



*33 years of superior Airmanship*

# **NORTHWEST AIRLINES INC.**



**ANNUAL REPORT  
1 9 5 8**

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*Executive Vice President*

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*Vice President—Operations and Engineering*

**LINUS C. GLOTZBACH**  
*Vice President—Personnel*

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*Vice President—Sales*

**PAUL L. BENSCOTER**  
*Vice President—Orient Region*

**A. E. FLOAN**  
*Vice President and Secretary*

**PHILLIP T. DROTNING**  
*Vice President—Public Relations*

**C. L. STEWART**  
*Vice President—Plans*

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*Assistant Comptroller*

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*Assistant Treasurer*

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*Assistant Secretary*

**DALE MERRICK**  
*Assistant Vice President—Properties*

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*Chairman, Board of Directors, Northwest Airlines, Inc.*

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*Vice President, Minneapolis-Honeywell Regulator Co.  
2753 4th Avenue So., Minneapolis, Minn.*

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Brush, Colorado*

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300 E. 131st Street, Cleveland, Ohio*

**NORTHWEST AIRLINES, INC.***Annual Report***1 9 5 8***Registrar:*

THE CHASE MANHATTAN BANK, NEW YORK, N. Y.

*Transfer Agents:*

BANKERS TRUST COMPANY, NEW YORK, N. Y.

\*As of February 25, 1959

**GENERAL OFFICES: 1885 UNIVERSITY AVENUE, ST. PAUL 1, MINNESOTA**

# NORTHWEST AIRLINES, INC.

1885 UNIVERSITY AVENUE

ST. PAUL I, MINNESOTA

February 24, 1959

## TO OUR STOCKHOLDERS:

In 1958 your Company continued its progress and accomplishments at an accelerated rate.

Northwest Airlines had record revenues approximating \$102,000,000, an increase of 22 per cent over 1957. At the same time operating cost increases were controlled so that the income, before taxes and property disposal, and the net profit after taxes were the highest in the Company's history. The income, before taxes and property disposal, was \$10,651,000, an increase of more than two and one-half times the 1957 comparable figure. The net income for the year was \$5,614,000, an increase of 16.5 per cent over 1957; however, 1957 included profit of \$2,929,000 from the disposal of property, as compared with only \$628,000 in 1958. The amount of gross revenue carried through to income, before taxes and property disposal, and net profit place Northwest Airlines among the leaders in the U. S. transport industry on a comparative basis.

Your Company flew 1,408,743,000 revenue passenger miles during the year, a gain of 17 per cent over 1957. Northwest's 1958 revenue passenger mile total for the domestic routes was up 17.5 per cent. It was the first time in Northwest's 32-year history that it generated more than a billion revenue passenger miles on its domestic system in a single year. Internationally, Northwest flew a record total of 297,880,000 revenue passenger miles in 1958, up 14.7 per cent over 1957. The increases in the volume of mail, express and freight were very good.

The financing program for the acquisition of Douglas DC-8 pure-jet and Lockheed Electra prop-jet airplanes was completed. Contracts were completed with the manufacturers for five DC-8s and ten Electras. These initial purchases prepare Northwest for the jet era. The purchase contracts provide that fourteen piston-type airplanes will be "traded-in" or sold to the two manufacturers as the new jet equipment is received. Northwest's cash generation from the "trade-in" will approximate \$10,231,000.

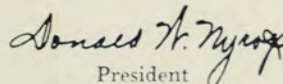
The fact that Northwest finalized the jet purchase contracts in 1958, rather than two to three years earlier as was done by other major airlines, has resulted in certain benefits to your Company. Northwest has realized a substantial saving in interest costs on the down payment it would have made if the equipment had been ordered earlier. Another substantial amount of money has been saved on the interest for progress payments. Northwest will receive advanced-design versions of the DC-8 and the Electra; both airplanes will have improved fuel tank capacity over the original designs now being manufactured. The ten Electras will be delivered during the period July-December 1959. Pre-inauguration training is going forward and this fleet will be in operation this year on a timely basis so that traffic diversion will be nominal. The five DC-8s will be delivered during the period March-September 1960. The first advanced-design version of the DC-8 will be delivered to Northwest in March 1960—approximately 100 days following the delivery of the first certificated DC-8 with the J-75 jet engine. The DC-8s will be in service on the long-haul routes of Northwest in the second quarter of 1960. The time spacing between the introduction of the two different jet fleets makes for the most orderly and economical transition.

On December 6, 1958 your Company began operations on its new route between Minneapolis/St. Paul, Milwaukee and Chicago to Tampa, St. Petersburg/Clearwater and Miami. This new route extension will do much to correct the problem of seasonal imbalance which has existed for a long time, and to reduce the first quarter losses experienced by Northwest in the past. The additional aircraft required on the Florida route during the winter vacation months will be transferred to the northern transcontinental route during the peak traffic summer months.

1959 will be another year of good growth for Northwest Airlines. The revenues from the new Florida route will be reflected in the results for the entire year. The entire fleet of ten 400-mile-an-hour Lockheed Electras will be integrated into the domestic route system to further improve service to the major cities. Northwest will continue its program of improved air service which has been well received by its customers.

We are grateful to the stockholders, customers and employees of Northwest Airlines for their continued support during 1958.

Sincerely,

  
President

# 32<sup>nd</sup> Annual Report to Stockholders

OF NORTHWEST AIRLINES, INC.

## EARNINGS

Profit for the year 1958, after taxes, was \$5,613,687, or \$4.06 per share of common stock outstanding, compared with a profit of \$4,818,971, or \$3.56 per share on fewer outstanding common shares in 1957. These figures include profit on disposal of property and equipment, after taxes, of \$627,554 in 1958 and \$2,929,095 in 1957.

## REVENUES

Operating revenues reached an all-time high in 1958 of \$101,957,172, 22% above your Company's previous peak year 1957. Passenger revenue in 1958 also reached an all-time high of \$81,115,900, an increase of 22% over the 1957 total of \$66,674,383. U. S. mail revenue increased 22% to \$9,264,889, while foreign mail revenue increased 26% to \$963,319. Express, freight and excess baggage revenue was \$8,667,510, up 15%. Charter and other transportation revenue rose to \$1,945,554.

Many factors account for the substantial gains made by your Company in 1958. Improved passenger service and the first full year of "Imperial Service" increased public acceptance of our service. The addition of more modern Douglas DC-6B and DC-7C equipment provided greater capacity and expanded schedules. Added revenue also was gained from the fare increase granted by the Civil Aeronautics Board and, during December, from our new route to Florida.

Another factor was the continuing improvement of your Company's aggressive program of sales, advertising

and promotion to stimulate not only business travel, but vacation travel on a year-round basis. This program emphasized Hawaii and Florida and, with Alaskan Statehood a reality, called attention to the 49th State as a prime vacation area.

All of these factors enabled your Company to lead the U. S. aviation industry in percentage increase in revenue passenger miles flown in 1958 over 1957. During 1958 your Company flew 1,408,742,516 revenue passenger miles, a 17% increase over the 1,205,764,597 revenue passenger miles flown in 1957.

## EXPENSES

Operating expenses increased 15% to \$89,918,822 in 1958, compared with \$78,448,916 in 1957. Although, as in 1957, costs of labor and material rose sharply, depreciation charges increased 57%, and available ton miles flown increased substantially, your Company again reduced unit expenses through efficient operation and careful cost control. During 1958 the cost per available ton mile decreased to 25.82 cents, a reduction of 6% from 27.43 cents in 1957.

## CREDIT AGREEMENTS

*Bank Agreement*—The Credit Agreement dated as of November 15, 1956 was liquidated on December 30, 1958 and replaced by a new Credit Agreement dated as of November 28, 1958 and effective on December 30, 1958. The loans outstanding under the Credit Agreement dated as of November 15, 1956, in the amount of \$34,250,000 were paid in full out of the proceeds of loans from insurance companies. The new Credit Agreement is with a group of fifteen banks. Bankers Trust Company, New York, is the lead bank. Under the new Agreement, the Company may borrow to a maximum amount of \$32,500,000 through June 30, 1960. The notes issued bear a final maturity date of December 31, 1965. Your Company is obligated, however, to make payments thereon at the rate of \$6,000,000 per year commencing in 1961 (\$8,500,000 in 1965), with 25% of the annual payment being payable on each June 30 and December 31, and 50% on each September 30. In addition to the annual payment, in the event cumulative net earnings plus flight equipment depreciation after January 1, 1958 exceed certain stated dollar amounts, the Company is obligated to make additional payments to a maximum of \$3,000,000 on each June 30 in the years 1961, 1962 and 1963, and a maximum amount of \$4,000,000 on June 30, 1964. If the maximum additional payments are made on each June 30, the loan will be fully liquidated on June 30, 1964.

The commitment fee on the unused balance of the credit to and including June 30, 1960, is at the rate of one-half of 1% per annum. Interest on outstanding loans is at the rate of 4¼% up to and including June 30, 1960, and at the rate of 4½% thereafter. There have been no borrowings against this Agreement as of the date of this report.



Gleaming hotels stretch northward along Miami Beach, one of the nation's finest winter vacation areas, now served by Northwest Orient Airlines.

*Insurance Company Agreement*—As of November 28, 1958, your Company also entered into a long-term credit arrangement with a group of twelve insurance companies. The total amount available under this Agreement is \$40,000,000, against which \$34,250,000 had been borrowed as of December 31, 1958, and the balance on January 15, 1959. Amortization payments will commence in October 1966, with final payment due October 1, 1978.

## NET WORTH

The net worth of the Company at the end of 1958 was \$48,224,344 of which \$26.77 per share was applicable to each of the 1,373,620 shares of common stock outstanding as of December 31, 1958. This compares with a net worth of \$33,065,292 at the end of 1957, of which \$24.05 per share was applicable to each of the 1,343,120 shares of common stock outstanding at December 31, 1957. Earned surplus was \$16,560,267 at the end of 1958, compared with \$12,057,070 at the end of 1957.

## DIVIDENDS AND STOCK CONVERSION

Regular quarterly dividends of \$.20 a share were paid on common stock on February 1, May 1, August 1 and November 1, 1958. A similar dividend also was paid on February 1, 1959. Dividends on the 4.60% Cumulative Preference Stock were paid regularly on quarterly due dates. A final dividend was paid on this stock outstanding as of November 26, 1958, covering the last two months of the year, at which time all of the remaining 26,195 shares of the original issue of 390,000 shares were called.

In December 1958, your Company offered to the public 457,873 shares of \$25 par value 5¼% Convertible

Cumulative Preferred Stock. Existing stockholders subscribed 98% of the issue, and your Company received net proceeds of \$11,011,337.

## ROUTES

*Domestic*—On December 6, 1958, your Company began operating its new Florida route, providing the first through-plane service between Seattle/Tacoma, Minneapolis/St. Paul, Milwaukee and other northwest cities on the one hand, and Tampa, St. Petersburg/Clearwater and Miami on the other. Initial traffic response has demonstrated that this major route addition holds great promise for increased revenues and a more favorable seasonal balance in the Company's traffic. The present Florida certificate requires a stop at Chicago but the Civil Aeronautics Board (CAB) has announced, by Press Release dated December 5, 1958, the award to Northwest of nonstop authority between the Twin Cities and Milwaukee, and the cities of Atlanta, Tampa, St. Petersburg/Clearwater and Miami. A formal CAB order on the latter grant has not yet been released, but is expected in the near future. The final CAB decision in the Great Lakes-Southeast Service Case in 1958 also removed all restrictions on our operations between Detroit, Cleveland, Pittsburgh and Washington, D. C., and Northwest now is operating additional local flights over the Detroit-Washington, D. C. segment.

In its Press Release of December 5, 1958, the CAB also announced its vote to give unrestricted Chicago-Milwaukee-Twin Cities authority to another airline and to permit operation by a third airline over this segment subject to restrictions preventing turnaround flights in this market and preventing nonstop services between the Twin Cities and Milwaukee on the one hand, and Atlanta, Tampa, St. Petersburg/Clearwater and Miami



Northwest will receive delivery on the first of its fleet of advanced-design Douglas DC-8s in the spring of 1960. Northwest's DC-8s will be equipped with extra fuel tanks which will enable them to fly the Pacific non-stop in both directions on a scheduled basis.

on the other. A formal order on these awards has not been issued.

In 1958 the Civil Aeronautics Board also issued Press Release decisions in local service area cases involving Montana and Washington which would retain Northwest's services in all stations presently served with the exception of Kalispell, Montana, where service by Northwest would be suspended.

Hearings were completed in 1958 on your Company's application for a nonstop New York-San Francisco route. We are awaiting recommendations of the CAB examiner in this proceeding.

*International*—Hearings on Northwest's application for renewal of its certificate on the Seattle/Tacoma-Portland-Honolulu route were completed in January 1959. It is expected that a CAB decision in this proceeding will be rendered by the end of the current year. Northwest has filed for permanent renewal of its certificate to serve Seoul, Korea, and the matter is presently awaiting CAB action.

*New Applications and Applications on File*—During the past year the Company augmented its list of new route applications with the following:

1. Chicago to San Francisco via Omaha and Salt Lake City
2. Milwaukee to San Francisco via Omaha and Salt Lake City
3. Minneapolis/St. Paul to San Francisco via Salt Lake City
4. Seattle/Tacoma and Portland to San Francisco/Oakland and Los Angeles.

The above new route applications added to applications filed prior to 1958 constitute a comprehensive pattern of route requests now awaiting CAB action. Among

applications filed prior to 1958 and also awaiting CAB action are those involving:

1. A route segment from Spokane to Calgary
2. Various route extensions from Minneapolis/St. Paul to Los Angeles and San Francisco via Denver and Salt Lake City
3. Detroit to New York via Cleveland, Pittsburgh and Philadelphia
4. Chicago to Boston via Detroit and Toronto
5. New York to Boston via Hartford/Springfield
6. Detroit to Boston via Buffalo and New York.

In addition, Northwest has on file with the CAB an application to add the California cities of Los Angeles and San Francisco as co-terminals on its North Pacific route to Alaska and the Orient. Collectively, your Company's route applications constitute an aggressive program to improve the traffic potential of its domestic and international route structure.

## EQUIPMENT AND SERVICE

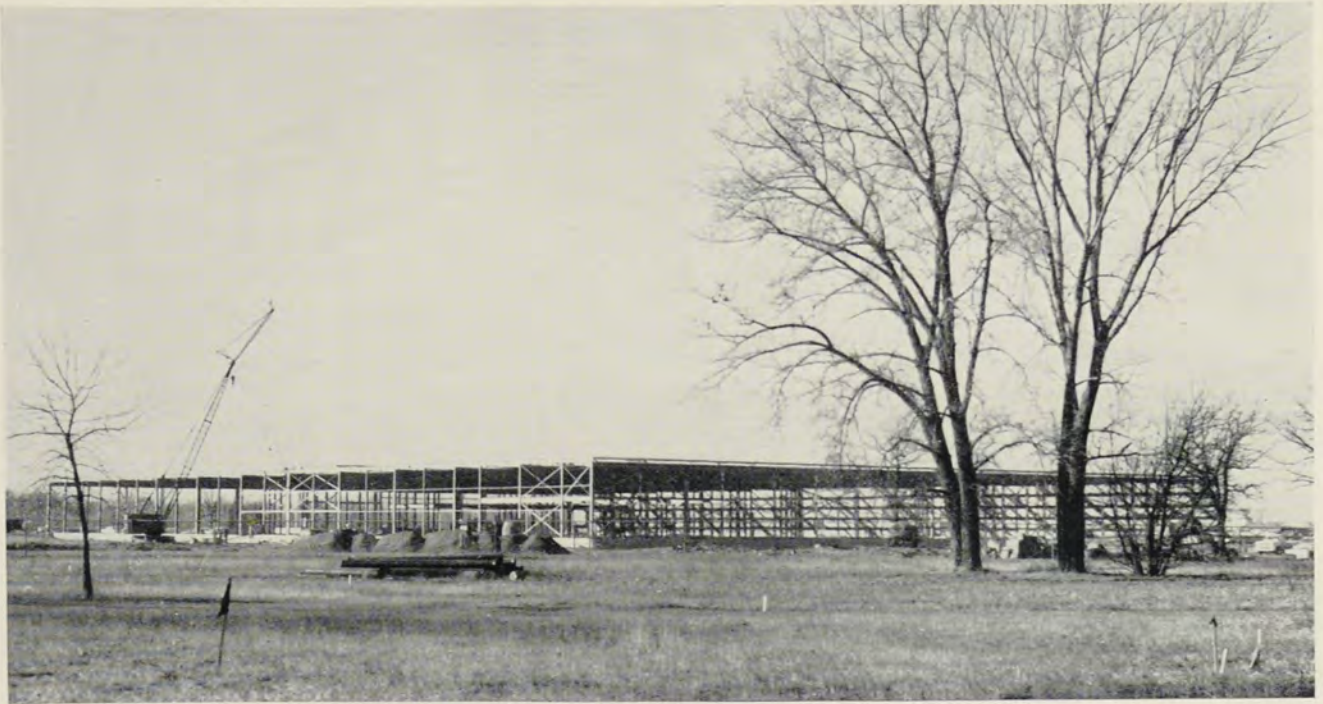
During 1958 your Company completed its piston fleet modernization program with the delivery of the last of 24 DC-6B and DC-7C aircraft purchased from the Douglas Aircraft Company, and the lease of three additional DC-7C and the purchase of two additional DC-6B aircraft to meet the requirements of the new Florida route.

Coach and first-class service was inaugurated to the new Florida points on December 6 with DC-6B and DC-7C equipment, and simultaneously your Company introduced a new concept in airborne luxury by providing "Regal Imperial Service" with Boeing Strato-cruisers on this same route.

The first daily service to Hawaii was inaugurated on December 15, 1958, with DC-6B equipment, and your



The versatile Lockheed Electra will be flying Northwest's routes this summer. Northwest has placed an initial order for ten Electras with the Lockheed Aircraft Corp. Northwest's Electra—an extended range version—will be capable of non-stop trans-continental operation.



*Construction on Northwest's new \$18,000,000 systemwide general office and overhaul base at Wold Chamberlain Field, Minneapolis-St. Paul, is on schedule. The above framework, which will house the engine overhaul shops, covers only ONE-FIFTH of the total ground area that eventually will be under construction. Base will be completed in the summer of 1960.*

Company continued to increase its dominance of the Seattle/Tacoma - Portland - Honolulu market. DC-6B service to Winnipeg, Canada, and morning and evening pressurized service to Alaska were inaugurated during the year.

With the disposal of the last five DC-3 aircraft, your Company became the first domestic airline to operate exclusively with four-engine equipment. DC-4 aircraft continue serving points with restricted airport facilities, and are also used in freight service.

Air-truck freight service was expanded from coast to coast, offering expedited service at rates comparable to rail express. Your Company also expanded its cargo capacity through modification of some DC-6 equipment into a versatile combination cargo-passenger aircraft.

After completing the evaluation of the technical and economic aspects of jet and prop-jet aircraft, referred to in the Annual Report for 1957, your Company contracted with the Douglas Aircraft Company and the Lockheed Aircraft Corporation for advanced design versions of the pure-jet Douglas DC-8 and the prop-jet Lockheed Electra. Contract agreements with the two manufacturers call for your Company to receive five DC-8s and ten Electras at a cost of approximately \$67,500,000.

Both manufacturers agreed to accept piston-engine aircraft now operated by Northwest on a "trade-in" or sale basis, which enabled your Company to determine, at the time orders were placed, the exact cash generation of existing equipment at the time the jets are delivered. Douglas will accept five of Northwest's DC-7s and Lockheed will accept all nine of Northwest's Boeing Stratocruisers. Your Company will receive approximately \$10,231,000 for the fourteen aircraft, and delivery will be made coincidentally with the receipt of the new equipment.

The contracts provide for the delivery of the first Electra in July 1959, with deliveries continuing through December, and delivery of the first DC-8 in March 1960, with the final aircraft arriving in September.

The purchase contracts were completed in June and

July 1958, and this permitted a more thorough technical evaluation of both types of aircraft. As a result, both aircraft will be modified by the manufacturers during production to provide greater range than that of the initial production models. Your Company will be the first to receive aircraft with added fuel capacity, which will make possible reliable nonstop trans-Pacific operations with the DC-8s and nonstop transcontinental operations with the Electras. In addition, the Company's action produced substantial savings in interest on down payments and progress payments.

The Lockheed Electra, powered by Allison turbine engines, will give Northwest's passengers fast, smooth and reliable service on medium-range domestic flights, whereas the DC-8s, powered by the Pratt & Whitney J-75 engine, will provide nonstop service on the trans-Pacific routes, between Seattle/Tacoma and Tokyo, between Portland and Honolulu, and between Seattle/Tacoma and New York.

During 1958 contracts were awarded for the construction of the major portion of the new overhaul, operations and headquarters facility at Wold-Chamberlain Field, and work is on schedule with occupancy of



*J-75 jet engine ready for final inspection at the Pratt and Whitney factory. The J-75, larger than the J-57, will give Northwest's DC-8s added power and performance.*



*Phenomenal growth—typical of Florida—is illustrated in this aerial view of St. Petersburg. The city now stretches from Tampa Bay (top) to the Gulf of Mexico. Dredged fills (foreground) rapidly are filling with waterfront homes.*

maintenance and overhaul areas planned for October of this year. The General Office building now under design will be under construction by mid-summer and, when completed in 1960, will permit consolidation of all Twin Cities operations at the new location. Careful space planning and selection of building materials have produced substantial construction savings.

An agreement with the Port of New York Authority has been executed, an architect selected, and the design is in progress for a terminal facility at New York International Airport which will be shared with two other carriers.

## PERSONNEL

The excellent progress made by your Company during the year 1958 was due in large measure to the devoted efforts of Northwest's skilled and loyal employees. In

1958, as in the past several years, the turn-over rate for all employees was far below the separation rate for industry in general and lower than the average for the air transportation field.

Of the total employment, 6,081 employees were located in the United States and Canada. Over 90% of the 414 employees assigned to overseas stations were foreign nationals.

Although the industry experienced a number of prolonged work stoppages, Northwest reached amicable collective bargaining agreements with all segments of its work force without loss of a single man-day due to labor disputes. These contracts provide for rates of pay, rules, working conditions and fringe benefits in line with other carriers of comparable size, and Northwest continues to maintain and improve its relations with its personnel.

*Northwest's strikingly handsome Miami sales and ticket office is an important architectural addition to that city's downtown area. It is located in the new First National Bank building at 300 Southeast First Street.*



*Tampa's International Airport is one of the finest in the nation. Terminal was enlarged during past year to handle increasing traffic out of this important Florida industrial and vacation city.*



# STATEMENTS OF INCOME

## NORTHWEST AIRLINES, INC.

	Year Ended December 31,	
	1958	1957
<b>OPERATING REVENUES</b>		
Passenger .....	\$ 81,115,900	\$66,674,383
United States mail.....	9,264,889	7,586,599
Foreign mail.....	963,319	763,436
Excess baggage.....	1,230,217	1,003,958
Freight and express.....	7,437,293	6,537,452
Charter and other transportation.....	1,237,053	226,100
Other .....	708,501	640,476
	<u>\$101,957,172</u>	<u>\$83,432,404</u>
<b>OPERATING EXPENSES</b>		
Flying operations .....	\$ 29,747,029	\$25,555,392
Maintenance .....	17,089,570	16,037,141
Passenger service .....	6,033,929	5,060,805
Aircraft and traffic servicing.....	12,207,269	11,688,894
Reservations, sales and advertising.....	10,753,489	9,218,554
Administrative and general.....	5,573,021	5,451,922
Provisions for depreciation, less amounts charged to other accounts \$29,302—1958, \$82,157—1957.....	8,514,515	5,436,208
	<u>\$ 89,918,822</u>	<u>\$78,448,916</u>
	\$ 12,038,350	\$ 4,983,488
<b>OTHER DEDUCTIONS AND INCOME</b>		
Interest on long-term debt.....	\$ 1,418,715	\$ 1,084,127
Other income, less miscellaneous deductions.....	31,498	90,515
	<u>\$ 1,387,217</u>	<u>\$ 993,612</u>
<b>INCOME BEFORE TAXES AND PROPERTY DISPOSALS.....</b>	<b>\$ 10,651,133</b>	<b>\$ 3,989,876</b>
<b>TAXES ON INCOME</b> (including deferred taxes \$3,984,550—1958, \$1,750,000—1957, arising from accelerated depreciation methods).....	5,665,000	2,100,000
<b>NET INCOME FROM OPERATIONS.....</b>	<b>\$ 4,986,133</b>	<b>\$ 1,889,876</b>
<b>PROFIT FROM DISPOSALS OF PROPERTY, less applicable in-</b> come taxes \$200,000—1958, \$312,210—1957.....	627,554	2,929,095
<b>NET INCOME FOR THE YEAR.....</b>	<b>\$ 5,613,687</b>	<b>\$ 4,818,971</b>

*See notes to financial statements.*

# STATEMENTS OF FINANCIAL POSITION

## NORTHWEST AIRLINES, INC.

### ASSETS

	December 31,	
	1958	1957
<b>CURRENT ASSETS</b>		
Cash .....	\$ 8,967,724	\$ 8,002,747
United States Government securities—at cost which approximates market price.....	4,443,794	—
Trade receivables, less allowance of \$100,000—1958, \$85,000—1957 .....	11,721,181	8,296,953
Maintenance and operating supplies—at average cost.....	2,145,817	2,608,957
Prepaid expenses.....	411,630	394,910
<b>TOTAL CURRENT ASSETS</b>	<u>\$ 27,690,146</u>	<u>\$19,303,567</u>
 <b>INVESTMENTS AND OTHER ASSETS</b>		
Related industry investments and advances—at cost.....	\$ 272,858	\$ 278,960
 <b>FLIGHT EQUIPMENT</b> at cost.....	\$ 96,156,766	\$77,176,315
Less allowances for depreciation and obsolescence.....	36,344,795	31,089,273
	\$ 59,811,971	\$46,087,042
Advances on purchase contracts—Note E.....	10,438,765	4,552,067
	\$ 70,250,736	\$50,639,109
 <b>OTHER EQUIPMENT AND PROPERTY</b> at cost.....	\$ 15,728,646	\$14,587,493
Less allowances for depreciation.....	9,912,334	9,136,373
	\$ 5,816,312	\$ 5,451,125
 <b>DEFERRED CHARGES</b>		
Unamortized training and other costs in connection with aircraft fleets and routes.....	\$ 619,031	\$ 439,599
Unamortized long-term debt expense.....	171,764	—
Miscellaneous .....	239,822	109,864
	\$ 1,030,617	\$ 549,463
	<u>\$105,060,669</u>	<u>\$76,222,224</u>

See notes to financial statements.

### LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	1958	1957
<b>CURRENT LIABILITIES</b>		
Accounts payable, collections as agent, etc.....	\$ 9,334,518	\$ 8,144,099
Salaries, wages and vacations.....	3,773,082	3,139,606
Air travel card deposits.....	1,164,500	1,121,575
Unredeemed ticket liability.....	1,048,609	763,517
Income taxes—estimated.....	2,060,616	1,728,135
<b>TOTAL CURRENT LIABILITIES</b>	<u>\$ 17,381,325</u>	<u>\$14,896,932</u>
 <b>LONG-TERM DEBT</b> —Note A		
6% notes payable to insurance companies.....	\$ 34,250,000	\$ —
4¼% notes payable to banks.....	—	27,000,000
 <b>DEFERRED INCOME TAXES</b>		
arising generally from accelerated depreciation methods.....	\$ 5,205,000	\$ 1,260,000
 <b>STOCKHOLDERS' EQUITY</b> —Note C		
Cumulative Preferred Stock, \$25 par value; authorized 1,000,000 shares issuable in series:		
5¼% Convertible Series authorized, issued (in 1958) and outstanding 457,873 shares—Note B.....	\$ 11,446,825	\$ —
Cumulative Preference Stock, \$25 par value; 4.6% Series—30,527 shares (redeemed during 1958).....	—	763,175
Common Stock, \$10 par value; authorized shares 4,500,000—1958, 3,000,000—1957; issued and outstanding shares 1,373,620—1958, 1,343,120—1957—Note D.....	13,736,200	13,431,200
Capital surplus.....	6,481,052	6,813,847
Earned surplus.....	16,560,267	12,057,070
	<u>\$ 48,224,344</u>	<u>\$33,065,292</u>
 <b>COMMITMENTS AND CONTINGENT LIABILITIES</b> —Note E		
	<u>\$105,060,669</u>	<u>\$76,222,224</u>

See notes to financial statements.

# STATEMENTS OF SURPLUS

## NORTHWEST AIRLINES, INC.

	Year Ended December 31,	
CAPITAL SURPLUS	1958	1957
Balance at beginning of year.....	\$ 6,813,847	\$ 6,246,750
Additions (deductions) arising from:		
Sale of shares of Common Stock under option agreements, in excess of par value.....	109,188	3,187
Redemption of shares of 4.6% Series Preference Stock.....	( 6,495)	3,285
Cost of issue of 5¼% Convertible Series, Cumulative Preferred Stock..	( 435,488)	—
Transfer from earned surplus to restore deduction in prior years for part of dividends paid on 4.6% Preference Stock.....	—	560,625
Balance at end of year.....	<u>\$ 6,481,052</u>	<u>\$ 6,813,847</u>
EARNED SURPLUS		
Balance at beginning of year—Note F.....	\$12,057,070	\$ 8,915,549
Add net income for the year.....	5,613,687	4,818,971
	<u>\$17,670,757</u>	<u>\$13,734,520</u>
Deduct:		
Cash dividends on:		
4.6% Preference Stock—\$1.3417 a share in 1958, \$1.15 in 1957.....	\$ 36,003	\$ 42,345
Common Stock—\$.80 a share.....	1,074,487	1,074,480
	<u>\$ 1,110,490</u>	<u>\$ 1,116,825</u>
Transfer to capital surplus—see above.....	—	560,625
	<u>\$ 1,110,490</u>	<u>\$ 1,677,450</u>
Balance at end of year.....	<u>\$16,560,267</u>	<u>\$12,057,070</u>

*See notes to financial statements.*

### ACCOUNTANTS' REPORT

*To the Stockholders and  
Board of Directors  
Northwest Airlines, Inc.  
Saint Paul, Minnesota*

We have examined the financial statements of Northwest Airlines, Inc. for the year ended December 31, 1958. 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. We had made similar examinations for preceding years.

In our opinion, the accompanying statement of financial position and statements of income and surplus present fairly the financial position of Northwest Airlines, Inc. at December 31, 1958 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. Further, it is our opinion that the five year summary of income presents fairly the information stated therein.

Saint Paul, Minnesota  
February 13, 1959

ERNST & ERNST  
*Certified Public Accountants*

# NOTES TO FINANCIAL STATEMENTS

## NORTHWEST AIRLINES, INC.

December 31, 1958

### Note A—Long-Term Debt

For the purpose of equipment financing (Note E) the Company, as of November 28, 1958, entered into Note Purchase Agreements with twelve insurance companies and a Bank Credit Agreement with fifteen banks.

The Note Purchase Agreements provide that the insurance companies will loan the Company \$40,000,000 (of which \$34,250,000 was taken down in 1958 and \$5,750,000 on January 15, 1959). The notes are payable \$3,000,000 annually beginning October 1, 1966 with the balance of \$4,000,000 due October 1, 1978. Certain optional prepayments at par are permitted. The Agreements contain other provisions with respect to redemption as a whole (but not from borrowed funds) at premiums ranging from 7% to 1%.

The Bank Credit Agreement provides for a loan to the Company of \$32,500,000, on a revolving credit basis through June 30, 1960 at 4¼% and thereafter as a term loan at 4½%. The loan is payable \$6,000,000 annually in years 1961 through 1964 and \$8,500,000 in 1965. The Agreement may require additional sinking fund prepayments based on income of the Company.

The Company has agreed, among other things, it will not permit (a) its working capital at any time to be less than certain specified amounts (excess amount approximated \$6,810,000 under the most restrictive provision of the Agreements at December 31, 1958); and (b) its funded debt to exceed certain percentages of net tangible assets, net worth, and depreciated value of flight equipment.

### Note B—5¼% Convertible Cumulative Preferred Stock

This Stock Series has voting rights; is entitled upon voluntary liquidation to \$25 a share plus accumulated unpaid dividends; is convertible on or after April 1, 1959 on the basis of \$25 a Preferred Share into Common Stock at a conversion price of \$26 a share, subject to adjustment in certain events; and is redeemable as a whole or in part at prices ranging from \$27½ a share before January 1, 1960 to \$25 a share after December 31, 1973, together in each case with accrued dividends.

### Note C—Restrictions on Stockholders' Equity

The Note Purchase Agreements and the Bank Credit Agreement establish an aggregate dollar maximum for the declaration and payment of cash dividends on Common Stock, and for the distribution on, redemption, purchase or other acquisition of, shares of any class of Capital Stock. At December 31, 1958 approximately \$4,794,000 of earned surplus was available for dividends on Common Stock and the other stock provisions.

The Agreements do not prohibit the payment of stock dividends and do not restrict dividend payments on the 5¼% Convertible Series, Cumulative Preferred Stock.

### Note D—Common Stock Options and Reservations

At the end of the year 6,500 shares of Common Stock were subject to outstanding options exercisable by Company officers and employees not later than July 1, 1961 at \$15.675 a share, a price not less than 95% of market at date of grant. During the year, options for 30,500 shares were exercised and 2,000 were cancelled. An additional 11,000 shares are reserved for options which may be granted in the future to officers and employees and 457,873 shares are reserved for issuance upon conversion of the 5¼% Convertible Series, Cumulative Preferred Stock.

### Note E—Commitments and Contingent Liabilities

At the present time, the Company's commitments for the purchase of five Douglas DC-8 turbojet aircraft (to be delivered in 1960) and ten Lockheed Electra prop-jet aircraft (to be delivered in 1959) and other flight and ground equipment amounts to approximately \$67,234,000 after credit for five Douglas DC-7C and nine Boeing 377 aircraft to be traded on aircraft purchases. Of this amount \$10,438,765 had been deposited with manufacturers at December 31, 1958 and approximately \$33,146,235 and \$23,649,000 become payable in 1959 and 1960, respectively.

Annual payments of approximately \$1,085,000 from date of occupancy will be required under the Company's agreements for lease (from 20 to 30 years) of overhaul bases, hangars and administrative facilities at Wold-Chamberlain Field, Minneapolis, and International Airport, New York.

Federal income tax returns of the Company have been examined through 1954 by the Internal Revenue Service. Examinations for 1955 and 1956 are now in progress but final determinations are not known at this time.

The Company was contingently liable at December 31, 1958 in the amount of \$88,012 for the repurchase of travel contracts sold.

### Note F—Mail Transportation Compensation

No final determinations of total mail compensation have been made by the Civil Aeronautics Board on international and domestic routes for 1951 and on international routes for 1954. The ultimate effect of any redeterminations are not known at this time.

In January 1957, the C.A.B. issued an order asking the Company to show cause why temporary compensation for 1954 should not tentatively be reduced \$1,406,000 pending final hearings. The Company is contesting the C.A.B.'s action but originally recorded the adjustment (\$653,790 net after income taxes of \$752,210) as a charge to earned surplus in 1957. In the accompanying financial statements such adjustment has been reflected in the summary of income for 1954 as well as earned surplus at the beginning of 1957.

# FIVE YEAR SUMMARY OF INCOME

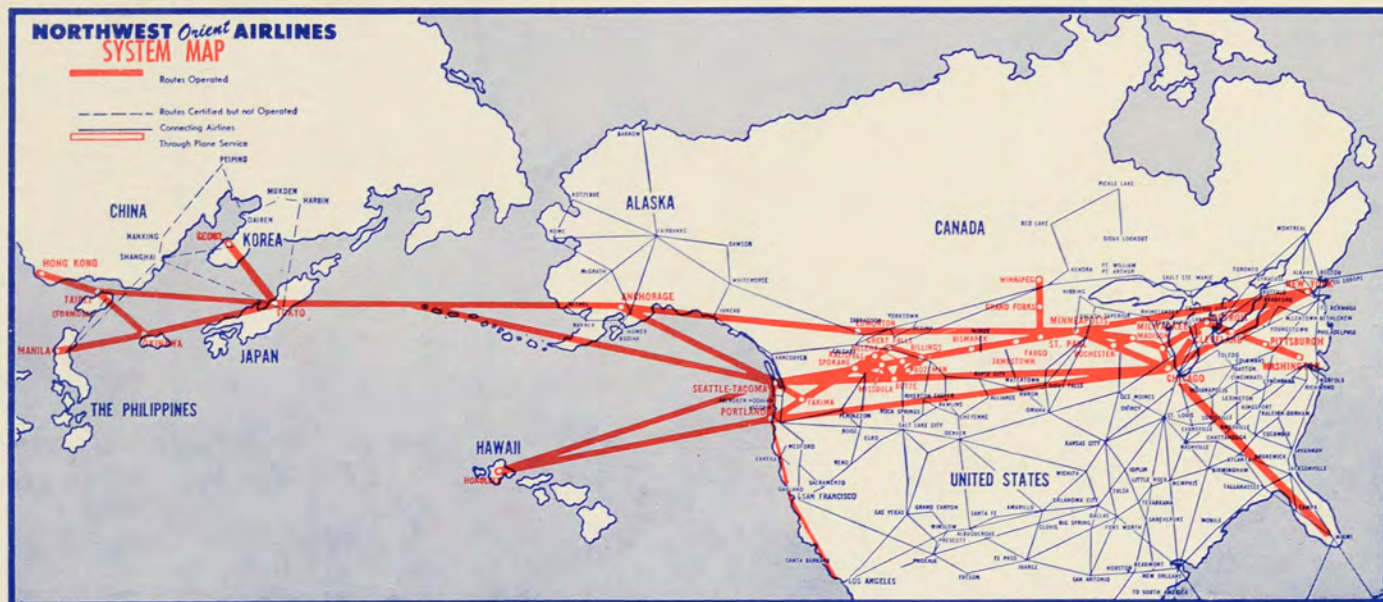
(Amounts Shown in Thousands)

## NORTHWEST AIRLINES, INC.

Five years ended December 31, 1958

	1958	Per Cent Increase 1958 to 1957	1957	1956	1955	1954
<b>OPERATING REVENUES</b>						
Passenger .....	\$ 81,116	21.7%	\$66,674	\$60,264	\$57,253	\$51,054
United States mail.....	9,265	22.1	7,587	7,192	6,513	4,876
Foreign mail.....	963	26.2	763	666	577	504
Excess baggage.....	1,230	22.5	1,004	728	585	620
Freight and express.....	7,437	13.8	6,537	6,427	5,539	4,676
Charter and other transportation.....	1,237	447.3	226	816	111	50
Other—net .....	709	10.6	641	386	510	358
	<u>\$101,957</u>	22.2	<u>\$83,432</u>	<u>\$76,479</u>	<u>\$71,088</u>	<u>\$62,138</u>
<b>OPERATING EXPENSES</b>						
Flying operations.....	\$ 29,747	16.4	\$25,555	\$22,665	\$21,694	\$18,556
Maintenance .....	17,090	6.6	16,037	14,095	12,707	11,794
Passenger service.....	6,034	19.2	5,061	4,502	4,139	3,596
Aircraft and traffic servicing.....	12,207	4.4	11,689	10,847	9,718	8,205
Reservations, sales and advertising.....	10,753	16.7	9,218	8,169	7,761	6,868
Administrative and general.....	5,573	2.2	5,452	4,834	4,447	4,227
Provision for depreciation.....	8,515	56.7	5,436	6,772	6,205	5,575
	<u>\$ 89,919</u>	14.6	<u>\$78,448</u>	<u>\$71,884</u>	<u>\$66,671</u>	<u>\$58,821</u>
	<u>\$ 12,038</u>	141.5	<u>\$ 4,984</u>	<u>\$ 4,595</u>	<u>\$ 4,417</u>	<u>\$ 3,317</u>
OTHER DEDUCTIONS, NET.....	1,387	39.5	994	522	250	120
INCOME BEFORE TAXES AND PROPERTY DISPOSALS.....	\$ 10,651	166.9	\$ 3,990	\$ 4,073	\$ 4,167	\$ 3,197
TAXES ON INCOME.....	5,665	169.8	2,100	2,185	2,140	1,648
NET INCOME FROM OPERATIONS.....	<u>\$ 4,986</u>	163.8	<u>\$ 1,890</u>	<u>\$ 1,888</u>	<u>\$ 2,027</u>	<u>\$ 1,549</u>
PROFIT FROM DISPOSALS OF PROPERTY.....	\$ 828		\$ 3,241	\$ 1,828	\$ 119	\$ 287
Less applicable income taxes.....	200		312	490	30	75
NET PROFIT FROM DISPOSALS OF PROPERTY.....	<u>\$ 628</u>		<u>\$ 2,929</u>	<u>\$ 1,338</u>	<u>\$ 89</u>	<u>\$ 212</u>
NET INCOME FOR THE YEAR.....	<u>\$ 5,614</u>	16.5	<u>\$ 4,819</u>	<u>\$ 3,226</u>	<u>\$ 2,116</u>	<u>\$ 1,761</u>

# NORTHWEST AIRLINES, INC. *Annual Report* 1958



## PROGRESS FOR THE LATEST 10 YEARS

Calendar Year	Total Operating Revenue	Passenger Revenue	Express and Freight Revenue	Revenue Passenger Miles	Mail Ton Miles	Total Plane Miles Flown
1958	\$101,957,172	\$81,115,900	\$7,437,293	1,408,742,516	21,892,299	40,721,143
1957	83,432,404	66,674,383	6,537,452	1,205,764,597	17,803,356	35,629,289
1956	76,479,526	60,264,291	6,426,502	1,094,121,438	16,780,406	32,461,321
1955	71,088,043	57,252,957	5,539,095	1,017,400,443	15,407,054	30,909,610
1954	62,138,312	51,053,599	4,676,190	909,674,550	6,990,462	27,029,860
1953	66,042,488	48,652,465	4,890,153	851,174,754	5,002,605	27,816,827
1952	61,474,153	41,962,758	4,781,081	720,046,264	5,017,993	23,210,634
1951	54,593,420	35,192,765	4,371,533	602,220,853	4,571,276	19,531,632
1950	52,401,767	33,148,395	4,122,222	613,446,244	4,987,561	26,868,177
1949	39,945,987	27,873,942	3,163,278	495,114,870	4,722,800	25,908,552

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