



*Annual Report to Shareholders*



**NORTHWEST AIRLINES, INC.**

Year Ended June 30, 1942

## DIRECTORS

S. M. ARCHER, *Chairman*

R. M. HARDY	L. M. LEFFINGWELL
CROIL HUNTER	JOHN E. PARKER
T. E. IRVINE	WILLIAM STERN
JOSEPH T. JOHNSON	EDWIN WHITE
E. I. WHYATT	

## OFFICERS

CROIL HUNTER	- - - - -	<i>President</i>
E. I. WHYATT	- -	<i>Vice President and Treasurer</i>
K. R. FERGUSON	- -	<i>Vice President—Operations</i>
A. E. FLOAN	- - - - -	<i>Secretary</i>
L. S. HOLSTAD	- - - - -	<i>Assistant Treasurer</i>
CAMILLE L. STEIN	- - -	<i>Assistant Secretary</i>

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

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The Chase National Bank of The City of New York, New York  
City  
Principal Registrar

Bankers Trust Company, New York City  
Principal Transfer Agent

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

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

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Annual meeting of shareholders last Monday in September.

# NORTHWEST AIRLINES, INC.

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St. Paul, Minnesota  
September 10, 1942

*To the Shareholders of Northwest Airlines, Inc.:*

## **Financial Report**

For the fiscal year ended June 30, 1942, your company earned a net income of \$430,100.01 after deduction of income, excess profits and other taxes. This amounts to \$1.83 for each common share outstanding. At the end of the year your company's surplus was \$917,647.71.

There is included with the accompanying financial statements a report of Ernst & Ernst, certified public accountants, covering the income statement, surplus statement and balance sheet.

The income statement compares the results of the year just ended with those of the previous year. There are some significant comparisons which should be clearly understood. (1) The curtailment of service which your company experienced in common with all other air carriers occurred so near the end of the fiscal year that the loss of revenue and profit is not obvious in the report. (2) The non-recurring item of profit from disposal of aircraft and other depreciable assets is the large amount of \$398,646.00. Part of this figure is the book profit on airplanes sold for war purposes at the request of the United States Government, and the balance is the excess over depreciated values of insurance collected for aircraft lost in accidents. (3) The provision for taxes on income is \$247,513.75 higher than last year. (4) Both revenues and expenses are affected by your company's war contracts in ways which make it impossible to exactly compare operating expenses for the two years.

Total operating revenue increased \$585,545.21 over the previous year due to gains of 14.6% in passenger revenue, 6.4% in mail revenue and 79.0% in express revenue. The increased passenger business was the result of selling a higher proportion of the seats available; the increased mail pay resulted from greater bonuses covering heavier mail loads; the increased express income came from much heavier carriage of air express.

Operating expenses were higher, partly as the result of considerably increased business, but also by reason of higher salaries and wages, increased costs of materials and supplies and increased age of flying equipment. The increases were offset to some extent by the elimination of depreciation charges on airplanes disposed of during the year and some expense charged against war contracts.

The most important changes in the balance sheet are, of course, the increased surplus and the improved net current asset position of your company. On June 30, 1942, current assets exceeded current liabilities by \$1,068,415.26.

An item not shown on the balance sheet is worthy of comment. The company has committed itself as a participant in the construction of a new terminal building at Chicago, Illinois, for 9% of the maximum cost or \$108,000.00. A deposit in escrow of \$9,000.00 has been paid and additional payments to be made thereunder will be recovered in future periods as rentals on space occupied.

A dividend of fifty cents per share, aggregating \$117,460, was declared on August 11, 1942, payable September 1, 1942.

### **Equipment**

During the year your company sold four Douglas DC-3 21-passenger planes and four Lockheed Electra 10-A 10-passenger planes for war purposes at the request of the Federal Government. Also during the year two DC-3's were lost in accidents, and an obsolete Hamilton plane was sold. The only airplane acquired during the year was a Gull-Wing Stinson.

### **Financing**

No additional financing was required during the year. \$242,500 was paid on previous bank loans, reducing the balance to \$142,500. This balance has been reduced to \$30,000 as of the date of this letter.

### **Personnel**

Developments during the year, particularly since January 1, 1942, have made extraordinary demands upon the loyalty, energy and ability of employees of all classes. The willing and effective response to these heavy demands has carried forward the company's operations in a way not only to the company's own benefit but has contributed to the country's war effort to a high degree of which we are all sincerely proud.

The company has three labor agreements in effect—one with pilots, one with radio operators, and one with maintenance and other mechanical personnel. Relations with employees of all classifications continue to be harmonious.

### **Effect of War**

The character of your company's business has been changed to a tremendous extent. The effect of the war and of government policies falls into several categories:

1. Effect upon volume of commercial operations.
2. Personnel called to military service.
3. War contracts.

The company's commercial business has been affected to an important degree by the war, both in ways which are favorable and in other ways which are adverse. Travel resulting from war production and from the movement of military personnel, together with increased use of the mails and air express for war purposes, contributed greatly to improved revenues. On the other hand, the requisitioning by the government of airplanes, with consequent curtailment of service, cut short this revenue improvement during the latter part of the year. This requisitioning amounted to approximately half of the company's flying

equipment, making necessary nearly a 40% curtailment of schedules, including the complete elimination of service between Portland and Spokane and elimination of passenger service between the Twin Cities and Duluth, on which only mail and express are now flown.

The effect of this curtailment during the year just ended was not very serious, but the current year is entered into with a greatly reduced volume of commercial operations. However, it is believed that improved load factors and better utilization of equipment will, with the company's other projects, tend to offset the reduced volume of commercial operations.

Although the government has recognized the vital nature of air transport service, and local draft boards have cooperated in deferring many of our technical and key personnel, nevertheless we have found it necessary to replace a large number of men. In all, a total of 174 have left to join the armed services, including four of our executive staff. These four are George E. Gardner, who served the company as Vice President in Charge of Operations, now a Colonel in the Air Corps; W. Fiske Marshall, former Operations Manager, now a Lieutenant Colonel in the U. S. Marines; A. Robert Mensing, Jr., who served as Western Division Superintendent, and W. D. Inness, our Superintendent of Communications, both of whom are now Majors in the Army Air Corps. I believe it is a real tribute to the character of the Northwest Airlines organization that the heavy responsibilities placed on the men moved into the vacancies so caused and into positions newly created have been admirably met. We have had to overcome the loss of all of these employees and at the same time expand our personnel from 881 to approximately 3,600 since January 1, 1942. Present indications are that the jobs we have been given to do may require an organization of 8,000 to 10,000 people. Anticipating such higher levels of employment, we have already hired large numbers of women, not only in office jobs but in various kinds of mechanical work, in which they have shown excellent aptitude, and in all positions for which we believe they can qualify. Further, we are employing more and more men whose draft status makes them most remote from Selective Service.

The most important single government policy affecting your company's status in war time was the decision by the U. S. Army Air Corps to utilize the services of the country's commercial airlines to the fullest possible extent. Successful air transportation involves not only flying airplanes from place to place but also involves a highly trained ground organization and extensive maintenance, servicing and communications facilities. For years the airlines have trained such personnel and developed such facilities and have acquired a vast amount of experience, not only in the operation, maintenance and servicing of aircraft, but also in the training of personnel and developing of the many aids needed in such operation. Fortunately, at this critical time, they are in a position to be of invaluable assistance to the Army.

The effects of this policy are not confined to the financial protection offered, although this feature in itself is of great importance, inasmuch as the government's action in requisitioning airplanes and reducing schedules had the effect of greatly reducing, if not completely eliminating, any chance for profitable commercial operations. Much more important than this is the fact that this allows your company and other airlines to draw upon their accumulated experience, managerial ability, and man power to make a great and direct contribution to the country's war effort.

The full story of our vital war contracts cannot now be told, but this part of the company's operations far exceeds in volume its normal airline business and is growing rapidly.

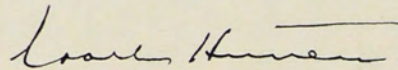
### **Objectives**

For the duration of the war the objectives of your company are:

1. To bend every effort to do successfully every job given us by our government.
2. To operate a good commercial airline within the restrictions of wartime economy.
3. To seek to gain from its wartime experience the maximum value to be applied to post-war activities.

The tremendous extent to which the airlines are operating military contracts will be a factor of prime importance in the development of post-war aviation. The problems being met and mastered and the volume of operations being conducted will put air transport in a position to be an important factor in sustaining the post-war economy of the country. The opportunity to train and develop large numbers of new personnel, the experience gained in the operation of new and larger types of flying equipment, and the technical pioneering work being done will be of incalculable benefit to your company and your nation when the present world conflict ends in ultimate victory for the United Nations.

Very truly yours,

  
*President*

## ACCOUNTANTS' REPORT

BOARD OF DIRECTORS,  
NORTHWEST AIRLINES, INC.,  
Saint Paul, Minnesota

We have examined the balance sheet of NORTHWEST AIRLINES, INC. as of June 30, 1942, and the statements of income 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. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Cash funds were independently confirmed. Accounts receivable balances were tested by direct correspondence with selected debtors and by reference to records of collections and other data. We observed the procedures employed by the Company in taking physical inventories and made test counts of selected items. Notes payable were confirmed directly by the bank. Other liabilities were tested by direct correspondence, computation, inspection of statements from vendors, vouchers, pay rolls, etc.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of NORTHWEST AIRLINES, INC. at June 30, 1942, 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

Saint Paul, Minnesota  
September 8, 1942

## BALANCE SHEET

### NORTHWEST AIRLINES, INC.

June 30, 1942

#### ASSETS

Current assets:

Cash ..... \$ 897,255.86

Marketable securities:

U. S. Treasury bonds—at cost ..... 25,000.00

Accounts receivable:

U. S. and Canadian Governments and agencies .....	\$ 952,075.69	
Transportation accounts .....	522,658.35	
For services, supplies, etc., less reserve of \$2,500.00 .....	34,139.80	1,508,873.84

Inventories:

Repair materials and operating supplies at the lower of cost or market ..... 306,019.63

TOTAL CURRENT ASSETS ..... \$2,737,149.33

Other assets:

Accounts receivable from employees .....	\$ 39,346.03	
Insurance deposits, claims, and premium adjustments .....	20,678.42	
Sundry investments (at cost) and deposits .....	13,285.00	73,309.45

Property, plant, and equipment—at cost to the Company or its predecessors, less reserves for depreciation and amortization:

	Cost	Reserves	Balance	
Land .....	\$ 5,082.47		\$ 5,082.47	
Aircraft and reserve equipment .....	1,352,565.52	\$ 855,966.89	496,598.63	
Buildings on leased ground .....	414,200.87	188,547.78	225,653.09	
Other buildings and equipment .....	648,854.06	356,320.25	292,533.81	
Improvements to leased property .....	66,540.41	13,325.88	53,214.53	
	<u>\$2,487,243.33</u>	<u>\$1,414,160.80</u>	<u>\$1,073,082.53</u>	1,073,082.53

Intangible:

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

Deferred charges:

Prepaid insurance .....	\$ 53,415.23	
Other prepaid and deferred expenses, supplies, etc. ....	48,556.22	101,971.45

\$4,034,249.45



## BALANCE SHEET

### NORTHWEST AIRLINES, INC.

June 30, 1942

#### LIABILITIES

Current liabilities:

Notes payable to bank .....		\$ 142,500.00
Accounts payable:		
Trade accounts .....	\$ 808,057.47	
Air travel contract deposits (gross) .....	140,375.40	
Salaries and wages .....	86,781.06	
Employees' war bond deductions .....	15,039.13	1,050,253.06
Accrued liabilities .....		120,981.01
Federal, state, and Canadian taxes on income—estimated .....		355,000.00
TOTAL CURRENT LIABILITIES .....		\$1,668,734.07

Deferred income:

Unused transportation, etc. ....		46,667.67
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Reserve for possible inventory obsolescence .....

42,000.00

Capital stock and surplus:

Preferred stock, 5% cumulative convertible, par value \$100.00 per share:

Authorized 6,000 shares; unissued 500 shares; redeemed or converted 5,500 shares; outstanding, none

Common stock, no par value:

Authorized 300,000 shares; unissued 65,080 shares (of which 10,000 shares are reserved for option at \$14.00 per share); outstanding 234,920 shares at aggregated stated capital amount .....

\$1,359,200.00

Surplus:

Paid-in surplus .....

\$ 41,798.86

Earned surplus .....

875,848.85

917,647.71

2,276,847.71

NOTE A—The Company has been named defendant in lawsuits, which have not come to trial, arising from the accidental deaths of three persons. While the amount of these claims is considerably more than the maximum insurance coverage thereon of \$225,000.00, it is the opinion of the Company's legal counsel that any damages which may be awarded will be substantially less than the amount of the insurance coverage.

\$4,034,249.45

**COMPARATIVE STATEMENT OF INCOME**

**NORTHWEST AIRLINES, INC.**

**Years Ended June 30, 1942 and 1941**

	1942	1941
Operating revenues:		
Transportation:		
Passengers .....	\$2,663,126.51	\$2,324,003.58
Mail .....	1,971,213.71	1,852,333.11
Express, freight, etc. ....	209,137.23	116,824.42
Repair and service income and fees, rents, etc. ....	79,976.94	44,748.07
	\$4,923,454.39	\$4,337,909.18
Operating expenses:		
Maintenance and repairs .....	\$ 815,620.91	\$ 645,350.44
Provision for depreciation and amortization .....	461,587.37	499,212.96
Compensation and expenses of aircraft crews, radio operators, superintendents, clerks, airport and hangar employees .....	1,254,511.37	1,100,735.06
Aircraft fuel and supplies .....	493,181.95	446,416.38
Insurance .....	313,186.07	262,369.43
Other transportation expenses .....	301,782.21	266,225.30
Traffic, sales, and advertising .....	550,552.22	402,936.48
Administrative and general .....	332,569.21	277,754.37
	4,522,991.31	3,901,000.42
OPERATING INCOME	\$ 400,463.08	\$ 436,908.76
Other income and credits:		
Profit from disposal of aircraft and other depreciable assets .....	\$ 398,646.00	\$ 1,186.60
Discounts and interest earned .....	5,995.37	6,785.87
Credits applicable to prior years .....	3,641.23	17,429.60
Sundry .....	6,248.14	5,808.89
	414,530.74	31,210.96
	\$ 814,993.82	\$ 468,119.72
Other deductions:		
Addition to reserve for possible inventory obsolescence ..	\$ 27,600.00	\$ 14,400.00
Interest expense .....	5,648.38	12,863.82
Settlement of litigation .....	3,829.15	12,500.00
Sundry .....	3,829.15	557.95
	37,077.53	40,321.77
INCOME BEFORE TAXES THEREON	\$ 777,916.29	\$ 427,797.95
Taxes on income:		
Provision for the year—estimated:		
Federal income tax at 1941 rates .....	\$ 250,000.00	\$ 100,000.00
Estimated additional liability under pending legislation .....	55,000.00	4,500.00
Declared value excess profits tax .....	35,000.00	7,500.00
State and Canadian income taxes .....	15,000.00	112,000.00
	\$ 355,000.00	\$ 112,000.00
Less prior years' adjustments .....	7,183.72	11,697.47
	347,816.28	100,302.53
NET INCOME	\$ 430,100.01	\$ 327,495.42

**STATEMENT OF SURPLUS**

**NORTHWEST AIRLINES, INC.**

**Year Ended June 30, 1942**

Paid-in surplus:		
Balance at July 1, 1941, and June 30, 1942 .....		\$ 41,798.86
Earned surplus:		
Balance at July 1, 1941 .....	\$445,748.84	
Net income for the year .....	430,100.01	875,848.85
TOTAL SURPLUS—JUNE 30, 1942		\$917,647.71



