



NORTHWEST AIRLINES, INC.

1959

ANNUAL REPORT



NORTHWEST AIRLINES, INC.

GENERAL OFFICES
1885 UNIVERSITY AVENUE
ST. PAUL 1, MINNESOTA

OFFICERS*

DONALD W. NYROP
President

GORDON M. BAIN
Vice President—Sales

FRANK C. JUDD
Vice President—Maintenance
and Station Operations

PAUL L. BENSCOTER
Vice President—Orient Region

A. E. FLOAN
Vice President and Secretary

C. L. STEWART
Vice President—Plans

WM. J. EIDEN
Treasurer

DALE MERRICK
Assistant Vice President—Properties

A. D. PIEGRAS
Assistant Comptroller

D. H. HARDESTY
Assistant Treasurer

FRANK J. SCOTT
Assistant Secretary

DIRECTORS*

CROIL HUNTER
Chairman of the Board
1885 University Avenue, St. Paul 1, Minn.

JAMES H. BINGER
Vice President, Minneapolis-Honeywell Regulator Co.
2753-4th Avenue South, Minneapolis, Minn.

HADLEY CASE
President, Case, Pomeroy & Company, Inc.
285 Madison Avenue, New York 17, New York

MORTON H. FRY, SR.
Partner, Riter & Company
40 Wall Street, New York 5, New York

TED R. GAMBLE
President and Director, Mt. Hood Radio and Television
Broadcasting Corp.
140 S.W. Columbia, Portland 1, Oregon

JOSEPH T. JOHNSON
President, The Milwaukee Company
Mitchell Building, 207 E. Michigan, Milwaukee,
Wisconsin

MALCOLM S. MACKAY
President, Foothills Company
Roscoe, Montana

CLYDE B. MORGAN
Chairman of the Board, Rayonier, Incorporated
161 East 42nd Street, New York 17, New York

DONALD W. NYROP
President, Northwest Airlines, Inc.
1885 University Avenue, St. Paul 1, Minn.

ALONZO PETTEYS
Vice President, Farmers State Bank
Brush, Colorado

C. FRANK REAVIS
Partner, Hodges, Reavis, McGrath & Downey
26 Broadway, New York 4, New York

ALBERT G. REDPATH
Partner, Auchincloss, Parker & Redpath
2 Broadway, New York 4, New York

WILLIAM STERN
President, Dakota National Bank
 Fargo, North Dakota

LYMAN E. WAKEFIELD, JR.
Vice President, First National Bank of Minneapolis
5th Street and Marquette Avenue, Minneapolis 2, Minn.

ALBERT J. WEATHERHEAD, JR.
President, The Weatherhead Company
300 East 131st Street, Cleveland 8, Ohio

REGISTRAR: The Chase Manhattan Bank, New York, N. Y.

TRANSFER AGENTS: Bankers Trust Company, New York, N. Y.

*As of February 25, 1960

PRESIDENT'S LETTER

March 1, 1960

TO OUR STOCKHOLDERS:

1959 was a year of record net profits and record revenues. The earnings per common share were down slightly, due primarily to non-recurring jet training costs and because of the substantial increase in Preferred Stock dividend requirements.

During the past year your Company put ten advanced-design, 400 mile-an-hour Lockheed Electras in service on its domestic route system. It inaugurated service to Atlanta, Georgia, and to Ft. Lauderdale, Florida. It carried an all-time record of 2,138,970 passengers on its domestic and international route systems. This marks the first time Northwest has carried more than 2,000,000 passengers in a single year.

Freight and express revenues increased from \$7,437,000 in 1958 to \$10,531,000 in 1959. This is an increase of 42% and was the result of all cargo schedules in both the domestic and international route systems. Freight rates have been reduced, during the past three months, in the Pacific International area. However, increased volumes should result for 1960 and Northwest expects 1960 to be another year of substantial growth for freight and express revenues.

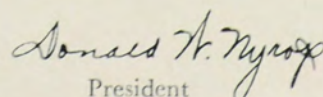
During 1959 organizational realignments of duties and responsibilities were made to handle traffic and revenue growths and also to efficiently handle the technological changes resulting from the introduction of jet airplanes. The Operations Department was divided into two departments; namely, Flight Operations, and Maintenance and Station Operations.

Competition in 1960 will be intensified because of the jet service that will be inaugurated by several competitors. However, any diverted traffic during the early part of this year will be quickly regained when your Company inaugurates service with its fleet of Douglas DC-8C aircraft. These DC-8C's will be equipped with the advanced model JT4A-9 Pratt & Whitney jet engines. Your Company will be the first airline to receive DC-8C's with the "A-9" engine, which will give improved "take-off" performance.

During 1960 your Company also will place eight more Lockheed Electras in service. It will move stores, shops, overhaul and maintenance units to its new \$18,000,000 main base at the Twin Cities International Airport. Its new and efficient Univac automatic reservations system will be expanded to ten more major stations.

We are grateful to the stockholders, customers and employees of Northwest Airlines for their continued support during 1959.

Sincerely,


President



N O R T H W E S T A I R L I N E S , I N C .

EARNINGS

Profit for the year 1959 amounted to \$5,713,512, compared with \$5,613,687 for the year 1958. The figures for both of these years include profit on disposal of property and equipment, after taxes, of \$1,311,859 for the year 1959 and \$627,554 for the year 1958.

For 1959 this is equivalent to \$3.68 per share of common stock outstanding at the close of the year, after provision for Preferred dividends in the amount of \$610,559. The 1958 net profit was equal to \$4.06 per share with fewer shares outstanding, and after provision for Preferred dividends in the amount of only \$36,003.

REVENUES

Operating revenues reached an all-time high in 1959 of \$126,029,501, an increase of 23.6% above the previous year 1958. Passenger revenues in 1959 were \$100,641,156, an increase of 24%. U. S. mail revenues were \$10,173,961, while foreign mail revenues increased 8% to \$1,044,541. Air freight and express revenues continued to improve and rose 42% to \$10,531,000. Charter and other revenues reflected gains.

To achieve this revenue volume, many factors were prominent: (1) a full year of Florida service, (2) introduction of long-range jet-powered Lockheed Electra aircraft, (3) improved service and schedules to virtually every area your Company serves, and (4) increased cargo lift, both domestic and international.

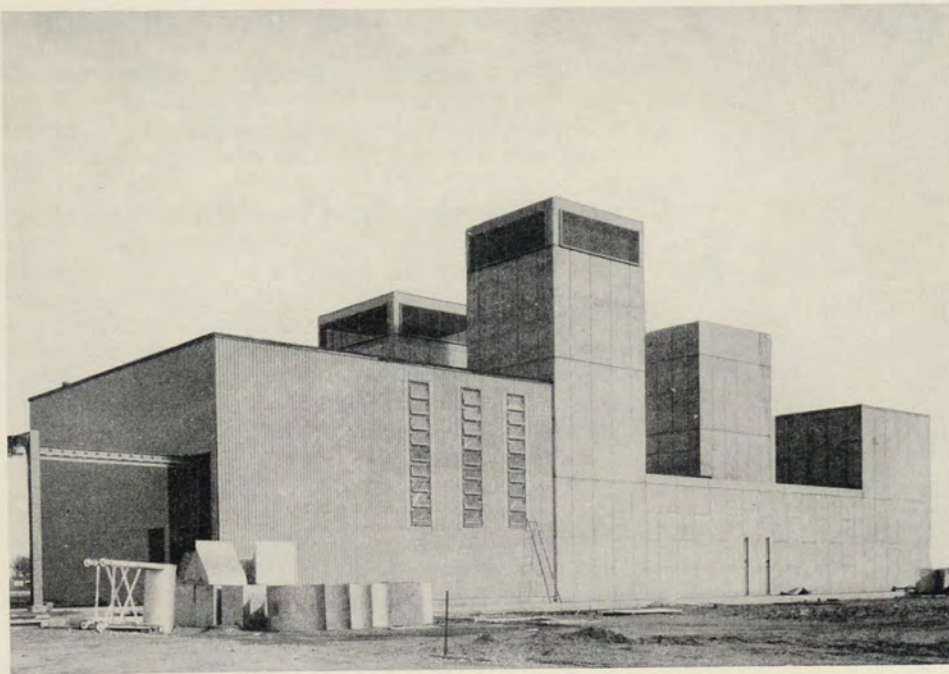
These factors, combined, again enabled your Company to be among the leaders in the industry in percentage increase in revenue passenger miles flown in 1959 over 1958. In the year under review your Company flew 1,738,138,265 revenue passenger miles. This was a 23.4% increase over the 1,408,742,516 revenue passenger miles flown in 1958.

EXPENSES

The year's expenses totaled \$115,120,583, compared with \$89,919,000 in 1958. The cost of providing 25% more capacity was the principal factor in the increase. Depreciation and amortization amounted to \$10,935,000, an increase of 28.5% over 1958. This reflects the addition of eleven new aircraft to the fleet—ten Lockheed Electras and one DC-6A. The average number of employees was 7,017, as compared with 6,146 in 1958, an increase of 14%.



Charming Atlanta combines industry and good living. Georgia's capital city, served by Northwest, is the commercial, industrial and transportation hub of the Southeast region. Its airport is the sixth busiest in the United States. It is a billion dollar banking center and the nation's fifth largest insurance center. Rich in history, modern Atlanta is a city of fashion and hospitality.



Every aircraft engine overhauled by Northwest at its new base will receive thorough testing in this engine test cell building before being put back in service. Foreground is engine preparation room. Concrete test cells are virtually soundproof.

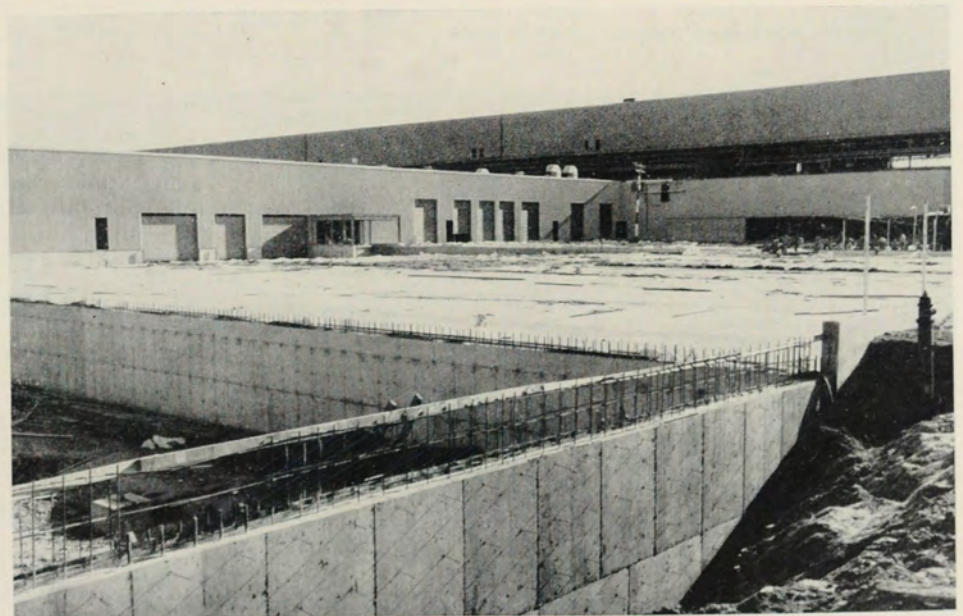
NET WORTH

The net worth of the Company at the end of the year was \$52,266,860, or \$29.59 per share on each of the 1,384,903 shares of common stock outstanding. Last year's reported stockholders' equity was \$48,224,344, or \$26.77 per share on 1,373,620 shares outstanding at December 31, 1958. Earned surplus was \$20,559,391 at the end of 1959, as compared with \$16,560,267 at the end of 1958.

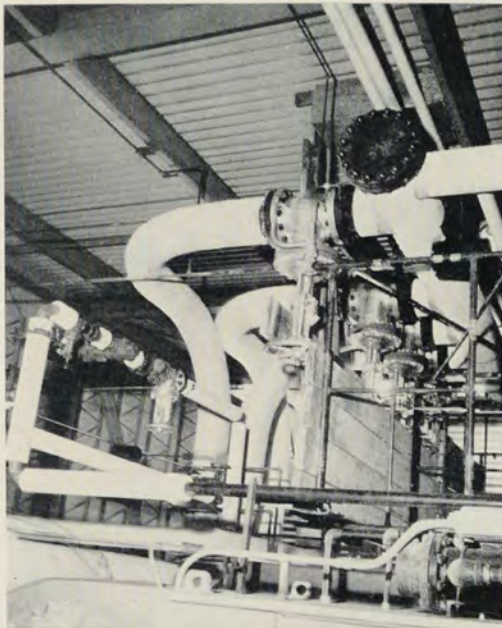
DIVIDENDS AND STOCK CONVERSION

Regular quarterly dividends at \$.20 a share were paid on common stock on February 1, June 30, September 30 and December 31, 1959. This is consistent with the policy started in 1955. Dividends on the \$25 par value 5¼% Convertible Cumulative Preferred Stock were paid on the quarterly due dates of March 31, June 30, September 30 and December 31, 1959.

During the year under review 6,639 shares of 5¼%



Size of Northwest's \$18,000,000 main base is evident. View shows general office foundation area, shipping and receiving area and overhaul and maintenance hangars. Base is being built on a 75-acre tract.



Three high-pressure boilers, each capable of producing 50,000 pounds of steam an hour, will produce heat for Northwest's main base. Rated at 190 psi, they can be operated with either gas or oil. Heating system of overhead hot air blowers will be augmented in overhaul and maintenance hangars with "radiant heat" from hot water pipes imbedded in cement flooring.

Convertible Cumulative Preferred Stock were converted into 6,383 shares of common stock under the conversion privileges of this issue.

ROUTES

Early in 1959 the Civil Aeronautics Board initiated a comprehensive proceeding covering the entire Pacific route complex for the purpose of determining whether additional competitive service is required. Hearings in the Trans-Pacific Route Case commenced in October 1959. They now are nearing completion. In this proceeding Northwest has been heard on its applications for new Central Pacific routes between Los Angeles, San Francisco/Oakland and Hawaii and beyond to the Orient. Northwest also is seeking extension of its

routes to Thailand, Burma, India, Vietnam, Singapore and Djakarta. In addition, our applications involve requests for additional eastern U. S. co-terminals and California terminals for our North Pacific route, as well as permanent certification of existing route segments which we now operate beyond Tokyo under temporary certificates.

In a separate proceeding the Civil Aeronautics Board now has before it for decision the application of Northwest Airlines for permanent renewal of its Pacific Northwest-Hawaii authority. In this case the Civil Aeronautics Board Examiner and the Board's staff have recommended that Northwest be renewed on a permanent basis as the sole carrier on this route. Northwest is also awaiting Board decision on its application for a Spokane-Calgary route.

During the past year Northwest received authority to serve Winnipeg and Edmonton on the same flight, thus permitting a more flexible operation of our Canadian authority. Your Company's newly acquired Florida authority also was improved in 1959 by the grant of authority to serve Ft. Lauderdale as a co-terminal point with Miami. We now have authority to serve five cities in the rapidly growing Florida market.

In addition to the new route applications currently under CAB consideration, your Company has on file a comprehensive pattern of route requests awaiting procedural action. These include:

1. Applications to serve Los Angeles and San Francisco/Oakland by extension of existing routes from Chicago, Milwaukee and Minneapolis/St. Paul via intermediate points including Omaha, Denver and Salt Lake City.
2. California applications also include the request to provide service from Seattle/Tacoma and Portland to San Francisco/Oakland and Los Angeles.
3. Northwest is awaiting action on applications for service between Detroit and New York via Cleveland, Pittsburgh and Philadelphia, between Chicago and Boston via Detroit and Toronto, between Detroit and Boston via Buffalo and New York, and for service beyond New York to Boston via Hartford/Springfield.

These applications and others on file with the CAB comprise a sound and aggressive program for route additions to augment the traffic potential and revenue growth of your Company.



Northwest's system-wide general office and overhaul base, now being constructed at the Minneapolis-St. Paul International Airport, will be the most modern, efficient airline facility in the world. Aerial view shows five overhaul and maintenance hangars which have a total frontage of 1,600 feet—more than five football fields. Finished structure, with more than 1,000,000 square feet of floor area, will be largest in entire Upper Midwest region.

EQUIPMENT AND SERVICE

Fleet modernization continued in 1959 when your Company accepted delivery of ten long-range prop-jet Lockheed Electras powered with Allison turbine engines. This aircraft was immediately placed in coast-to-coast and Florida service.

During the year direct service to Atlanta was initiated and Polar flights from New York to Anchorage to Tokyo were started in June with Douglas DC-7C equipment. On September 8 we increased our weekly Seattle/Tacoma-Tokyo DC-6B coach/freight combination flights from two to five. Daily service to Hawaii was continued.

As reported in the 1958 Annual Report, our Boeing Stratocruisers were sold to Lockheed Aircraft Corporation upon delivery of the new Electras. Your Company continues to rent two for service from Minneapolis/St. Paul to New York. These will be removed from the fleet in June of 1960.

As of December 31, 1959 your Company operated 64 aircraft. Of this total 52 were company owned. The balance were operated under lease agreements. DC-4 aircraft continue serving points with restricted airport facilities and continue to be used in freight service.

On January 1, 1960 your Company inaugurated new daily air service to Ft. Lauderdale, Florida, with Lockheed Electra equipment.

Because of the fine operational record of the Electra, and its proven passenger appeal, your Company has ordered eight additional units of this aircraft for delivery in May, June and July of this year. With a total of eighteen Electras, Northwest will be one of the largest operators of this aircraft in the industry, considering your airline's size in relation to other Electra operators. Northwest will provide Electra service for all of its major domestic cities before the end of this year.

Delivery of the first of five 600 mile-an-hour long-range Douglas DC-8C aircraft is scheduled for this spring. Deliveries will continue through October. The first DC-8C's will be placed in service on your Company's transpacific route. Additional units will go in service on long-haul domestic routes. Northwest will be the first carrier to receive delivery of a fleet of DC-8C's equipped with advanced-model Pratt & Whitney JT4A-9 engines.

Construction work on the stores, shops and hangar sections of Northwest's new main base at the Min-



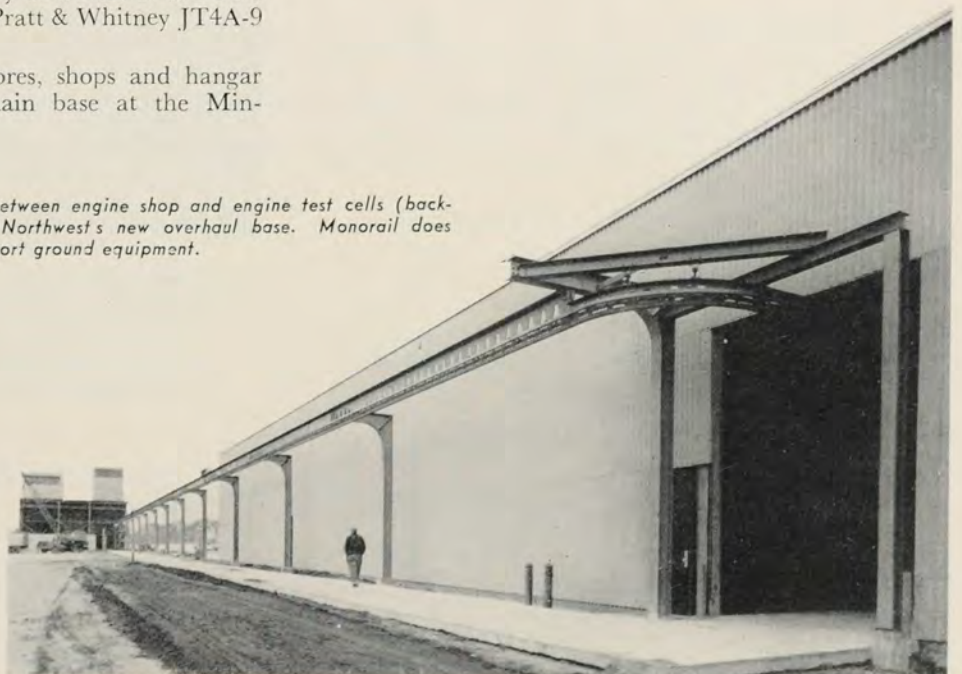
Sunny Fort Lauderdale, 30 miles north of Miami, is the newest city on Northwest's system. When Northwest inaugurated Fort Lauderdale service January 1, 1960, it became the first airline to operate direct flights to the popular resort city from the Upper Midwest. Northwest now originates flights at both Fort Lauderdale and Miami.

neapolis-St. Paul International Airport has been completed. In March your Company is moving its overhaul facilities from its former base at Holman Field, St. Paul, to its new base. The General Office portion of the main base now is scheduled for 1961 completion. Construction work has been delayed because of the recent steel strike.

By May of this year contracts will have been let for underground work on your Company's new unit terminal at Idlewild International Airport, New York, and a general contractor will have been selected. It is now estimated that this terminal will be ready for use by the summer of 1961.

Our new hangar at O'Hare Field, Chicago, to be occupied jointly with another major carrier, now is

Newly overhauled engines will travel between engine shop and engine test cells (background) on this 400 foot monorail at Northwest's new overhaul base. Monorail does away with need for special engine transport ground equipment.



in the design stage. Bids will be taken early this summer. Construction work will start shortly thereafter. According to estimates, the hangar should be completed in about one year from the start of construction work.

CREDIT AGREEMENTS

Your Company has two basic Credit Agreements. Both were negotiated in the fall of 1958. They are dated as of November 28, 1958 and became effective December 30, 1958.

(1) Bank Agreement—This Agreement provides credit in the amount of \$32,500,000 among a group of fifteen banks with Bankers Trust Company, New York, as the lead bank. The notes issued carry a final maturity date of December 31, 1965, but the Company is obligated to make prepayments thereon at the rate of \$6,000,000 per year for the years 1961-1964



Ground soon will be broken for Northwest's new \$7,000,000 passenger terminal at New York's Idlewild International Airport. Northwest will share the building with two other major United States airlines. It will be occupied in the summer of 1961.

and \$8,500,000 in 1965. In addition to the fixed prepayments, when net earnings plus flight equipment depreciation exceed specified dollar amounts, the Company is obligated to make further prepayments not exceeding a maximum of \$3,000,000 on each June 30 in 1961, 1962 and 1963 and a maximum amount of \$4,000,000 on June 30, 1964.

The first borrowing under this Credit Agreement was made in November 1959. The amount outstanding as of December 31, 1959 was \$10,000,000.

(2) Insurance Company Agreement—This Agreement with a group of twelve insurance companies provides long-term credit in an aggregate amount of \$40,000,000. The final borrowing under this Agreement was accomplished on January 15, 1959. Amortization payments will commence in October 1966 with final payment due October 1, 1978.

Both of these Agreements contain covenants with respect to the relationship of debt to net worth, net tangible assets and net depreciated value of the Company's investment in flight equipment.

Other Long-Term Credit—The terms of the conditional sales contract for an additional eight Lockheed Electras require a down payment of 12½% of the orig-



Northwest will be the first airline to operate DC-8C's equipped with the new, improved Pratt and Whitney JT4A-9 turbojet engine. The "A-9" develops 16,800 pounds of thrust, about 6 percent more than earlier JT4 models. Additional thrust provides improved take-off performance. Engine is more widely known by its military designation, J-75.

inal agreed purchase price of the aircraft. The final installment on the purchase price on each of these additional eight aircraft is payable in sixty equal monthly installments, the first of which is payable on the tenth day of the month following the month in which each aircraft is delivered.

PERSONNEL AND LABOR RELATIONS

Through the use of new and improved recruiting and selection techniques and procedures, all units of Northwest's organization were assigned qualified and skilled personnel. Flight and ground training throughout the Company system made the transition to Electra equipment one of the most effective in the industry, and arrangements are being made to continue the program into 1960 to accommodate integration of the DC-8C into the fleet. Good employee relations and industrial peace



Typical of Northwest's neat and modern ticket counters is this one at Milwaukee's General Billy Mitchell Field. Counter and scale units are easily removable from a mounted floor track. This enables units to be swiftly rearranged to meet changing passenger check-in requirements. Idea was developed by Northwest. It is protected by a patent.

were maintained through cooperation between management and eight labor organizations representing seventeen different classes or crafts of personnel. Your Company's continued growth and progress in 1959 was primarily due to the quality, loyalty and efficiency of the employees in all work classifications and at all stations in the United States and seven foreign countries.

STATEMENTS OF INCOME

NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31,	
	1959	1958
OPERATING REVENUES		
Passenger	\$100,641,156	\$ 81,115,900
United States mail.....	10,173,961	9,264,889
Foreign mail.....	1,044,541	963,319
Excess baggage.....	1,349,086	1,230,217
Freight and express.....	10,531,400	7,437,293
Charter and other transportation.....	526,166	1,237,053
Other	1,763,191	708,501
	<u>\$126,029,501</u>	<u>\$101,957,172</u>
OPERATING EXPENSES		
Flying operations	\$ 37,610,259	\$ 29,747,029
Maintenance	21,770,715	17,089,570
Passenger service	8,464,743	6,033,929
Aircraft and traffic servicing.....	15,511,064	12,207,269
Reservations, sales and advertising.....	14,011,037	10,753,489
Administrative and general.....	6,817,864	5,573,021
Provision for depreciation, less amounts charged to other accounts \$44,176—1959, \$29,302—1958	10,934,901	8,514,515
	<u>\$115,120,583</u>	<u>\$ 89,918,822</u>
	\$ 10,908,918	\$ 12,038,350
OTHER DEDUCTIONS AND INCOME		
Interest on long-term debt.....	\$ 1,794,940	\$ 1,418,715
Other income, less miscellaneous deductions.....	307,675	31,498
	<u>\$ 1,487,265</u>	<u>\$ 1,387,217</u>
INCOME BEFORE TAXES AND PROPERTY DISPOSALS	\$ 9,421,653	\$ 10,651,133
TAXES ON INCOME (including deferred taxes \$3,123,770—1959, \$3,984,550—1958, arising from accelerated depreciation methods).....	5,020,000	5,665,000
NET INCOME FROM OPERATIONS	\$ 4,401,653	\$ 4,986,133
PROFIT FROM DISPOSALS OF PROPERTY , less applicable in- come taxes \$510,000—1959, \$200,000—1958.....	1,311,859	627,554
NET INCOME FOR THE YEAR	<u>\$ 5,713,512</u>	<u>\$ 5,613,687</u>

See notes to financial statements.

STATEMENTS OF FINANCIAL POSITION

NORTHWEST AIRLINES, INC. and SUBSIDIARY

ASSETS

	December 31,	
	1959	1958
CURRENT ASSETS		
Cash	\$ 10,206,460	\$ 8,967,724
United States Government securities—at cost which approximates market price.....	—	4,443,794
Trade receivables, less allowance of \$100,000.....	13,804,267	11,721,181
Maintenance and operating supplies—at average cost.....	3,012,417	2,145,817
Prepaid expenses.....	655,598	411,630
TOTAL CURRENT ASSETS	<u>\$ 27,678,742</u>	<u>\$ 27,690,146</u>
INVESTMENTS AND OTHER ASSETS		
Related industry investments and advances—at cost.....	\$ 145,107	\$ 272,858
FLIGHT EQUIPMENT at cost.....	\$109,542,617	\$ 96,156,766
Less allowances for depreciation and obsolescence.....	28,979,487	36,344,795
	<u>\$ 80,563,130</u>	<u>\$ 59,811,971</u>
Advances on purchase contracts—Note E.....	11,442,896	10,438,765
	<u>\$ 92,006,026</u>	<u>\$ 70,250,736</u>
OTHER EQUIPMENT AND PROPERTY at cost.....	\$ 18,889,956	\$ 15,728,646
Less allowances for depreciation.....	10,653,805	9,912,334
	<u>\$ 8,236,151</u>	<u>\$ 5,816,312</u>
DEFERRED CHARGES		
Unamortized training and other costs in connection with aircraft fleets and routes.....	\$ 1,357,729	\$ 619,031
Other	673,561	411,586
	<u>\$ 2,031,290</u>	<u>\$ 1,030,617</u>
	<u><u>\$130,097,316</u></u>	<u><u>\$105,060,669</u></u>

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	1959	1958
CURRENT LIABILITIES		
Accounts payable, collections as agent, etc.....	\$ 11,026,752	\$ 9,334,518
Salaries, wages and vacations.....	4,291,033	3,773,082
Air travel card deposits.....	1,170,875	1,164,500
Unredeemed ticket liability.....	989,138	1,048,609
Income taxes—estimated.....	2,023,888	2,060,616
TOTAL CURRENT LIABILITIES	<u>\$ 19,501,686</u>	<u>\$ 17,381,325</u>
LONG-TERM DEBT —Note A		
Notes payable to insurance companies.....	\$ 40,000,000	\$ 34,250,000
Notes payable to banks.....	10,000,000	—
	<u>\$ 50,000,000</u>	<u>\$ 34,250,000</u>
DEFERRED INCOME TAXES		
arising generally from accelerated depreciation methods.....	\$ 8,328,770	\$ 5,205,000
STOCKHOLDERS' EQUITY —Note C		
Cumulative Preferred Stock, \$25 par value; authorized 1,000,000 shares issuable in series:		
5¼% Convertible Series; authorized 457,873 shares; issued and outstanding shares 451,234—1959, 457,873—1958—Note B.....	\$ 11,280,850	\$ 11,446,825
Common Stock, \$10 par value; authorized 4,500,000 shares; issued and outstanding shares 1,384,903—1959, 1,373,620—1958—Note D	13,849,030	13,736,200
Capital surplus.....	6,577,589	6,481,052
Earned surplus.....	20,559,391	16,560,267
	<u>\$ 52,266,860</u>	<u>\$ 48,224,344</u>
COMMITMENTS AND CONTINGENT LIABILITIES —Note E		
	<u><u>\$130,097,316</u></u>	<u><u>\$105,060,669</u></u>

See notes to financial statements.

STATEMENTS OF SURPLUS

NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31,	
CAPITAL SURPLUS	1959	1958
Balance at beginning of year.....	\$ 6,481,052	\$ 6,813,847
Additions (deductions) arising from:		
Sale of shares of Common Stock under option agreements, in excess of par value.....	27,808	109,188
Cost of issue of 5¼% Convertible Series, Cumulative Preferred Stock..	(33,409)	(435,488)
Conversion of shares of Preferred Stock into shares of Common Stock..	102,138	—
Redemption of shares of 4.6% Series Preference Stock.....	—	(6,495)
Balance at end of year.....	<u>\$ 6,577,589</u>	<u>\$ 6,481,052</u>
EARNED SURPLUS		
Balance at beginning of year.....	\$16,560,267	\$12,057,070
Add net income for the year.....	5,713,512	5,613,687
	<u>\$22,273,779</u>	<u>\$17,670,757</u>
Deduct:		
Cash dividends on:		
5¼% Preferred Stock—annual rate of \$1.31¼ a share.....	\$ 610,559	\$ —
4.6% Preference Stock—annual rate of \$1.15 a share.....	—	36,003
Common Stock—\$.80 a share.....	1,103,829	1,074,487
	<u>\$ 1,714,388</u>	<u>\$ 1,110,490</u>
Balance at end of year.....	<u>\$20,559,391</u>	<u>\$16,560,267</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 consolidated financial statements of Northwest Airlines, Inc. and subsidiary for the year ended December 31, 1959. 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 prior years.

In our opinion, the accompanying statement of financial position and statements of income and surplus present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiary at December 31, 1959 and the consolidated results of their 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 12, 1960

ERNST & ERNST
Certified Public Accountants

NOTES TO FINANCIAL STATEMENTS

NORTHWEST AIRLINES, INC. and SUBSIDIARY

December 31, 1959

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 for aggregate borrowings of \$40,000,000 at 6% which 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 \$4,680,000 under the most restrictive provision of the Agreements at December 31, 1959); 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 at any time 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 \$26.25 a share before January 1, 1962 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, 1959 approximately \$6,238,000 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 1,600 shares of Common Stock were subject to outstanding options exercisable by Company offi-

cers 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 4,900 shares were exercised. An additional 11,000 shares are reserved for options which may be granted in the future to officers and employees and 433,878 shares are reserved for issuance upon conversion of the 5¼% Convertible Series, Cumulative Preferred Stock.

Note E—Commitments and Contingent Liabilities

At December 31, 1959 commitments for the purchase of five Douglas DC-8C turbojet aircraft and eight Lockheed Electra prop-jet aircraft (to be delivered in 1960) and other flight and ground equipment amounted to approximately \$61,309,000 after credit for five Douglas DC-7C aircraft to be traded on aircraft purchases. Of this amount \$11,442,896 was on deposit with manufacturers at December 31, 1959, approximately \$33,949,000 becomes payable in 1960, and \$15,917,104 becomes payable over sixty month periods from dates of delivery of the Lockheed Electra prop-jet aircraft under conditional sales contracts.

Annual payments of approximately \$1,190,000 from date of occupancy will be required under the Company's agreements for lease (from 25 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, 1959 in the amount of \$42,453 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 Board 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 has refunded this amount and recorded the adjustment in prior years (\$653,790 net after income taxes of \$752,210).

In January 1960, the Board issued an order proposing to establish a final subsidy-free mail rate for 1954 and asking the Company to show cause why the remaining \$1,833,000 of mail compensation subsidy should not be refunded. No effect has been given in the accompanying financial statements to this proposed reduction which would approximate \$843,000 net after income taxes of \$990,000.

The Company is contesting both of the above actions.

FIVE YEAR SUMMARY OF INCOME

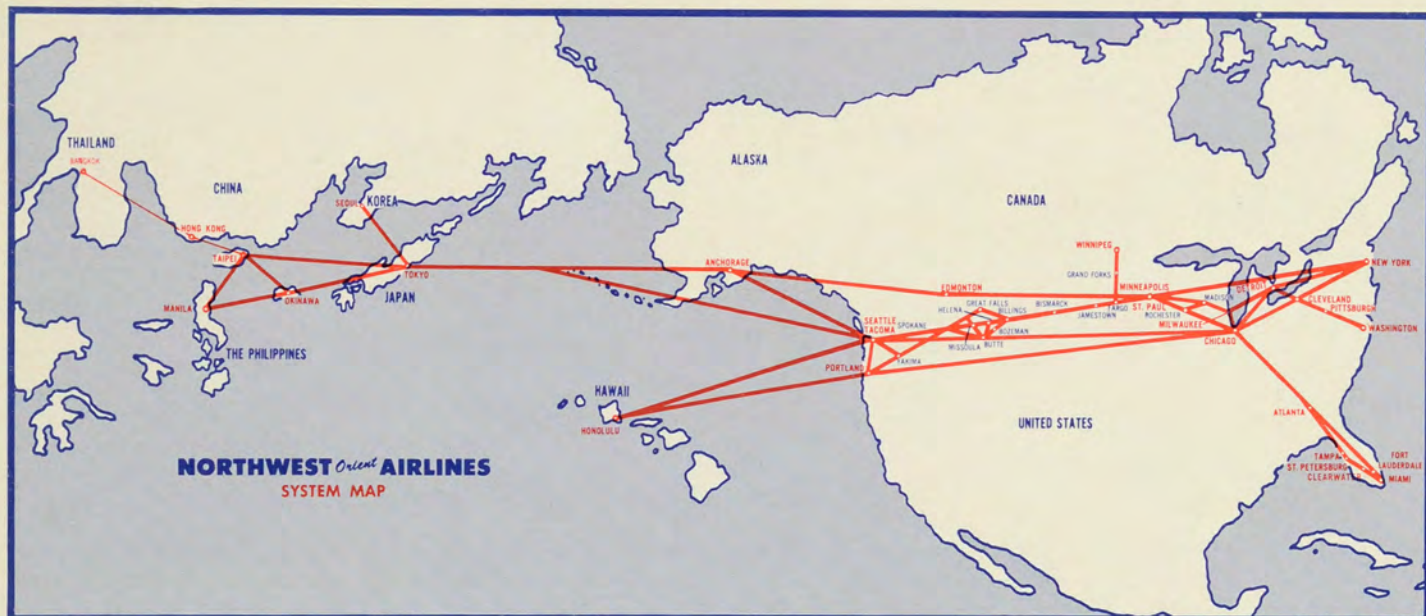
(Amounts Shown in Thousands)

NORTHWEST AIRLINES, INC. and SUBSIDIARY

Five years ended December 31, 1959

OPERATING REVENUES	1959	1958	1957	1956	1955
Passenger.....	\$100,641	\$ 81,116	\$66,674	\$60,264	\$57,253
United States mail.....	10,174	9,265	7,587	7,192	6,513
Foreign mail.....	1,045	963	763	666	577
Excess baggage.....	1,349	1,230	1,004	728	585
Freight and express.....	10,532	7,437	6,537	6,427	5,539
Charter and other transportation.....	526	1,237	226	816	111
Other—net.....	1,763	709	641	386	510
	<u>\$126,030</u>	<u>\$101,957</u>	<u>\$83,432</u>	<u>\$76,479</u>	<u>\$71,088</u>
OPERATING EXPENSES					
Flying operations.....	\$ 37,610	\$ 29,747	\$25,555	\$22,665	\$21,694
Maintenance	21,771	17,090	16,037	14,095	12,707
Passenger service.....	8,465	6,034	5,061	4,502	4,139
Aircraft and traffic servicing.....	15,511	12,207	11,689	10,847	9,718
Reservations, sales and advertising.....	14,011	10,753	9,218	8,169	7,761
Administrative and general.....	6,818	5,573	5,452	4,834	4,447
Provision for depreciation.....	10,935	8,515	5,436	6,772	6,205
	<u>\$115,121</u>	<u>\$ 89,919</u>	<u>\$78,448</u>	<u>\$71,884</u>	<u>\$66,671</u>
	<u>\$ 10,909</u>	<u>\$ 12,038</u>	<u>\$ 4,984</u>	<u>\$ 4,595</u>	<u>\$ 4,417</u>
OTHER DEDUCTIONS, NET.....	1,487	1,387	994	522	250
INCOME BEFORE TAXES AND PROPERTY DISPOSALS.....	\$ 9,422	\$ 10,651	\$ 3,990	\$ 4,073	\$ 4,167
TAXES ON INCOME.....	5,020	5,665	2,100	2,185	2,140
NET INCOME FROM OPERATIONS.....	<u>\$ 4,402</u>	<u>\$ 4,986</u>	<u>\$ 1,890</u>	<u>\$ 1,888</u>	<u>\$ 2,027</u>
PROFIT FROM DISPOSALS OF PROPERTY.....	\$ 1,822	\$ 828	\$ 3,241	\$ 1,828	\$ 119
Less applicable income taxes.....	510	200	312	490	30
NET PROFIT FROM DISPOSALS OF PROPERTY.....	<u>\$ 1,312</u>	<u>\$ 628</u>	<u>\$ 2,929</u>	<u>\$ 1,338</u>	<u>\$ 89</u>
NET INCOME FOR THE YEAR.....	<u>\$ 5,714</u>	<u>\$ 5,614</u>	<u>\$ 4,819</u>	<u>\$ 3,226</u>	<u>\$ 2,116</u>

NORTHWEST AIRLINES, INC. ANNUAL REPORT 1959



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
1959	\$126,029,501	\$100,641,156	\$10,531,400	1,738,138,265	24,435,745	49,282,475
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



34 years of superior Airmanship

