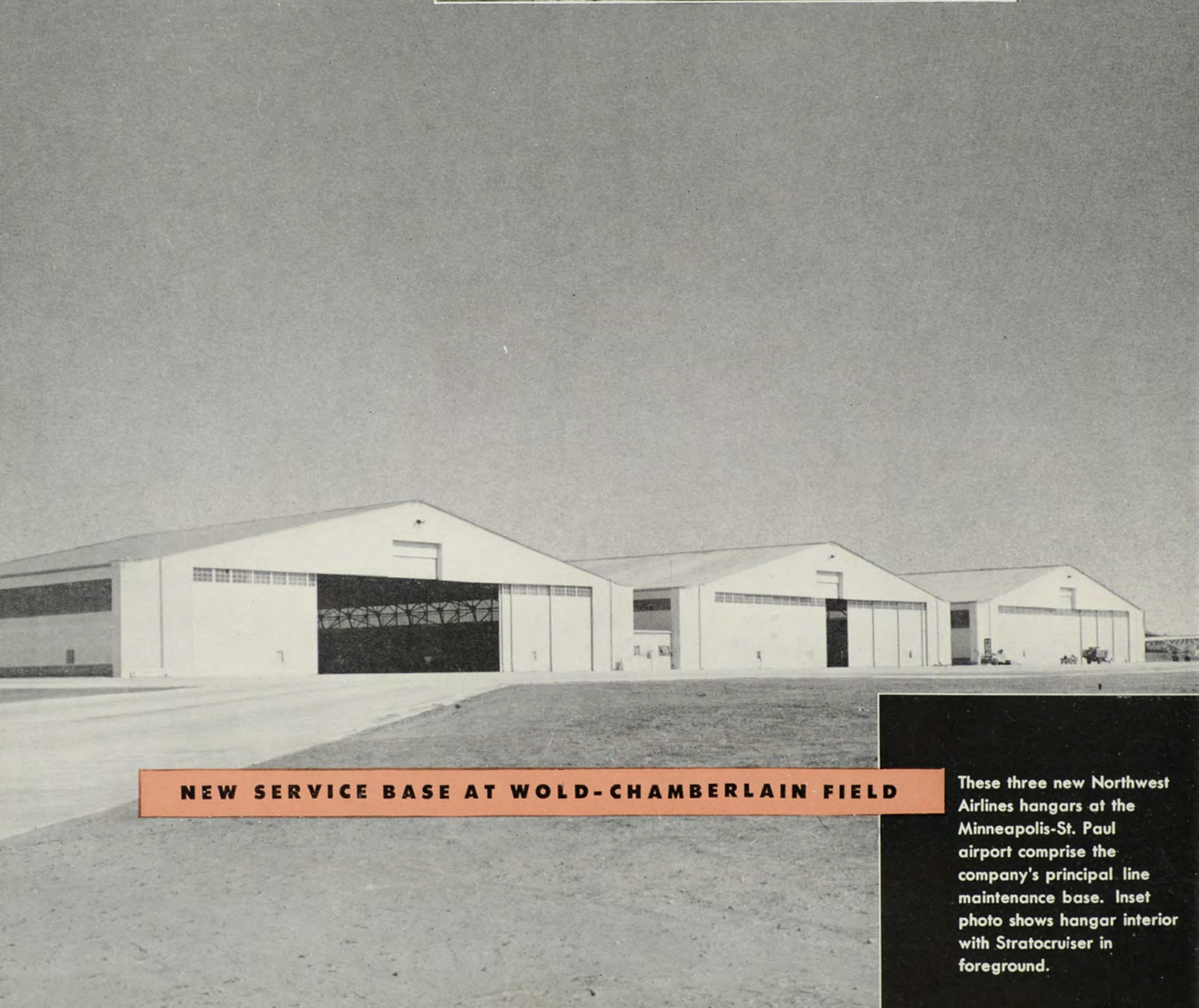
NWA

NORTHWEST AIRLINES, INC.

Annual Report 1950



NEW SERVICE BASE AT WOLD-CHAMBERLAIN FIELD

These three new Northwest Airlines hangars at the Minneapolis-St. Paul airport comprise the company's principal line maintenance base. Inset photo shows hangar interior with Stratocruiser in foreground.

NORTHWEST AIRLINES, INC.

NWA *Annual Report 1950*

OFFICERS AND DIRECTORS AS OF DECEMBER 31, 1950

OFFICERS

Croil Hunter	*President*
E. I. Whyatt	*Vice President and Comptroller*
K. R. Ferguson	*Vice President—Operations and Engineering**
Linus C. Glotzbach	*Vice President and Assistant to the President*
Amos Culbert	*Vice President—Sales*
A. E. Floan	*Vice President and Secretary*
L. S. Holstad	*Treasurer*
Frank C. Judd	*Regional Vice President—Western Region*
D. J. King	*Regional Vice President—Orient Region*
Wm. J. Eiden	*Assistant Treasurer*
A. D. Piepgras	*Assistant Treasurer*
C. L. Stewart	*Assistant Secretary*

DIRECTORS

K. R. Ferguson	*Vice President—Operations and Engineering, Northwest Airlines, Inc.***
Wm. Tudor Gardiner	*Chairman, Board of Directors, Incorporated Investors, Boston, Mass.*
Robert M. Hardy	*President, Sunshine Mining Co., Yakima, Wash.*
Croil Hunter	*President, Northwest Airlines, Inc.*
Joseph T. Johnson	*President, The Milwaukee Co., Milwaukee, Wis.*
Malcolm S. Mackay	*Special Partner, Laidlaw & Co., New York, N. Y.*
Dr. Charles W. Mayo	*Mayo Clinic, Rochester, Minn.*
Alonzo Petteys	*Vice President and Director, Farmers State Bank, Brush, Colorado*
William Stern	*President, Dakota National Bank, Fargo, N. D.*
Edwin White	*Chairman, Board of Directors, Kalman & Co., St. Paul, Minn.*
E. I. Whyatt	*Vice President and Comptroller, Northwest Airlines, Inc.*

Principal Registrar
The Chase National Bank of The City of New York, N. Y.

Principal Transfer Agent
Bankers Trust Company, New York, N. Y.

Co-Registrar
Harris Trust and Savings Bank, Chicago, Illinois

Co-Transfer Agent
The First National Bank of Chicago, Chicago, Illinois

General Offices: 1885 University Avenue, St. Paul 4, Minnesota

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*Resigned Feb. 26, 1951.

**Resigned May 28, 1951.

HIGHLIGHTS OF 1950

- $20,000,000 fleet of Stratocruisers in complete operation coast to coast, Hawaii, and Alaska.

- Total operating revenues increased 25.6% over 1949.

- Passenger revenues up 18.9% over 1949.

- Reduced bank loan $3,859,637.

- Total freight and express revenues up 30.3% over 1949.

- Expended $4,559,000 in capital investments.

- Increased net working capital $1,602,800 over 1949.

- New high of 854,459 revenue passengers.

25TH YEAR OF EXPERIENCE

To the Shareholders of Northwest Airlines:

In 1950 your company experienced a year marred by four accidents, but nevertheless emerged in sound financial condition, prepared to continue the development of one of the world's major air transportation systems. It was a year in which the company's new double-deck luxury Stratocruisers won widespread passenger acceptance, contributing substantially toward the record high gross revenues realized in 1950. As is always the case in the putting into operation of a large new fleet, operating and maintenance costs were substantial. Steady progress is being made in improving the efficiency of this fleet.

After all charges, Northwest Airlines showed a net loss of \$135,478 after taking into account \$358,483 mail pay credit applicable to prior years. It should be noted that this figure reflected high depreciation and amortization charges of \$5,873,247, which were \$1,916,579 greater than for 1949. In that year we reported net earnings of \$1,357,679.

Total operating revenues in 1950 amounted to \$51,396,511, compared with \$40,925,613 in 1949. Mail payments from the U. S. Government totaled \$8,877,810, slightly less than the \$9,052,523 received for 1949. Freight and express revenues amounted to \$4,122,222, representing an increase of 30.3 per cent over 1949 revenues of \$3,163,277. Passenger revenues increased from \$27,873,942 in 1949 to \$33,148,395 in 1950, an increase of 18.9 per cent.

On the other side of the ledger, operating expenses totaled \$51,595,266 as compared with \$38,988,909 the year before. The greater part of this increase was the cost of flying 23.5 per cent more seat miles and 23.9 per cent more revenue passenger miles, and the balance was attributable to rising prices of labor and materials and to the high shakedown, operating and maintenance costs of our new Stratocruisers.

The balance sheet position of your company is sound. At December 31 net working capital totaled \$3,656,900, an increase of \$1,602,800 over working capital a year earlier. This improvement was noteworthy because during 1950 your company made an outlay of \$4,559,000 for additional capital investment, made note payments of \$3,859,637 on outstanding bank loans, fully paid up its preference dividends with a disbursement of \$444,053, and purchased 5,155 shares of preference stock on the open market for \$90,896, retiring them as required by the company's articles of incorporation.

In April, 1950, we borrowed the final amounts of a \$21,000,000 bank loan. These borrowings were paid down to \$17,140,363 at the end of the year, and have since been reduced to \$16,140,363 by a \$1,000,000 payment made in March, 1951.

We are able to report briefly at this time on two important developments in the opening months of the current year, 1951.

First, while it is traditional that we experience a substantial loss in the opening months of each year because of the seasonal decline in air traffic in the Northwest, in the first four months of 1951 this loss was less than in the same period of 1950. Last year we reported losses for each of the first five months including losses of \$498,944 in April and \$177,247 in May so that at the end of the first four months, we had lost \$4,110,582 and at the end of May we had lost \$4,287,828. This year we had a smaller loss for the first quarter and made a profit of \$116,228 in April. At the end of the first four months, our losses amounted to \$1,498,309 and based on the information now available, this loss will be further reduced by a profit for May.

Second, in April of 1951 the Civil Aeronautics Board fixed new U. S. air mail rates for our operations in several past years. These replace various temporary rates which have been in effect while the company's rate applications have been pending. In effect, the Board determined that under the old rates, your company had been underpaid approximately \$4,702,692 on its domestic routes and overpaid \$3,130,344 on its international routes, a net underpayment of \$1,572,348. In addition, the C.A.B. set new temporary mail rates effective January 1, 1951, which are designed to yield your company aggregate mail payments from the U. S. Government of approximately \$7,800,000 in 1951 to cover both domestic and international routes, as against the \$8,877,810 received for 1950.

As we enter our 25th year, it is gratifying to look back on the company's growth from small beginnings to our present position as a major air transportation system, one of the three largest American flag carriers in route miles. These routes are sound, and their potential is being expanded steadily. Your company will continue to develop and strengthen its position in 1951 and in the years to come.

I want to take this opportunity to express my appreciation to all employees for the loyalty and support they have unselfishly given to the company during the year.

By authority of the Board of Directors

Croil Hunter

President and General Manager

Saint Paul, Minnesota
May 29, 1951

NWA

THE YEAR IN REVIEW

The equipment difficulties encountered by your company in 1950 were those inherent in the development and progress of commercial air transportation. From the standpoint of service to the public and the nation's defense, performance exceeded that of the previous year. Revenue passenger miles flown on the company's domestic lines and throughout the international system increased, respectively, 21.8 and 23.9 per cent over 1949, exceeding the comparable average performance of the nation's 16 trunk carriers. Revenue ton miles flown increased by 25.4 per cent.

FLEET OPERATIONS

Stratocruisers

The new double-deck luxury Stratocruisers were used in domestic operations and also between the Pacific Northwest and Anchorage, Alaska, and to Hawaii. Their passenger appeal proved high as did the gross revenues they produced. However, due to unsatisfactory performance of certain component parts, their operating and maintenance costs were greater than could have been reasonably anticipated and their daily utilization was at a minimum.

In the company's opinion, the high 1950 operating costs were due to a number of the manufacturer's design deficiencies and to its failure to comply with some of its contract representations. Furthermore, the delay of over two years in the delivery of the fleet seriously affected our competitive position during that period. As a result, the company has brought suit for damages against the manufacturer and this suit is now pending in the Federal Court in the State of Washington.

The problem of reducing Stratocruiser operating expenses and improving its utilization has received our concentrated attention and that of the other users as well as the manufacturer. At the end of 1950 substantial progress had been made in regard to both expense and performance, and justifies the confidence that the profit potential of these popular double-deck Stratocruisers will be realized.

MARTIN 202s

Our twenty Martin 202 airplanes are out of service. Certain modification items, relatively minor in nature and inexpensive to accomplish, have been established by the Civil Aeronautics Board, and these modifications will be made. In the meantime these planes remain fully certificated and in condition to fly. At this writing, final disposition of the fleet has not been determined.

DOUGLAS DC-4s

Throughout 1950 the company flew DC-4s in passenger coach service in the United States and in first-class service on Northwest's Orient route. They also were flown in exclusive freight service on domestic routes, in coach service between the United States and Alaska, and in military contract operations. At the end of 1950 eighteen DC-4s were in operation.

At the present time our DC-4s are also being used to operate some schedules formerly flown by Martin 202s. Additional DC-4s are being acquired for this purpose.

KOREAN AIRLIFT

The know-how of Northwest Airlines was recognized in a striking manner when the Government at a time of national emergency assigned to the company a major role in the airlift from this country to Tokyo and other points in the Orient. On the basis of experience gained during World War II and further experience acquired in commercial service to the Orient, Northwest was named a prime contractor in this military air transport service. Northwest pilots flew DC-4s previously operated by the company in its own commercial service and also DC-4s of a number of other sub-contracting airlines. Northwest ground crews maintained the entire fleet.

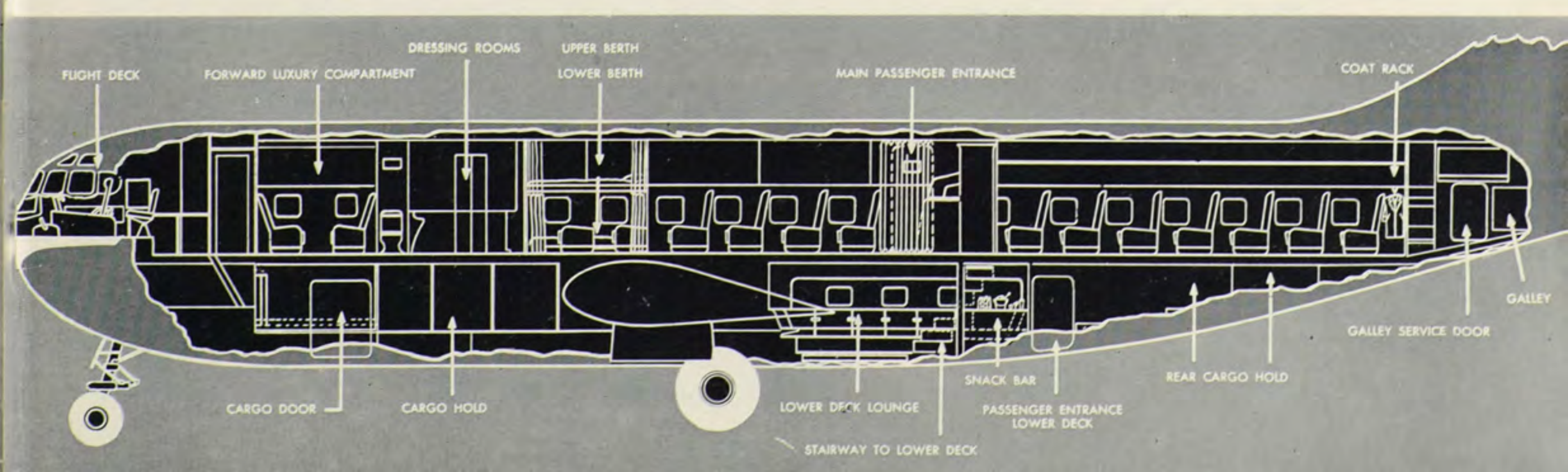
UNITED NATIONS SERVICE

In addition to the airlift assignment, Northwest operated a special service for the United Nations involving flights between Tokyo and points in Korea. This service used DC-3 aircraft owned by the United Nations and is operated exclusively by Northwest Airlines personnel.

ROUTES

There were no major changes in the company's routes during 1950. Edmonton, capital of the Province of Alberta and center of an extensive oil development

The anatomy of luxury flying is illustrated in this cutaway diagram of a 75-passenger double-deck Boeing Stratocruiser. Ten of these giant high-altitude airliners make up a Northwest luxury fleet serving passengers from coast to coast and on direct routes to Alaska and Hawaii



area, was activated as a traffic stop on the company's route between the Twin Cities and Anchorage, Alaska. Also during the year Northwest started serving Formosa on its route between Tokyo and Manila.

Formal application was made to the Civil Aeronautics Board for permission to suspend trunk line service in several areas which produce limited traffic, or which might be more economically served by feeder type carrier. In addition, Northwest continued to seek elimination of C.A.B. restrictions on service east of Milwaukee, under which flights must originate or terminate at New York or Washington on the one hand and at the Twin Cities or points west on the other hand. These matters await action by the C.A.B.

IMPROVEMENTS

Three large hangars comprising a new \$1,150,000 Northwest Airlines line maintenance base at Wold-Chamberlain Field went into service during the year. These facilities at the Minneapolis-St. Paul Airport provide for efficient line maintenance of all types of equipment operated by the company.

OPERATIONAL DATA

The percentage increase in revenue passenger miles from 1949 to 1950 was greater than the related increase in passenger revenues. This was a result of the increased volume of low fare passenger coach business done in 1950. Coach passenger miles in 1950 amounted to 27.6 per cent of all passenger miles, and the revenue from coach passengers represented 20.9 per cent of all passenger revenues.

System expenses per ton mile of service offered to the public were slightly less in 1950 than in 1949, and the percentage of this service actually sold was somewhat higher. These gains were offset, however, by the fact that average revenue per ton mile sold was down more than 6 per cent, largely as a result of the increased volume of business done at lower tariff rates.

POTENTIAL

After twenty-five years of development, the Northwest Airlines system now serves some of the greatest agricultural and industrial areas and vital population centers of America. These areas include the rapidly growing Pacific Northwest, the Province of Alberta, center of Canadian oil production, and an expanding Alaska traffic favorably affected by military activity but well based on civilian passenger and cargo requirements.

Northwest's routes to Hawaii, Alaska, and to the Orient cover areas with huge potentials and are geographically and strategically linked directly with our domestic system. Japan, Okinawa, Formosa, the Philippines and Hong Kong are proving rich sources of travel and trade. Travel to Korea before the outbreak of the war was substantial and any future rebuilding of this area should again generate heavy traffic in both passengers and cargo. Our North Pacific route to the Orient via Alaska and the Aleutians has proved practical by four years of outstanding operating performance and dependability and has the advantage of being approximately 2,000 miles shorter than the Mid-Pacific route.

The pioneering of our routes has been accomplished and we are now in the period of more fully developing the traffic potential.

MILITARY AND DIPLOMATIC CORPS COMMEND NWA

*"I desire to extend my commendation and appreciation to you and your entire organization for the splendid record you have achieved in conducting your contract operation for the Department of the Air Force.

"From the time your first aircraft arrived under contract to the Air Force until this date, I have not received a single complaint or criticism of the manner in which you have administered your responsibility. The co-operation of your personnel in working with the military has been of the highest order and representative of a highly efficient and business-like organization.

"I am sure you will be pleased to know that your company leads all other contract carriers in effecting rapid turn-around on aircraft vitally needed for carrying additional cargo into Japan."*

***"I would like to take this opportunity to express my deep appreciation for the excellent service that Northwest Airlines has afforded the American Mission in Korea during the past years of operation in Korea and, especially, during the last few weeks. With extremely little notice, in the course of four days three extra planes were made available for this purpose and, as a result, we were able to get a considerable number of persons to Japan, plus their baggage. In addition to this, Northwest has always given us excellent service both in and out of Seoul on air-freight and State Department pouches."*

EXCERPTS FROM LETTERS TO NORTHWEST AIRLINES FROM:

*Edward H. White
Brigadier General, USAF Commanding
1503rd Air Transport Wing, Pacific Division MATS

**John J. Muccio
U. S. Ambassador to Korea

Ever since the outbreak of war in Korea last summer, Northwest Airlines, as a prime contractor, has been operating an airlift to the Orient. Flying its own ships and others from sub-contracting airlines, it has carried men and supplies to the Far East over its regular short-cut route to Japan. Typical is this scene at a west coast airport as GIs board a Northwest plane for Tokyo.

BALANCE SHEET — December 31, 1950

NORTHWEST AIRLINES, INC.

ASSETS

Current Assets			
Cash			$ 4,531,805
U. S. Treasury Bills—at redemption prices (aggregate cost $1,248,285)			1,249,874
Accounts receivable:			
For transportation (including U. S. Government accounts of $3,459,228)	$4,941,745		
Other current accounts	816,615	$5,758,360	
Less allowance for losses		33,000	5,725,360
Inventories of repair materials and operating supplies—generally at lower of cost (first-in, first-out) or replacement market			894,444
Other current assets:			
Prepaid insurance, rent, taxes, etc.		$ 633,917	
Reimbursements due from U. S. Government within one year—see contra deferred credit and Note A		371,352	
Refundable income taxes arising from operating loss carry-back—estimated		265,563	1,270,832
Total Current Assets			$13,672,315
Other Assets			
Sundry related business investments (at cost—no quoted market), deposits, and notes	$ 173,309		
Less allowance for losses	2,000	$ 171,309	
Estimated income taxes which will be recoverable upon settlement of war contracts		66,000	237,309

Property, Plant, and Equipment—on the basis of cost (including assets of $9,694,010 completely amortized to residual amount of $177,123)—Note B

	Cost	Depreciation and Amortization Allowances	Balance	
Land	$ 31,393	$..................	$ 31,393	
Aircraft and reserve equipment	38,992,818	13,816,338	25,176,480	
Conversion costs on leased aircraft	1,613,036	1,613,036	....	
Buildings on land not owned	3,046,263	655,316	2,390,947	
Other buildings and equipment	5,581,343	2,478,057	3,103,286	
Improvements to leased property	1,079,623	920,978	158,645	
Cost of work in progress	308,302	....	308,302	
Non-operating property	10,006	2,594	7,412	
	$50,662,784	$19,486,319	$31,176,465	31,176,465

Deferred Charges		
Training and other costs in connection with the Boeing fleet, less accumulated amortization (over life of fleet) of $139,778	$ 657,346	
Long-term rental prepayments	68,642	
Other deferred charges	28,467	754,455
		$45,840,544

LIABILITIES

Current Liabilities		
Accounts payable and accrued expenses:		
Trade accounts	$ 3,008,858	
Salaries, wages, and vacation compensation	1,751,349	
Air travel contract deposits—gross	486,625	
Pay roll taxes and taxes withheld from employees' wages	461,967	
Retirement plan contributions, including amounts withheld from employees' wages—Note C	82,497	
Savings bond and other deductions from employees' wages	62,485	
Accrued local taxes	351,543	
Accrued rent and interest	32,560	$ 6,237,884
Unearned transportation revenue—estimated		540,605
Federal and state taxes on income—estimated		236,926
Current maturities of long-term debt, less $1,000,000 due January 1, 1951, paid in December, 1950		3,000,000
Total Current Liabilities		$10,015,415
Long-Term Debt—secured—Note B		
Notes payable to banks under Credit Agreement—4%—$1,000,000 payable on the first day of January, April, July, and October of each year, less current maturities of $3,000,000		14,140,363
Deferred Credit		
Reimbursements due from U. S. Government—see contra and Note A		371,352
Capital Stock and Surplus—Notes B and D		
Capital stock:		
4.6% cumulative preference stock, par value $25 per share; entitled upon liquidation or redemption to $26.25 per share at December 31, 1950, reducing to $25.25 per share after May 1, 1953, plus accumulated unpaid dividends; convertible into common stock to December 31, 1956, at the rate of one share of common for each $16⅔ of the par value of the 4.6% cumulative preference stock: Authorized 600,000 shares, less 5,155 shares permanently retired under market fund purchases; outstanding 384,845 shares	$ 9,621,125	
Common stock par value $10 per share: Authorized 3,000,000 shares; unissued 2,179,142 shares of which 577,267½ shares are reserved for conversion of 4.6% cumulative preference stock, 10,000 shares are reserved for options at $11.25 per share, 5,147 shares are reserved for options at $10 per share, and 14,800 shares are reserved for issuance in connection with future options which may be granted to officers and employees; outstanding 820,858 shares	8,208,580	
Capital surplus (after accumulated deduction of $560,625 for dividends paid on 4.6% cumulative preference stock)	2,821,033	
	$20,650,738	
Earned surplus	662,676	21,313,414
Contingent Liabilities—Note E		
Commitments—Note F		
		$45,840,544

See accompanying notes to financial statements

PROFIT AND LOSS STATEMENT

Year Ended December 31, 1950

NORTHWEST AIRLINES, INC.

Operating revenues:		
Transportation:		
Passenger	$33,148,395	
Mail—Note A	9,409,526	
Express, freight, and excess baggage	4,388,119	
Charter and other	227,007	$47,173,047
Pacific airlift for the U. S. Government		3,969,670
Repair and service income, rents, etc.,—net		253,794
TOTAL OPERATING REVENUES		$51,396,511
Operating expenses:		
Flying operations	$15,654,788	
Ground operations	6,385,189	
Maintenance and repairs	12,024,822	
Passenger service	2,903,744	
Traffic and sales	3,984,494	
Advertising and publicity	1,442,156	
Administrative and general, pay roll taxes, property taxes, etc	3,301,899	
Provision for depreciation and amortization	5,873,247	
Provision for doubtful accounts, adjustments, recoveries, etc	24,927	51,595,266
OPERATING LOSS		$ 198,755*
Other income and credits:		
Interest on marketable securities	$ 7,235	
Discounts and other interest earned	70,529	
Profit from disposal of depreciable assets	129,850	
Profit from sale of surplus inventories	69,430	
Reduction in reserve on U. S. Government war contracts, less applicable recoverable income tax of $20,000	33,396	
Sundry	51,714	362,154
Income deductions:		$ 163,399
Interest and debt expense:		
Interest on long-term debt	$ 772,026	
Other long-term debt expense	71,380	
	$ 843,406	
Other interest expense	13,803	
Route extension and development	5,905	
Sundry	59,809	922,923
LOSS BEFORE INCOME TAX CREDIT		$ 759,524*
Income tax recoverable on operating loss carry-back—Note A		265,563
NET LOSS FOR THE YEAR		$ 493,961*
Special credit—additional mail pay compensation for prior periods, less related federal income taxes of $223,956—Note A		358,483
NET LOSS LESS SPECIAL CREDIT		$ 135,478*

*Indicates red figure.

See accompanying notes to financial statements.

SURPLUS ACCOUNT STATEMENT

Year Ended December 31, 1950

Capital Surplus		
Balance at January 1, 1950, after accumulated deduction of $560,625 for dividends paid on 4.6% cumulative preference stock		$ 2,782,992
Add:		
Excess of par value over purchase price of 5,155 shares of 4.6% cumulative preference stock which was retired pursuant to market fund provisions of that stock		37,979
Excess of cash received over par value of 50 shares of common stock sold from treasury		62
Balance at December 31, 1950, after accumulated deduction of $560,625 for dividends paid on 4.6% cumulative preference stock		$ 2,821,033
Earned Surplus		
Balance at January 1, 1950		$ 1,242,207
Deduct balance transferred from statement of Profit and Loss:		
Net loss for the year	$ 493,961	
Special credit—additional mail pay compensation for prior periods, less related federal income taxes of $223,956—Note A	358,483	135,478
		$ 1,106,729
Deduct cash dividends on 4.6% cumulative preference stock—$1.15 per share for the four quarters ending November 1, 1950 (dividends payable February 1, 1951, have not been declared or paid)		444,053
Balance at December 31, 1950		$ 662,676

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1950

Note A—The Civil Aeronautics Board has retroactively adjusted the Company's temporary rates of mail pay for the period September 26, 1946, to December 31, 1950, on international routes and for the period December 8, 1947, to December 31, 1950, on domestic routes, and awarded net additional mail pay aggregating $1,572,348 for those periods. The temporary rates so adjusted will become final rates upon the completion of formal proceedings by the Board and the Company.

It is estimated that this adjustment less related federal income taxes of $137,856 affected the Company's net income as follows: six months ended December 31, 1946—decrease $25,500, year 1947—increase $211,670, year 1948—decrease $140,683, year 1949—increase $312,996, and year 1950—increase $1,076,009. In the accompanying financial statements, the adjustments for 1950 have been included in their respective categories, and the adjustments applicable to prior years aggregating $358,483 have been shown as a special credit as the last item in the Statement of Profit and Loss.

In determining the aforementioned mail pay adjustment, the Board included $361,526 in partial reimbursement for loss of profits and additional costs resulting from the temporary withdrawals from service of the Martin fleet in 1949 and 1950. As to the remaining balance of such loss of profits and additional costs stated in the Board's order at $1,394,315, the Board has agreed to reimburse the Company in separate monthly payments in accordance with the following schedule, or until such time as it may be determined by the Board that the Company should not receive mail pay in excess of a service rate:

Monthly payments in	1951	$ 371,352
do	1952	371,352
do	1953	371,352
do	1954	222,591
do	1955	57,668
TOTAL		$1,394,315

The remaining balance of $1,394,315 has not been reflected in the accompanying financial statements as either a credit to earnings or to earned surplus; however, the monthly payments receivable in 1951, aggregating $371,352, have been included in the Balance Sheet in contra accounts under the captions "Other Current Assets" and "Deferred Credits," since in the opinion of the Management, the Company will be entitled to receive mail pay in excess of a service rate for at least that period of time.

At the same proceedings before the Board, temporary rates of mail pay for the year 1951 were determined which are estimated to produce mail pay compensation of approximately $7,417,722 for 1951 exclusive of reimbursements relating to temporary withdrawal of aircraft from service. This compares with $8,509,847 awarded for the year 1950, exclusive of reimbursements relating to temporary withdrawal of aircraft from service. The final rates for 1951 may be

NOTES *(Continued)*

either higher or lower than the temporary rates which have been presently set by the Board.

B—At December 31, 1950, the loans under the Credit Agreement with certain banks (with which the Reconstruction Finance Corporation has a participation agreement) were secured by a chattel mortgage on all Douglas DC-4, Martin 202, and Boeing 377 flight equipment consisting of complete aircraft and spare engines, propellers, major assemblies and parts, having a depreciated cost of $21,758,910, and mortgages on its hangars and other improvements located at airports at Minneapolis, Minnesota, and Seattle, Washington, having a depreciated cost of $1,314,598. A total of $3,859,637 has been repaid under terms of the Credit Agreement of which $859,637 has been applied to notes in inverse order of due dates.

Under terms of the Credit Agreement applicable to these loans, the Company has agreed, among other things:

(a) to maintain a cash collateral account as security for the payment of principal and interest of the loans which shall at all times be equal to that amount by which the unpaid balance of the loans exceeds 80% of the depreciated cost of all flight equipment;

(b) to maintain current assets in excess of current liabilities (exclusive of current maturities owing on the principal of the loans under the Credit Agreement) in the amount of $3,500,000 from July 1, 1950, to July 1, 1951; and $4,000,000 thereafter;

(c) to encumber or mortgage as security for the loans under the Credit Agreement, such other properties as the banks or Reconstruction Finance Corporation shall elect;

(d) to limit additional borrowings, mortgages and liens, capital expenditures and commitments, leasing of properties, investments in and guarantees and endorsements for others (all as set forth in the Credit Agreement); not to enter into any merger or consolidation or to sell or otherwise dispose of substantially all of its assets; and

(e) not to declare or pay any dividend (other than stock dividends) on its capital stock and not to purchase, retire or redeem any of its capital stock except that (a) 4.6% cumulative preference stock may be retired under the provisions of the Amended Articles of Incorporation, and (b) dividends on 4.6% cumulative preference stock may be declared and paid to the extent that the net improvement in earned surplus since March 31, 1949, exceeds $224,250. At December 31, 1950, such improvement in earned surplus amounted to $1,812,618.

C—The Company provides for an uninsured employees' retirement plan which is contributory on the part of both the employees and the Company. Charges to profit and loss on the part of the Company for past service and future service benefits for the year ended December 31, 1950, aggregate $289,470 of which $271,440 was for future service benefits. The actuaries' report as of September 30, 1950, the end of the fourth plan year, indicates a maximum aggregate liability of the Company for unfunded past service benefits estimated at $652,777 which may be paid at the discretion of the Company in variable amounts each year and which is presently being funded over a period estimated not to exceed twenty-five years from October 1, 1946, the effective date of the plan.

D—The Company's Amended Articles of Incorporation provide for the retirement of its 4.6% cumulative preference stock under market and sinking fund provisions.

Pursuant to the above provisions, the Company set aside $90,918 on March 31, 1950, and purchased 5,155 shares of 4.6% cumulative preference stock at an aggregate cost of $90,896, returning $22 to the general funds of the Company.

No amount is required to be set aside on or before March 31, 1951.

The terms of the cumulative preference stock also contain certain restrictions relative to dividends on and repurchase of common stock in addition to such prohibition under the Credit Agreement summarized in Note B of Notes to Financial Statements.

E—The Company is involved in a number of lawsuits which are outlined briefly as follows: (a) those in which any claims paid by the Company will be fully reimbursed by the U. S. Government under the terms of various war contracts; (b) those in which any claims paid by the Company will be fully reimbursed under insurance contracts; and (c) other miscellaneous claims of approximately $623,200 in excess of insurance coverages and approximately $136,000 which are not covered by insurance or other indemnification which the Company believes will be settled without material effect on its financial position. In view of the circumstances outlined, no provision has been made for any portion of the amounts involved.

Provision has been made in the financial statements for all known liabilities for taxes on income. The Company's federal and state income tax returns, however, may be subject to adjustment for the periods from June 30, 1942, to December 31, 1949. Review by the Bureau of Internal Revenue is presently in progress.

Operations of the Company include fixed price contracts with the U. S. Government which are subject to renegotiation of profits.

F—The Company's commitment for capital expenditures at December 31, 1950, amounted to approximately $940,000 of which approximately $832,000 was for spare parts and assemblies for flight equipment. The Company has no material long-term lease commitments.

ACCOUNTANTS' REPORT

Board of Directors, Northwest Airlines, Inc.
Saint Paul, Minnesota

We have examined the balance sheet of NORTHWEST AIRLINES, INC., as of December 31, 1950, and the related statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus present fairly the financial position of NORTHWEST AIRLINES, INC., at December 31, 1950, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

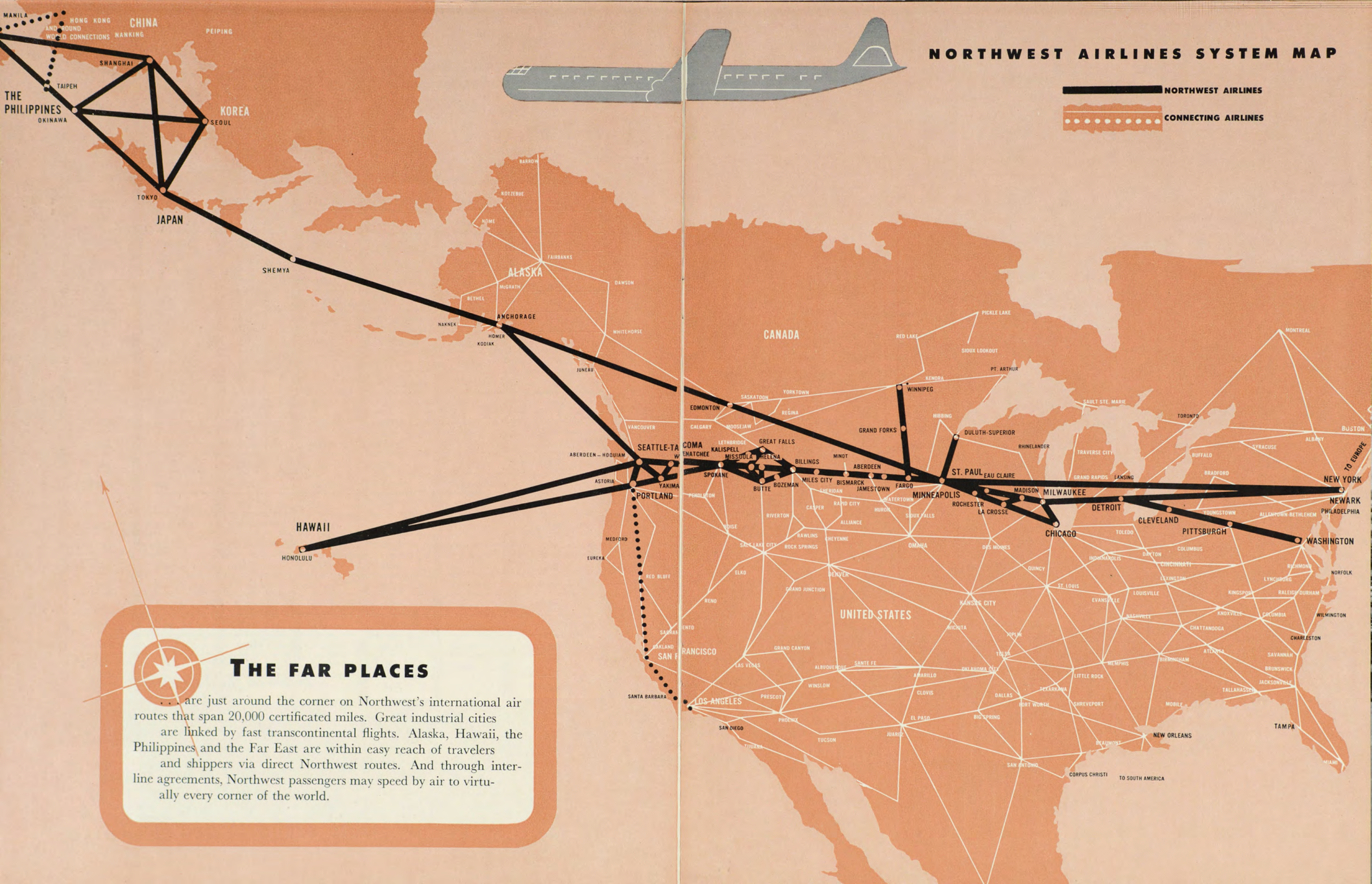
ERNST & ERNST
Certified Public Accountants

Saint Paul, Minnesota
April 11, 1951

A RECORD OF *Progress*

Calendar Year	Mail Revenue	Passenger Revenue	Express and Freight Revenue	Revenue Passenger Miles	Mail Pound Miles	Total Plane Miles Flown
1950	$9,409,526	$33,148,395	$4,122,222	613,446,244	9,975,120,154	26,868,177
1949	9,039,154	27,873,942	3,163,278	495,114,870	9,445,597,392	25,908,552
1948	8,444,106	24,074,778	2,072,362	386,509,809	8,052,148,614	22,288,002
1947	4,018,340	20,520,631	1,019,497	382,544,382	5,473,873,894	20,824,912
1946	1,254,257	18,062,492	553,875	385,858,473	4,099,317,238	19,304,234
1945	1,649,575	10,060,619	409,613	218,469,773	5,396,757,098	12,870,714
1944	1,500,874	6,073,967	246,030	120,834,296	4,900,802,947	7,523,146
1943	1,353,822	3,139,713	297,941	63,787,683	4,005,180,807	4,584,766
1942	1,850,601	2,410,512	240,800	52,061,159	2,528,042,954	4,931,815
1941	1,955,826	2,526,721	118,885	59,659,145	1,871,311,191	6,353,659
1940	1,769,735	2,151,311	79,531	51,175,254	1,370,076,043	6,079,669
1939	1,763,288	1,324,728	61,186	34,749,246	1,166,518,244	5,399,024
1938	1,286,549	829,554	41,625	21,153,258	1,116,975,430	5,310,015
1937	1,076,293	761,839	33,768	16,685,852	841,274,933	4,462,439
1936	1,050,639	759,981	27,318	16,528,401	671,011,789	3,699,818
1935	629,724	481,528	12,388	10,342,834	315,817,803	2,841,198
1934	251,133	199,074	4,319	4,301,145	44,034,248	1,643,127
1933	762,208	188,966	1,873	4,108,313	82,613,032	1,823,850
1932	884,719	200,984	343	4,127,800	77,867,566	1,639,015
1931	917,635	205,164	575	3,934,093	89,706,330	1,434,555
1930	648,799	119,349	146	2,129,600	Not Avail.	1,032,340
1929	495,708	121,075	Not Avail.	1,956,400	"	736,664
1928	195,315	24,890	"	402,400	"	314,496
1927	76,029	8,663	"	126,000	"	211,667
3 Months, 1926	11,790	—0—	"	—0—	"	47,397

NWA

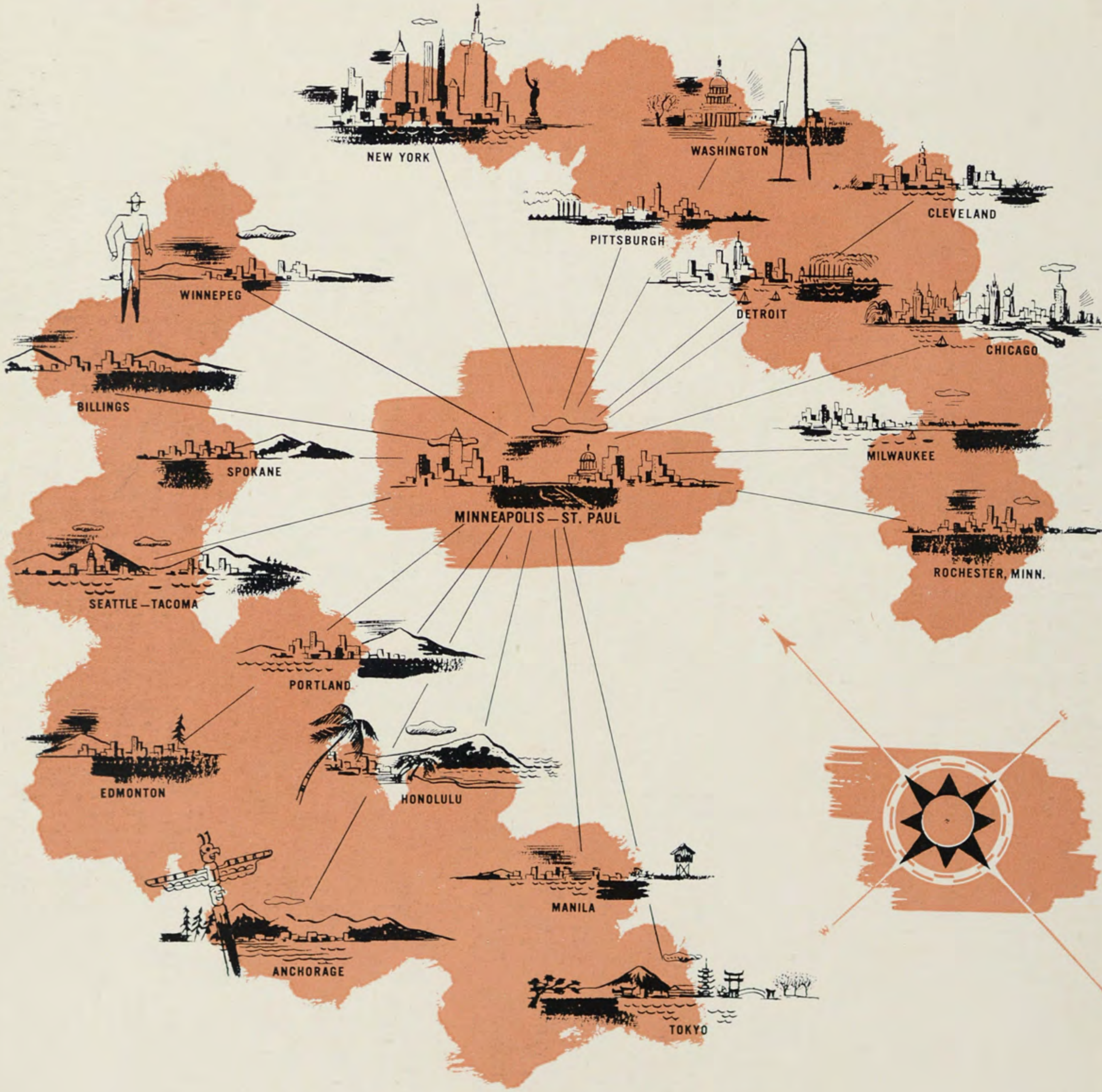


THE FAR PLACES

. . . are just around the corner on Northwest's international air routes that span 20,000 certificated miles. Great industrial cities are linked by fast transcontinental flights. Alaska, Hawaii, the Philippines and the Far East are within easy reach of travelers and shippers via direct Northwest routes. And through inter-line agreements, Northwest passengers may speed by air to virtually every corner of the world.

COMMERCE, TOURIST TRAVEL AND FREIGHT FOLLOW

Northwest Airlines Routes



25TH YEAR OF EXPERIENCE

TRIPLE DECK "SKYSCRAPER" FOR STRATOCRUISER MAINTENANCE

Tailor-made for Northwest's luxury Stratocruisers, this huge structural steel dock for overhaul and maintenance work went into operation in 1950.

NWA

NORTHWEST AIRLINES, INC.