory and that we have an efficient organization, high in morale and company spirit.

As stated in last year's report, the company borrowed from the Reconstruction Finance Corporation to make our original purchases of Douglas aircraft. During the year we were able to refinance this loan and borrow money for additional Douglasses on more advantageous terms from one of our banks.

The Duluth service was inaugurated June 1 and is attracting a satisfactory volume of traffic.

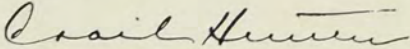
In December, 1939, the company filed a registration statement with the Securities and Exchange Commission in connection with the sale of 100,040 shares of stock by certain of the company's shareholders. The result of this sale was a large increase in the number of shareholders and a considerably wider distribution throughout the country.

During the year Mr. R. C. Lilly and Mr. Francis D. Butler resigned as directors of the company. Mr. Edwin White and Mr. R. M. Hardy were elected to fill these vacancies. During the year the Civil Aeronautics Authority approved the election of Mr. S. M. Archer as a member of the Board, and he was elected Chairman.

In February, 1940, the Civil Aeronautics Authority heard our application to extend our operations to New York City. No decision has been rendered. If our application is granted, it will enable us to tap the large eastern sources of passenger travel of both the United States and Canada. We have requested a route via Windsor, Canada, at which point we would have a connecting service with Trans-Canada Air Lines directly to Toronto, Montreal and Ottawa. In 1934, by authority of Congress, the Postmaster General designated our route as one of the four primary transcontinental routes, and its extension to New York City will complete the shortest transcontinental in the country and the most important geographically for our national defense. Our ability to give through coast-to-coast service is of vital importance to the territory we serve.

Your company is the fifth largest airline in the United States in miles flown and revenues. The interest and help of the company's widely distributed shareholders can be of great assistance, and your management invites your suggestions for the improvement of our service.

Very truly yours,


President

BALANCE SHEET

NORTHWEST AIRLINES, INC.

June 30, 1940

ASSETS

CURRENT

Cash		\$ 314,296.40
Accounts receivable:		
From U. S. and Canadian Governments for mail, transportation and supplies	\$ 323,841.53	
Other transportation accounts.....	244,560.89	
For services, supplies, gasoline tax refunds, etc.....	<u>40,875.75</u>	
	\$ 609,278.17	
Less reserve for doubtful accounts.....	<u>750.00</u>	608,528.17
Inventories—at lower of cost or market:		
Repair parts, supplies and fuel.....		<u>104,706.35</u>
TOTAL CURRENT ASSETS.....		<u>\$1,027,530.92</u>

OTHER ASSETS

U. S. Treasury notes on deposit—at amortized cost (quoted market price \$33,396.00)—Note A.....	\$ 33,404.92	
Insurance rebates and deposits—estimated.....	38,993.92	
Accounts receivable:		
Employees	\$ 14,336.83	
Officers and directors.....	<u>4,007.17</u>	18,344.00
Sundry investments (at cost), deposits, etc.....	<u>3,220.00</u>	93,962.84

PROPERTY, PLANT AND EQUIPMENT—at cost to the Company or its predecessors, less reserves for depreciation and amortization

Land	\$ 5,082.47	
Airplanes	\$1,860,932.81	
Buildings and other equipment.....	<u>766,833.21</u>	
	\$2,627,766.02	
Less reserves for depreciation and amortization.....	<u>1,060,692.73</u>	1,567,073.29
Improvements to leased buildings less amortization.....	<u>39,478.36</u>	1,611,634.12

INTANGIBLE

Cost of U S. Government air mail route.....		48,736.69
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DEFERRED CHARGES

Prepaid insurance	\$ 78,193.87	
Other prepaid and deferred expenses, supplies, etc.....	<u>32,463.62</u>	110,657.49
		<u>\$2,892,522.06</u>

Note A—The Company has been named defendant in two lawsuits arising from the accidental death of one person. One of the cases has been tried, and damages of \$37,500.00 were awarded the plaintiff. The Company has appealed the decision and has deposited securities carried in the balance sheet at \$33,404.92 on a supersedeas bond. The appeal has not yet been heard. The second suit is for \$10,000.00. It has not come to trial and it is the opinion of the Company's legal counsel that this suit will have no standing in court unless the Company wins a reversal of the adverse judgment rendered in the first case. The maximum insurance coverage in this death is \$10,000.00.

BALANCE SHEET
NORTHWEST AIRLINES, INC.
June 30, 1940

LIABILITIES

CURRENT

Accounts payable:			
Trade accounts	\$ 341,723.77		
Transportation sold and deposits.....	162,511.44		
Salaries, wages, and bonuses.....	44,352.81	\$ 548,588.02	
Accrued expenses		47,568.03	
Federal, state and Canadian taxes on income.....		80,500.00	
Current maturities of long term debt.....		<u>287,500.00</u>	
TOTAL CURRENT LIABILITIES.....			\$ 964,156.05

DEFERRED INCOME

Unused tickets	22,290.10
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LONG TERM DEBT

Bank loans secured by chattel mortgage on equipment carried at \$1,192,000.54—payable in installments to November 1, 1942....	\$ 800,000.00		
Less: Amount paid.....	\$ 127,500.00		
Amount included in current liabilities.....	<u>287,500.00</u>	<u>415,000.00</u>	385,000.00

CAPITAL STOCK AND SURPLUS

Preferred stock—5% cumulative, par value \$100.00 per share, convertible into common shares on the basis of ten shares of common for each share of preferred, redeemable at \$103.00 per share plus accumulated dividends:			
Authorized 6,000 shares; unissued 500 shares; redeemed and converted 5,049 shares; outstanding 451 shares—Note B....		\$ 45,100.00	
Common stock—no par value:			
Authorized 300,000 shares; unissued 69,550 shares (of which 4,510 shares are reserved for conversion of preferred stock and 10,000 shares are reserved under option); outstanding 230,450 shares at aggregate stated capital amount.....		1,314,500.00	
Surplus:			
Paid-in surplus	\$ 41,810.86		
Earned surplus	119,665.05	161,475.91	<u>1,521,075.91</u>
			<u><u>\$2,892,522.06</u></u>

Note B—Preferred stock was called for redemption as of August 15, 1940. The holders of 450 shares exercised their options of conversion. Dividends accumulated to June 30, 1940 in the amount of \$1,127.50 were paid in July, 1940.

COMPARATIVE SUMMARIES OF PROFIT AND LOSS AND SURPLUS

NORTHWEST AIRLINES, INC.

Years ended June 30, 1940 and 1939

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PROFIT AND LOSS				
INCOME				
Transportation revenue:				
Mail	\$1,769,854.82		\$1,550,875.84	
Passengers	1,752,676.15		969,512.41	
Express, freight, etc.....	84,228.83	\$3,606,759.80	59,419.76	\$2,579,808.01
Other operating income.....		32,899.65		15,677.22
GROSS INCOME.....		\$3,639,659.45		\$2,595,485.23
EXPENSES				
Maintenance	\$ 597,069.94		\$ 547,630.74	
Depreciation and amortization.....	383,852.34		384,458.55	
Compensation and expenses of airplane crews, radio operators, superintendents, clerks, air- port and hangar employees.....	896,259.32		731,492.76	
Airplane fuel and supplies.....	399,845.13		330,365.75	
Insurance	263,094.13		159,657.22	
Other transportation expenses.....	240,183.50		260,408.68	
Traffic and advertising.....	328,598.44		288,057.30	
Administrative and general.....	242,633.58	3,351,536.38	166,479.23	2,868,550.23
OPERATING PROFIT OR (LOSS)....		\$ 288,123.07		(\$ 273,065.00)
OTHER INCOME				
Net profit from disposal of capital assets.....	\$ 97,923.94		\$ 152,483.73	
Discounts and interest earned.....	5,491.10		3,960.61	
Sundry	4,991.19	108,406.23	1,291.61	157,735.95
		\$ 396,529.30		(\$ 115,329.05)
OTHER DEDUCTIONS				
Interest expense	\$ 18,095.55		\$ 3,034.90	
Sundry	387.71	18,483.26	3,022.40	6,057.30
PROFIT OR (LOSS) BEFORE TAXES ON INCOME		\$ 378,046.04		(\$ 121,386.35)
TAXES ON INCOME				
Provision for the year—estimated:				
Federal income and excess-profits taxes.....	\$ 75,000.00			
State income taxes.....	5,000.00			
	\$ 80,000.00			
Underprovision for prior years.....	1,638.26	81,638.26	\$ 1,929.49	1,929.49
NET PROFIT OR (LOSS).....		\$ 296,407.78		(\$ 123,315.84)
SURPLUS				
PAID-IN SURPLUS				
Balance at the beginning and end of the year.		\$ 41,810.86		\$ 41,810.86
EARNED SURPLUS—DEFICIT*				
Balance at the beginning of the year.....		\$ 184,091.44*		\$ 60,775.60*
Net profit or (loss) for the year.....	\$ 296,407.78		(\$ 123,315.84)	
Adjustment of prior year depreciation reserves.	11,636.21	308,043.99	—o—	(\$ 123,315.84)
		\$ 123,952.55		\$ 184,091.44*
Deduct cash dividends paid on preferred stock —\$8.75 per share		4,287.50		—o—
Balance at the end of the year.....		\$ 119,665.05		\$ 184,091.44*
SURPLUS OR DEFICIT* — June 30, 1940 and 1939.....		\$ 161,475.91		\$ 142,280.58*

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

ST. PAUL, MINN.

August 15, 1940.

BOARD OF DIRECTORS,
Northwest Airlines, Inc.
Saint Paul, Minnesota

We have examined the balance sheet of NORTHWEST AIRLINES, INC. as of June 30, 1940 and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate.

We made tests of accounts receivable balances by direct correspondence with debtors and were present during the taking of the physical inventories and satisfied ourselves as to the adequacy of procedures employed therein. Accounts payable and long term debt were confirmed by direct correspondence and by inspection of invoices, vouchers, records of subsequent transactions, etc.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of NORTHWEST AIRLINES, INC. at June 30, 1940 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants



THE NORTHWEST AIRLINES SYSTEM
 With Connecting Lines