

**Annual Report • 1961**



**NORTHWEST  
AIRLINES, INC.**



# Northwest Airlines, Inc.

General Offices

Minneapolis-St. Paul International Airport

Saint Paul 11, Minnesota

## OFFICERS\*

DONALD W. NYROP  
President

PAUL L. BENSCOTER  
Vice President—Transportation Services

ROBERT A. EBERT  
Vice President—Personnel

A. E. FLOAN  
Vice President and Secretary

DONALD H. HARDESTY  
Vice President—Finance and Treasurer

WM. E. HUSKINS, JR.  
Vice President—Orient Region

FRANK C. JUDD  
Vice President—Maintenance and Engineering

M. JOSEPH LAPENSKY  
Comptroller

DALE MERRICK  
Assistant Vice President—Properties

EMORY T. NUNNELEY, JR.  
Vice President and General Counsel

C. L. STEWART  
Vice President—Economic Planning

ROBERT J. WRIGHT  
Vice President—Sales

## DIRECTORS\*

CROIL HUNTER  
Chairman of the Board, Northwest Airlines, Inc.  
St. Paul, Minnesota

JAMES H. BINGER  
President, Minneapolis-Honeywell Regulator Co.  
Minneapolis, Minnesota

HADLEY CASE  
President, Case, Pomeroy & Company, Inc.  
New York, New York

MORTON H. FRY  
Senior Partner, Riter & Company  
New York, New York

JOSEPH T. JOHNSON  
President, The Milwaukee Company  
Milwaukee, Wisconsin

MALCOLM S. MACKAY  
President, Foothills Company  
Roscoe, Montana

CLYDE B. MORGAN  
Chairman of the Board, Rayonier, Incorporated  
New York, New York

DONALD W. NYROP  
President, Northwest Airlines, Inc.  
St. Paul, Minnesota

ALONZO PETTEYS  
President, Farmers State Bank  
Brush, Colorado

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

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

WILLIAM STERN  
President, Dakota National Bank  
Fargo, North Dakota

LYMAN E. WAKEFIELD, JR.  
Vice President, First National Bank of Minneapolis  
Minneapolis, Minnesota

ALBERT J. WEATHERHEAD, JR.  
President, The Weatherhead Company  
Cleveland, Ohio

*\*As of March 1, 1962*

REGISTRAR: The Chase Manhattan Bank, New York, N. Y.  
TRANSFER AGENTS: Bankers Trust Company, New York, N. Y.

STOCK LISTED: Common Stock listed on New York Stock Exchange  
and Midwest Stock Exchange.  
Preferred Stock listed on New York Stock Exchange.

## PRESIDENT'S LETTER

### TO OUR STOCKHOLDERS:

For Northwest Airlines, the year 1961 was a difficult yet profitable one. Operations and revenues were curtailed as a result of a strike by flight engineers during the early part of the year. Recovery from the January-February strike was, of necessity, slow and revenues did not reach prior-year levels until May, 1961. Even after such recovery, your Company, along with all the domestic trunklines, found a soft market for air transportation, lacking the growth experienced in earlier years.

Despite reduced revenues and greatly increased depreciation and interest charges, an effective program of cost controls and special attention to customer service enabled your Company to earn a 1961 net profit of \$3,661,139, more than twice the earnings of the previous year.

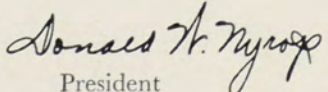
Our jet re-equipment program was completed during the year—18 new pure jet and jet-prop aircraft were placed in service, five piston aircraft received major modifications to enhance and extend their revenue production and 13 surplus piston engine aircraft were sold.

As a result of our re-equipment program, we enter 1962 with nearly 90 per cent of our available seat-miles in modern, turbine-powered equipment. Only one year earlier, that percentage was approximately 30. More than \$127,000,000 in capital funds have been used in the acquisition of the current jet and jet-prop fleet—nine Boeing 720B fan-jets, five Douglas DC-8 inter-continental jets and 16 Lockheed Electra II jet-props. All-cargo, combination passenger-cargo and high density tourist passenger service now are provided in our five recently converted DC-7C/F aircraft. In addition, our remaining DC-6B and DC-7C fleet augments service in many markets and provides the only service in the 10 per cent of our cities not capable of supporting turbine-powered service.

Your Company, in addition to the substantial changes brought about by its flight equipment acquisition, modification and disposition program, has taken important forward steps on the ground. In 1961 we made internal organizational changes to improve efficiency, technology and service. New maintenance and flying concepts have been introduced. All customer service now is concentrated in one department for unified and effective direction. Moves into seven new terminal and hangar facilities were completed. Our new Main Base—integrated General Office, overhaul, shops, stores and hangar facility at the Minneapolis-St. Paul International Airport—now is occupied and functioning efficiently and effectively.

The 1961 results and the economic stability of Northwest Airlines are the result of your continuing support. I appreciate the understanding, loyalty and cooperation which have contributed to the favorable conditions outlined in this report.

Sincerely,

  
President

March 10, 1962



## FINANCIAL RESULTS

In 1961, your Company earned a net profit of \$3,661,139, more than double the net earnings of the previous year. The 1961 earnings were achieved in the face of a decline in total revenues of more than \$12,000,000, the result of an extended strike during the early part of the year.

Another factor affecting 1961 results was the lack of growth in domestic passenger traffic, with all domestic trunklines recording an increase of only 1 per cent over 1960.

Offsetting these adverse factors were the improved competitive position afforded by integration by Northwest of additional jet and jet-prop aircraft into our fleet and a continuance of cost-control policies under which operating expenses at every level are monitored carefully and continually in order that we may provide a high standard of service at minimum cost.

**Earnings.** The \$3,661,139 profit for the year 1961 amounted to \$2.21 per common share, after preferred dividends of \$592,245. This compares most favorably with net earnings of \$1,625,765 for 1960, which amounted to \$.75 per share after preferred dividends. Your Company's gain in net earnings was accomplished despite increased interest charges which totaled \$4,352,867 in 1961, compared with \$2,683,480 in 1960.

Included in net earnings for both years are profits, after taxes, on disposal of flight equipment and spare parts—\$1,198,035 in 1961 and \$699,852 in 1960.

Operations in 1961 provided internal cash generation of \$23,291,898, made up of the net earnings of \$3,661,139 plus cash flow from depreciation and amortization (\$17,117,959) and deferred income taxes (\$2,512,800). Cash flow from the same sources amounted to \$16,826,330 in 1960.

**Revenues.** Total operating revenues in 1961 were \$111,052,512 or \$12,308,967 less than in 1960. This

decline was a direct result of the prolonged strike by flight engineers which began in October, 1960, on DC-8 jet aircraft and spread to all types of equipment on January 9, 1961. Only partial service could be conducted during the shutdown, which extended through January and February. Service was restored on March 1, 1961, and schedules were augmented further in the following months. By May, revenues again reached prior-year levels.

Operating and traffic figures show similar effects of the early-1961 strike, with total revenue plane miles down from 46,963,000 in 1960 to 31,658,000 in 1961. Revenue passenger-miles declined from 1,654,000,000 to 1,362,000,000 and cargo ton-miles (mail, freight, express) from 58,528,000 to 51,203,000. Despite such declines, however, load factors were maintained at relatively favorable levels with the result that a passenger load factor of 52.1 per cent was achieved in 1961. This was accomplished despite the inevitable difficulty encountered in seeking to regain Northwest's competitive position after a long strike period.

During the last half of 1961 we obtained revenues of \$930,000 from operation of scheduled military charters over our route to Alaska. This contract, which provides a substantial revenue source for utilization of piston-engined aircraft, extends to June 30, 1962, and renewal beyond that date is being sought.

The Civil Aeronautics Board has approved an increase of 3 per cent in domestic passenger fares, effective February 1, 1962. Adjustments also have been made in domestic air freight rates to increase the yield from small-volume shipments and to reduce the rates on large shipments so that we will attract a greater volume of this type of traffic.

**Expenses.** Operating expenses, including depreciation and amortization, were \$101,330,626 in 1961, compared with \$118,867,785 in 1960. This reduction of \$17,537,159 more than offset the operating revenue decline of \$12,308,967, with the result that operating net income

in 1961 exceeded that of 1960 by \$5,228,192. Depreciation and amortization charges of \$17,117,959 in 1961 were \$2,704,424 more than in 1960. Cash operating expenses actually were reduced by \$20,241,583 from 1960 to 1961.

All categories of operating expenses have been controlled fully, both during the strike and in the months following. As a result, 1961 unit operating expenses of 27.59¢ per available ton-mile were less than the unit cost of 27.72¢ recorded in 1960, despite the burden of fixed costs which had to be borne by an extremely low capacity volume in early 1961.

Total company employees numbered 5,803 at the end of 1961, a reduction of 1,115 from the level preceding the start of the flight engineers' strike in 1960.

**Stockholders' Equity.** The net worth of the Company increased from \$52,192,566 at the end of 1960 to \$54,176,525 as of December 31, 1961. Book value of common stock was \$30.94 per share at December 31, 1961, an increase of \$1.40 from the book value of \$29.54 at December 31, 1960.

From net earnings of \$3,661,139, regular quarterly dividends totaling \$.80 per share for the year were paid to holders of common stock, continuing a policy followed consistently since 1955. Dividends on the \$25 par value 5¼ per cent Convertible Cumulative Preferred Stock also were paid on quarterly due dates in 1961. After payment of dividends there remained from 1961 earnings an amount of \$1,960,373 added to retained earnings.

## EQUIPMENT AND SERVICE

During 1961, Northwest Airlines completed a two-year program for acquisition of a modern turbine-powered fleet composed of a total of 30 new aircraft and an outlay of more than \$127,000,000.

In the past year, your Company accepted delivery of its fifth Douglas DC-8 long-range jet, nine Boeing 720B medium-range fan-jets and eight additional jet-prop Lockheed Electra II's. Together with remaining piston aircraft, we now have a diversified fleet possessing a broad range of performance characteristics to meet the varied service needs of our domestic and international route system.

More than 90 per cent of our cities now benefit from Northwest Airlines service in turbine-powered aircraft and more than 50 per cent have DC-8 or 720B pure-jet schedules.

This large-scale equipment transition was accomplished in the short span of 28 months from August, 1959, when Northwest introduced its first Electra flights, to January, 1962, when nearly 90 per cent of all available seat-miles were operated in turbine-powered aircraft.

Northwest now offers one-plane pure-jet service in 77 separate city-pair markets. For example, New York enjoys NWA jet flights to Detroit, Milwaukee, Chicago,

Minneapolis-St. Paul, Spokane, Portland, Seattle-Tacoma, Anchorage, Tokyo and Orient points beyond Tokyo. Miami has one-plane jet service on Northwest to Tampa, St. Petersburg, Atlanta, Chicago, Milwaukee, Minneapolis-St. Paul, Portland and Seattle-Tacoma.

In 1961 Northwest, with its expanded jet fleet, was able to increase direct jet service between cities in the eastern part of the United States and the Orient. New York now has three "polar" flights a week to Tokyo via Anchorage, with a resulting New York-Tokyo flying time of 13 hours—four and a half hours faster than any other airline. Chicago has one "polar" flight per week, nonstop to Anchorage and on to the Orient.

In addition, both cities, as well as Washington, D. C., Detroit, Minneapolis-St. Paul and other major points, have daily service to and from the Orient via Seattle-Tacoma. Chicago's daily service is nonstop to the latter point, with the same plane continuing on to Anchorage with service beyond to the Orient, while New York's is via a nonstop flight to Seattle-Tacoma and a direct connection to the Chicago-originating flight.

Service to Hawaii via the Pacific Northwest has been increased to three jet round trip flights a week and on present schedules passengers may, for example, leave Washington, D. C., at 1 p.m., Detroit at 2:50 p.m., Minneapolis-St. Paul at 4:05 p.m. and arrive in Honolulu on Northwest's 720B fan-jet shortly after 9 p.m. on the same day.

Jet service into the important Florida market was inaugurated late in the year, in time for the height of winter vacation travel. Northwest now offers a choice of several jet flights daily to Miami and other Florida cities.

Northwest Airlines' jet schedules are augmented by a comprehensive pattern of flights in the jet-prop Electra II. This aircraft provides short-segment flight times comparing favorably with pure-jet times because of its extreme maneuverability in the vicinity of airports—for example, 1 hour, 15 minutes from the Twin Cities to Chicago and 1 hour, 35 minutes from Detroit to



*One of Northwest Orient Airlines' Boeing 720B fan-jet airliners is towed into a Main Base hangar at Minneapolis-St. Paul International Airport for routine work. Hangar is one of five at the Main Base, each 320 feet wide and 160 feet deep. Each hangar will accommodate two huge jets or three of Northwest's propeller-driven aircraft.*



Washington. It has proved to be an extremely efficient and economical airliner to operate on both short and medium-range flight segments and into many of the smaller cities served by Northwest.

Another development in the past year was conversion of five NWA Douglas DC-7C's to a flexible DC-7C/F configuration with a capability for a 37,000 pound all-cargo lift or, in varying cargo-passenger combinations, a maximum of 95 seats in the all-passenger version. This conversion will enhance the revenue potential of this piston-engined type in a variety of services, including domestic and international freight and mail schedules, low fare passenger services, commercial charters and government contract work.

Our extensive re-equipment program has made a number of our piston aircraft surplus and we have undertaken to dispose of these aircraft at the most favorable terms possible. In 1961 we sold five DC-6B's and our remaining fleet of eight DC-4's, as well as additional spare engines and spare parts.

While we move forward in 1962 in good competitive position, we are continuing to evaluate future equipment needs and are studying the various types of jet aircraft which may be suitable for fleet expansion in the future.

## FACILITIES AND CUSTOMER SERVICE

Your Company has recognized its responsibility to provide customer service as advanced and efficient as the new flight equipment now in the air. To this end a parallel program of modernization of ground facilities and services has been accelerated during the past year.

In July, 1961, responsibility for all customer services was placed in one department combining the functions of communications, reservations, station operations, food service and in-flight cabin service. In addition, many improved facilities have been added to make our service more attractive and convenient for the traveling public.

One of the principal features of this program has been the occupancy of new airport facilities by your Company in recent months, with more scheduled for the near future. To date, Northwest has occupied space in new terminals at Atlanta, Manila, Chicago-O'Hare and Minneapolis-St. Paul and in a new terminal concourse addition at Seattle-Tacoma. Scheduled for completion in 1962 are your Company's unit air terminal at New York's Idlewild International Airport and the new Dulles International Airport which will serve Washington, D. C.

Terminal construction also is under way in Winnipeg, Edmonton and Honolulu. In the coming year Northwest will introduce second-level jet passenger loading facilities at four of its major domestic terminals.

New hangar facilities at Detroit Metropolitan Airport and Chicago's O'Hare International Airport were occupied by Northwest in 1961.

*Photographs, top to bottom—Northwest Orient Airlines occupied new facilities at several airports in 1961 and early 1962:*

- New terminal at Minneapolis-St. Paul, dedicated in January, 1962.
- New South Concourse at Seattle-Tacoma, May, 1961.
- Chicago-O'Hare, January, 1962. Construction continues (restaurant building, left background).
- New terminal at Atlanta, dedicated in May, 1961.

Completion of our Main Base construction program was accomplished in 1961. In June we occupied the new General Office building adjacent to our maintenance and overhaul facilities at the Minneapolis-St. Paul International Airport. Operations in this well-integrated facility are aided by many improvements in service equipment.

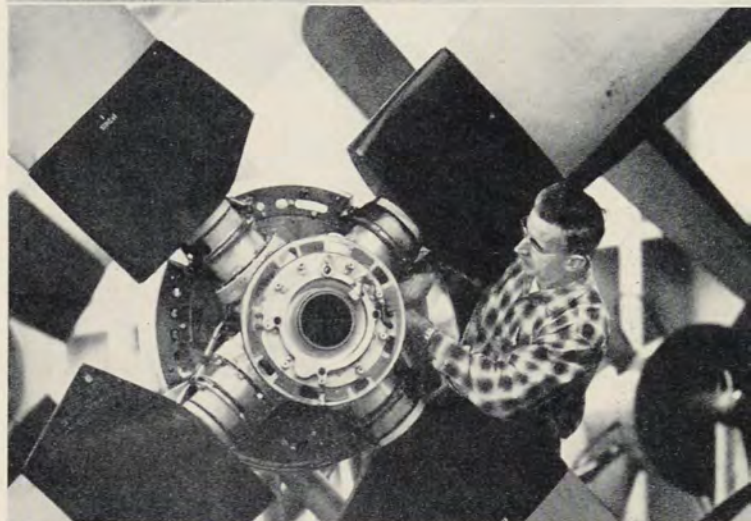
The Main Base is served by a new telephone system which permits direct inward dialing to all Northwest Airlines headquarters offices, sales offices in the Twin Cities and NWA airport installations. The Main Base also is inter-connected with telephone systems in many cities on our routes by means of economical leased Telpak circuits, permitting prompt and economical phone communication among Northwest's headquarters and major line stations. Extension of this arrangement to additional NWA offices will be accomplished during 1962.

Communications have been improved further by installation in 1961 of the most up-to-date automatic teletype switching-center equipment. This center, located in the Company's headquarters, is connected by direct teletype circuits with 90 offices throughout the United States. Approximately 15,000 messages are handled each day through the center, with delivery speeded by the automatic system for transfer of incoming and outgoing messages which replaced the former manual tape procedure.

Our new headquarters also houses the Univac automatic reservations system serving 15 cities on our domestic route structure with high speed reservations service, storing and controlling the inventory of seats available on more than 100 flights a day. Passenger reservations may be accepted on the Univac computer for any date up to 11 months in the future. The speed with which this system operates provides for greatly improved service to our passengers.

Air-to-ground radio communications also have been modernized. A comprehensive program for centralization of air-ground radio facilities was planned during 1961 and will be implemented on a progressive basis in 1962. On completion of this program, all of NWA's domestic air-ground radio stations, transmitting and receiving from remote locations in 25 cities along the airline's routes, will be linked by leased telephone circuits to control positions in the General Office building. Centralization of radio facilities will result in reduced costs and will provide for more efficient en route communications and more rapid distribution of flight movement reports to the many offices which require such information.

Of special note was the inauguration during 1961 of a continuous maintenance program for our jet aircraft. Prior to the introduction of this program, major overhaul was accomplished by removing each aircraft from service for a period of approximately two weeks after each 2,500 hours of flying. In the continuous main-



Photographs, top to bottom—New Main Base houses a great variety of service functions. Examples:

- Efficient computer room is the heart of Northwest's Univac electronic reservations system.
- Electra II propeller hub checked in propeller shop.
- Controls in engine test building duplicate those in airplane cockpit.
- Modern flight kitchen is capable of producing 10,000 in-flight meals per day.



*Conversion of five of Northwest Orient Airlines' DC-7C's to freighter configuration, including installation of an 81 by 124-inch forward cargo door, facilitated an increase in freight lift. Piece of paper-making machinery (left), boarded at Milwaukee en route to Gothenburg, Sweden, taxed every available inch of the huge doorway.*

tenance program, portions of the overhaul work assignment are allocated to each of the line maintenance check periods, performed every night and during normal layovers. The result is increased utilization and the ability to keep these high-cost aircraft in service during peak traffic periods. All 14 pure-jet aircraft thus are kept working and producing revenue, with maintenance performed in off-peak hours.

This extensive program of ground facility modernization has been designed, along with our flight equipment program, to provide the utmost in service, comfort and convenience to our customers.

## CREDIT AGREEMENTS

Early in 1961 your Company amended prior credit agreements to provide a portion of the financing required to purchase six Boeing 720B fan-jet aircraft.

The credit agreements were amended further in 1961 to permit acquisition of three additional 720B's, one by direct purchase and two under lease from Boeing with an option to buy. The latter amendment was accomplished without increasing our loan limits and without change in repayment dates under the bank and insurance company agreements.

As of December 31, 1961, the total credit line extended your company under current loan agreements had been drawn down. Repayment schedules become effective in 1962 with respect to bank loans and repayment will continue with respect to the conditional contract of sale on purchase of the additional Electra II aircraft. As of December 31, 1961, there was a total of \$11,521,560 of debt financing repayable during 1962, with the major portion of this amount payable on and after June 30, 1962.

## ROUTES

During the year there were no significant additions to or changes in the route structure of Northwest Airlines.

Still pending before the Civil Aeronautics Board are the petitions of various carrier applicants for reconsideration of the President's decision of January 19, 1961, in the Trans-Pacific Route Case. That decision disapproved all applications for additional route authority between the United States and the Orient. Among these is Northwest's petition for reconsideration of the failure

to certificate Northwest over the Central Pacific route from California to Tokyo, via Hawaii.

The Civil Aeronautics Board approved the merger of United Air Lines and Capital Airlines during the year. Northwest and other affected carriers vigorously protested this action which made United the largest of all United States carriers. As a consequence Northwest has been subjected to substantial diversion of traffic in important markets served by it. Both the establishment of new one-carrier and one-plane competition in certain markets and more intensive competition by United in markets in which Northwest previously competed with Capital have had adverse effects on Northwest revenues.

Subsequent to the United-Capital merger, the Civil Aeronautics Board instituted the United Air Lines, Inc. Competitive Service Investigation to consider authorizing competition in the New York-Cleveland, Cleveland-Chicago, Cleveland-Philadelphia and Detroit-Philadelphia markets—those in which United acquired monopolies as the result of the merger. Northwest is an applicant for such route authorizations. The proceeding still is in a preliminary stage before the Civil Aeronautics Board.

Northwest also has on file with the Board a number of other applications for new route authorities to improve and strengthen its route structure. These are awaiting procedural action before the Board.

## PERSONNEL

Northwest Airlines' 5,803 employees, assigned to 55 locations in the United States, Canada and the Orient, are working as a team under improved policies and procedures designed to serve the public better and meet the challenge of increased competition.

The employees who joined Northwest during the year were able to adjust themselves rapidly to their new assignments through classroom training in the Company's new training center and to perform their work with speed and efficiency. Emphasis is being placed on improved on-the-job training for all employees, to maintain proficiency and to develop new skills and techniques in line with technological advances in the airline industry.

During the year collective bargaining agreements were signed with three groups of personnel representing more than 2,000 employees. Negotiations with six other units of employees were in progress during the year and settlements are expected early in 1962.

The costly strike by flight engineers, which commenced on a partial basis on October 11, 1960, and was expanded to all equipment on January 9, 1961, continued through February, 1961. All aircraft, including jets, now are being operated by a cockpit crew of three men.

Your Company is proud of the fact that more than 60 per cent of its 5,803 employees have more than five years of service. During 1961, the list of those with 25 or more years of service increased to 92 employees.



# STATEMENT OF EARNINGS

## NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31,	
	1961*	1960
<b>OPERATING REVENUES</b>		
Passenger .....	\$ 85,970,900	\$ 97,680,028
United States mail.....	10,473,605	9,680,298
Foreign mail.....	1,227,259	1,030,507
Excess baggage.....	914,423	1,183,124
Freight and express.....	7,528,793	10,185,069
Charter and other transportation.....	1,481,883	822,724
Mutual Aid Agreement—net—Note G.....	2,563,150	922,128
Other .....	892,499	1,857,601
	<u>\$111,052,512</u>	<u>\$123,361,479</u>
<b>OPERATING EXPENSES</b>		
Flying operations.....	\$ 29,268,829	\$ 37,605,697
Maintenance .....	17,252,807	22,872,426
Passenger service.....	7,178,262	8,840,131
Aircraft and traffic servicing.....	12,445,830	15,421,537
Reservations, sales and advertising.....	11,973,343	13,789,086
Administrative and general.....	6,093,596	5,925,373
Depreciation and amortization .....	17,117,959	14,413,535
	<u>\$101,330,626</u>	<u>\$118,867,785</u>
	\$ 9,721,886	\$ 4,493,694
<b>OTHER DEDUCTIONS AND INCOME</b>		
Interest on long-term debt.....	\$ 4,352,867	\$ 2,683,480
Other income, less miscellaneous deductions.....	6,385	111,729
	<u>\$ 4,346,482</u>	<u>\$ 2,571,751</u>
<b>EARNINGS BEFORE TAXES AND PROPERTY DISPOSALS.....</b>	<b>\$ 5,375,404</b>	<b>\$ 1,921,943</b>
<b>TAXES ON EARNINGS</b> (including deferred taxes \$2,868,900—1961; \$993,030—1960 arising from accelerated depreciation methods) .....	<u>2,912,300</u>	<u>996,030</u>
<b>NET EARNINGS FROM OPERATIONS.....</b>	<b>\$ 2,463,104</b>	<b>\$ 925,913</b>
<b>PROFIT FROM DISPOSALS OF PROPERTY, less applicable income taxes</b> (1961—\$320,500; 1960—\$10,000 net credit) .....	<u>1,198,035</u>	<u>699,852</u>
<b>NET EARNINGS FOR THE YEAR.....</b>	<u><u>\$ 3,661,139</u></u>	<u><u>\$ 1,625,765</u></u>

\*Operations were curtailed in the first quarter of 1961 as a result of a flight engineers strike.

*See notes to financial statements.*

**STATEMENT OF FINANCIAL POSITION**  
**NORTHWEST AIRLINES, INC. and SUBSIDIARY**

**ASSETS**

	December 31,	
	1961	1960
<b>CURRENT ASSETS</b>		
Cash .....	\$ 15,991,175	\$ 18,360,434
United States Treasury bills—at cost which approximates market price .....	—	998,785
Trade receivables, less allowance of 1961—\$105,000; 1960—\$100,000.....	12,532,949	12,312,518
Flight equipment parts, at average cost, less allowance for depreciation (1961—\$1,793,568; 1960—\$1,837,907) .....	5,880,199	5,723,247
Maintenance and operating supplies—at average cost .....	2,377,424	3,078,237
Prepaid expenses.....	2,064,721	1,424,223
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 38,846,468</b>	<b>\$ 41,897,444</b>
<b>INVESTMENTS AND OTHER ASSETS</b>		
Related industry investments and advances—at cost.....	\$ 154,890	\$ 140,473
<b>PROPERTY AND EQUIPMENT—at cost</b>		
Flight equipment .....	\$170,772,136	\$121,440,828
Less allowances for depreciation and obsolescence .....	37,286,701	34,483,475
	<u>\$133,485,435</u>	<u>\$ 86,957,353</u>
Advances on purchase contracts .....	—	4,164,530
	<u>\$133,485,435</u>	<u>\$ 91,121,883</u>
Other property and equipment .....	\$ 21,429,995	\$ 21,399,592
Less allowances for depreciation .....	10,919,266	10,618,889
	<u>\$ 10,510,729</u>	<u>\$ 10,780,703</u>
	<u>\$143,996,164</u>	<u>\$101,902,586</u>
<b>DEFERRED CHARGES</b>		
Unamortized training and other costs in connection with aircraft fleets and routes .....	\$ 4,930,453	\$ 3,385,197
Rentals .....	1,057,525	870,719
Other .....	117,716	501,432
	<u>\$ 6,105,694</u>	<u>\$ 4,757,348</u>
	<u><u>\$189,103,216</u></u>	<u><u>\$148,697,851</u></u>

*See notes to financial statements.*

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	December 31,	
	1961	1960
<b>CURRENT LIABILITIES</b>		
Accounts payable, collections as agent, etc.....	\$ 12,021,592	\$ 11,342,208
Salaries, wages and vacations.....	5,416,706	4,953,407
Air travel card deposits.....	1,176,400	1,184,475
Unredeemed ticket liability.....	1,012,669	834,534
Income taxes—estimated.....	663,338	574,861
Current maturities of long-term debt .....	11,521,560	—
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 31,812,265</b>	<b>\$ 18,889,485</b>
<b>LONG-TERM DEBT, less current maturities—Note A</b>		
Notes payable to insurance companies.....	\$ 40,000,000	\$ 40,000,000
Notes payable to banks.....	34,000,000	28,500,000
Subordinated notes payable .....	7,032,285	—
Conditional sales contracts .....	9,253,541	—
	<u>\$ 90,285,826</u>	<u>\$ 68,500,000</u>
<b>DEFERRED CREDITS</b>		
Income taxes—arising from accelerated depreciation methods .....	\$ 11,628,600	\$ 9,115,800
Other .....	1,200,000	—
	<u>\$ 12,828,600</u>	<u>\$ 9,115,800</u>
<b>STOCKHOLDERS' EQUITY —Note C</b>		
Cumulative Preferred Stock, \$25 par value; authorized 1,000,000 shares issuable in series: 5¼% Convertible Series; authorized 457,873 shares; issued and outstanding 451,234 shares—Note B.....	\$ 11,280,850	\$ 11,280,850
Common Stock, \$10 par value; authorized 4,500,000 shares; issued and outstanding 1961—1,386,403 shares; 1960—1,384,903 shares—Note D.....	13,864,030	13,849,030
Capital surplus.....	6,586,281	6,577,695
Retained earnings .....	22,445,364	20,484,991
	<u>\$ 54,176,525</u>	<u>\$ 52,192,566</u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES —Note E</b>		
	<u><u>\$189,103,216</u></u>	<u><u>\$148,697,851</u></u>

*See notes to financial statements.*

# STATEMENTS OF CAPITAL SURPLUS AND RETAINED EARNINGS

## NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31,	
	1961	1960
<b>CAPITAL SURPLUS</b>		
Balance at beginning of year.....	\$ 6,577,695	\$ 6,577,589
Additions arising from:		
Sale of shares of Common Stock under option agreements, in excess of par value.....	8,512	—
Conversion of shares of Preferred Stock into shares of Common Stock....	74	106
Balance at end of year.....	\$ 6,586,281	\$ 6,577,695
 <b>RETAINED EARNINGS</b>		
Balance at beginning of year.....	\$ 20,484,991	\$ 20,559,391
Add net earnings for the year.....	3,661,139	1,625,765
	\$ 24,146,130	\$ 22,185,156
Deduct cash dividends on:		
5¼% Preferred Stock—annual rate of \$1.31¼ a share.....	\$ 592,245	\$ 592,244
Common Stock—\$.80 a share.....	1,108,521	1,107,921
	\$ 1,700,766	\$ 1,700,165
Balance at end of year.....	\$ 22,445,364	\$ 20,484,991

*See notes to financial statements.*

### ACCOUNTANTS' REPORT

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

We have examined the statement of consolidated financial position of Northwest Airlines, Inc. and subsidiary as of December 31, 1961 and the related statements of consolidated earnings, capital surplus and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records as we considered necessary in the circumstances. We have made similar examinations for prior years.

In our opinion, the accompanying statements of financial position, earnings, capital surplus and retained earnings present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiary at December 31, 1961 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles which (except for the inclusion of flight equipment parts in current assets which we approve) have been applied on a basis consistent with that of the preceding year. Further, it is our opinion that the five year summary of earnings presents fairly the information stated therein.

Saint Paul, Minnesota  
February 14, 1962

ERNST & ERNST  
*Certified Public Accountants*

# NOTES TO FINANCIAL STATEMENTS

## NORTHWEST AIRLINES, INC. and SUBSIDIARY

December 31, 1961

### Note A—Long-Term Debt

Note Purchase Agreements with twelve insurance companies provide for aggregate borrowings of \$40,000,000 at 6% which are payable \$3,000,000 annually commencing 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 Amendatory Credit Agreement with fifteen banks provides for a term loan of \$42,500,000 at 5% payable \$8,500,000 each year 1962 through 1966. Optional prepayments at par are permitted except from borrowed funds in which event a premium of ½% is required.

The \$7,500,000 Promissory Notes were issued in connection with the purchase of six Boeing 720B turbojet aircraft and are subordinate to the notes payable to insurance companies and to banks. These notes bear interest at 6% and are payable \$1,500,000 annually 1967 through 1971. Certain prepayments based on "net earnings" as defined are provided for and, computed on 1961 net earnings, are due in 1962 in the amount of \$467,715.

Conditional sales contracts for the purchase of seven Lockheed Electra prop-jet aircraft bear interest at 5% and are payable over sixty monthly periods ending in 1966.

The Company has agreed, among other things, that it will not permit: (a) its working capital at any time to be less than certain specified amounts and (b) its funded debt to exceed certain percentages of net tangible assets, net worth, and depreciated value of flight equipment, as these terms are defined in the Agreements. At December 31, 1961 the Company had complied with the covenants then in effect.

### 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 in whole or in part at prices ranging from \$26 a share before January 1, 1964 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. The amount of retained earnings available for such purposes at December 31, 1961 was \$2,794,622.

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 Reservations and Options

At the end of the year, 1,000 shares of Common Stock were subject to an outstanding option exercisable not later than October 30, 1965 by a Company officer at \$13.42 a share

which was not less than 95% of market at the date of grant. During the year options for 1,500 shares were exercised.

An additional 10,100 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

The Company had leased for twenty-three months, with renewal option for twenty months, two Boeing 720B turbojet aircraft at \$80,000 per month each. The lease agreements provide for purchase at an option price of \$5,249,366 less 50% of rentals paid.

Annual payments of approximately \$1,700,000 from date of occupancy will be required under the Company's Agreements for lease over 25 to 40 years of overhaul bases, hangars and administrative facilities at Wold-Chamberlain Field, Twin Cities International Airport; International Airport, New York and O'Hare International Airport, Chicago.

The Company was contingently liable at December 31, 1961 in the amount of \$8,521 for the repurchase of travel contracts sold and in the amount of \$967,114 for discounted notes receivable arising from the sales of assets. Other contingent liabilities include those inherent in the Company's operation. While the amount of these contingent liabilities is not now determinable, the management of the Company is of the opinion that it is not material with respect to the Company's financial position.

### 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.

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.

### Note G—Mutual Aid Agreement

In 1960 the Company entered into a Mutual Aid Agreement with certain airlines under which any party to the agreement suffering a strike as defined therein is to receive from the other airlines an amount equal to the increase in their revenues attributable to the strike less applicable added direct expenses. The Civil Aeronautics Board is investigating the agreement and in the event of its disapproval, Mutual Aid payments are to be refunded to the paying airlines to the extent affected by such disapproval.

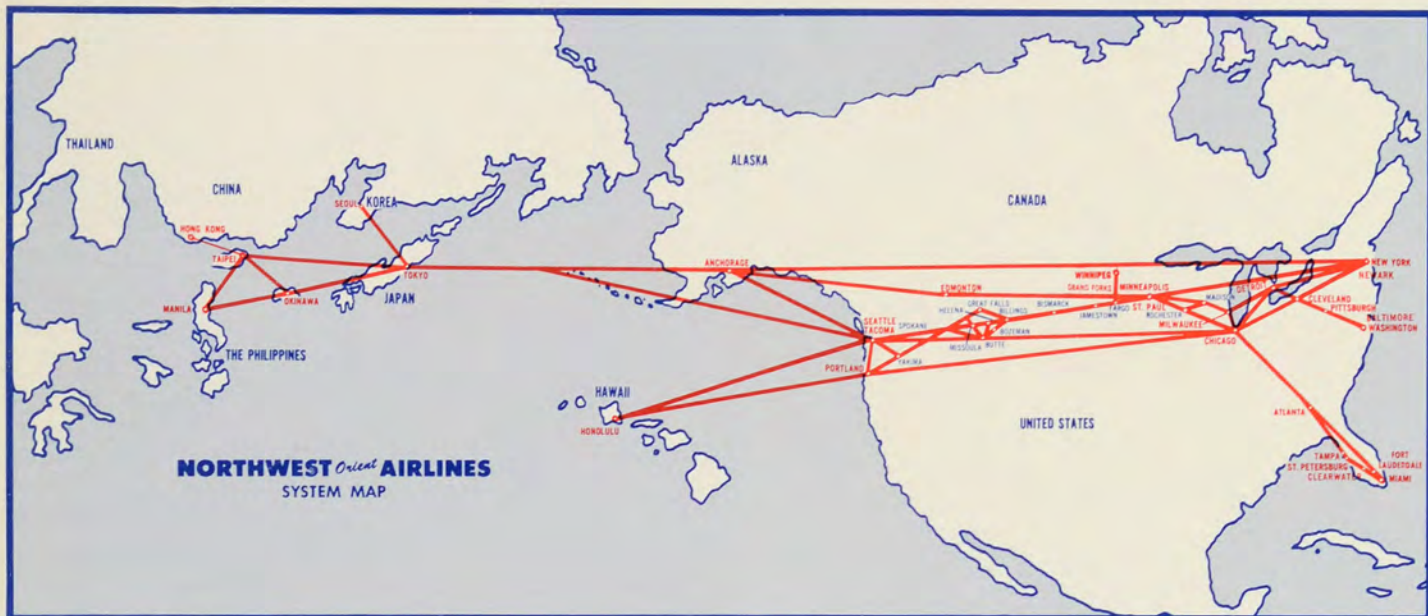
# FIVE YEAR SUMMARY OF EARNINGS

(Amounts Shown in Thousands)

## NORTHWEST AIRLINES, INC. and SUBSIDIARY

Five years ended December 31, 1961

OPERATING REVENUES	1961	1960	1959	1958	1957
Passenger .....	\$ 85,971	\$ 97,680	\$100,641	\$ 81,116	\$ 66,674
United States mail.....	10,474	9,680	10,174	9,265	7,587
Foreign mail.....	1,227	1,031	1,045	963	763
Excess baggage.....	914	1,183	1,349	1,230	1,004
Freight and express.....	7,529	10,185	10,532	7,437	6,537
Charter and other transportation.....	1,482	823	526	1,237	226
Mutual Aid Agreement.....	2,563	922	—	—	—
Other .....	893	1,858	1,763	709	641
	<u>\$111,053</u>	<u>\$123,362</u>	<u>\$126,030</u>	<u>\$101,957</u>	<u>\$ 83,432</u>
OPERATING EXPENSES					
Flying operations.....	\$ 29,269	\$ 37,606	\$ 37,610	\$ 29,747	\$ 25,555
Maintenance .....	17,253	22,872	21,771	17,090	16,037
Passenger service .....	7,178	8,840	8,465	6,034	5,061
Aircraft and traffic servicing.....	12,446	15,422	15,511	12,207	11,689
Reservations, sales and advertising.....	11,973	13,789	14,011	10,753	9,218
Administrative and general.....	6,094	5,926	6,443	5,450	5,037
Depreciation and amortization.....	17,118	14,413	11,310	8,638	5,851
	<u>\$101,331</u>	<u>\$118,868</u>	<u>\$115,121</u>	<u>\$ 89,919</u>	<u>\$ 78,448</u>
	<u>\$ 9,722</u>	<u>\$ 4,494</u>	<u>\$ 10,909</u>	<u>\$ 12,038</u>	<u>\$ 4,984</u>
OTHER DEDUCTIONS, NET.....	<u>4,347</u>	<u>2,572</u>	<u>1,487</u>	<u>1,387</u>	<u>994</u>
EARNINGS BEFORE TAXES AND PROPERTY DISPOSALS.....	\$ 5,375	\$ 1,922	\$ 9,422	\$ 10,651	\$ 3,990
TAXES ON EARNINGS.....	2,912	996	5,020	5,665	2,100
NET EARNINGS FROM OPERATIONS.....	<u>\$ 2,463</u>	<u>\$ 926</u>	<u>\$ 4,402</u>	<u>\$ 4,986</u>	<u>\$ 1,890</u>
PROFIT FROM DISPOSALS OF PROPERTY.....	\$ 1,518	\$ 690	\$ 1,822	\$ 828	\$ 3,241
Less applicable income taxes.....	320	( 10)	510	200	312
NET PROFIT FROM DISPOSALS OF PROPERTY.....	<u>\$ 1,198</u>	<u>\$ 700</u>	<u>\$ 1,312</u>	<u>\$ 628</u>	<u>\$ 2,929</u>
NET EARNINGS FOR THE YEAR.....	<u>\$ 3,661</u>	<u>\$ 1,626</u>	<u>\$ 5,714</u>	<u>\$ 5,614</u>	<u>\$ 4,819</u>



**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
1961*	\$111,052,512	\$85,970,900	\$7,528,793	1,361,789,877	26,954,774	33,837,570
1960	123,361,479	97,680,028	10,185,069	1,653,966,431	24,424,036	48,765,657
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

\*Operations were curtailed in the first quarter of 1961 as a result of strike by flight engineers.



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NORTHWEST