



**NORTHWEST  
AIRLINES, INC.  
1964  
Annual  
Report**



# NORTHWEST AIRLINES, INC.

	1964	1963
Total Operating Revenues	\$211,610,431	\$168,788,040
Operating Income	\$ 53,131,117	\$ 25,915,517
Net Earnings for the Year	\$ 26,785,523	\$ 10,452,957
<i>Per Common Share</i>	\$5.86	\$2.86°
Stockholders' Equity	\$122,959,586	\$ 68,435,947
<i>Per Common Share</i>	\$26.91	\$18.76°
Dividends Paid	\$ 2,601,682	\$ 1,822,656
Operating Expenses—		
<i>Per Available Ton-Mile</i>	18.5¢	21.7¢
<i>Per Revenue Ton-Mile</i>	39.7¢	46.8¢
Revenue Traffic—		
Passengers Carried	3,663,077	2,911,914
Passenger-Miles Flown	2,668,812,000	2,179,208,000
Ton-Miles, Mail, Freight and Express	93,356,000	73,082,000
Common Shares at Year End	4,568,634	3,648,904°

°Reflecting two-for-one split in 1964

## 1964 Highlights

Employees at Year End . . . . . 6,671

6,090



# from the president

TO THE STOCKHOLDERS:

We are pleased to report the highly successful results achieved by Northwest Airlines in 1964. During the year, substantial progress was made in strengthening the Company in every facet of its operation.

We grew strong through greatly increased revenues, passing by good margin the \$200 million mark for the first time. We gained competitive strength by exceeding the industry rate of passenger traffic growth. Our 22.5 per cent increase carried us well over 2.5 billion revenue passenger-miles. Cargo traffic spurred our revenue growth with a 40 per cent increase to more than 50 million ton-miles.

Net earnings of \$26,786,000 resulted from the favorable relationship of record revenues and well-controlled cost levels. Operating expenses required only 75¢ of each revenue dollar and our unit cost measures showed marked decline from 1963 figures.

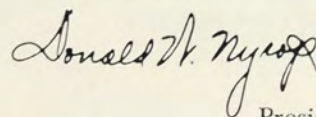
During 1964 Northwest Airlines broadened its financial structure by increasing the equity base of the Company to \$123 million. This sound move toward attainment of a stronger financial condition will insure even greater development of your Company in the years ahead.

Notable gains were achieved in our service capability in 1964. We added nine new fan-jets to our excellent fleet, spanning the full range of modern aircraft with three new long-range 707-320C's, three intermediate 720B's, and three shorter range trijet 727's. At year-end we had on order five more 320C's and 17 additional 727-type jets.

Northwest Airlines improved its operating authority with new routes awarded by the Civil Aeronautics Board in 1964. In October we began flights between Chicago and Cleveland and are ready to commence service in the Detroit-Philadelphia and Cleveland-Philadelphia markets on April 1 of this year. The new route segments will increase our total traffic and will provide more convenient access to these important eastern cities from many of the cities on our system.

Your Company will continue to devote itself to ever-improved service to the public. We look forward to further progress as one of the nation's leading airlines, and with the continued loyal support of our stockholders we will meet our goals.

Sincerely,



President

March, 1965



## 38TH ANNUAL REPORT TO STOCKHOLDERS

Continued growth at a rate which paced the airline industry keynoted the progress of Northwest Airlines in 1964. Favorable traffic response to the improved quality and frequency of our schedules brought marked revenue gains during the year. In turn, the stronger financial position attained by sound, profitable growth has permitted us to assume an even more significant role in the economic progress of the communities we serve.

Likewise, Northwest's sound financial position is of immeasurable importance in enabling us to carry out the national interest responsibilities inherent in operation of our major international route to the Far East. Financial ability to purchase and operate additional modern aircraft has enabled Northwest to strengthen this bridge to the nations of the Orient which are so vital to the interests of the United States.

### Financial Results

Net earnings of \$26,785,523 in 1964 amounted to \$5.86 per share of common stock, compared with net earnings of \$10,452,957 or \$2.86 per share in 1963 (the latter figure adjusted to reflect the two-for-one split of common stock in 1964).

Record high revenues of \$211,610,431 in 1964 resulted, after operating expenses of \$158,479,314, in operating net income of \$53,131,117. Non-operating charges in 1964 included interest expense of \$2,187,578. Disposals of property produced a net gain before taxes in the amount of \$912,656. This figure compared with a loss before taxes from disposal of property in 1963 in the amount of \$307,732.

All of the foregoing reflect marked improvement over the results for 1963, including a 25 per cent increase in total operating revenues compared with an increase of 11 per cent in total operating expenses. Favorable financial results permitted reduction in interest expense to further improve Northwest's net earnings result.

In the treatment of our income tax provision, we are continuing the practice of amortizing over an eight-year period the net income benefit of the investment tax credit. Such credits included in net earnings amounted to \$682,800 in 1964, an increase over the amount of \$105,600 credited to income in 1963. There remains an unamortized investment credit of \$6,581,900 to be included in future years' income. All investment credit amounts available to the airline as a result of equipment purchases

through 1964 have been realized in cash by reduction of current income taxes (See table, Page 15).

Operations in 1964 generated a cash flow of \$57,865,000 from net earnings, depreciation and amortization, and the tax reductions from deferred taxes and the investment credit. An additional amount of \$30,337,000 was realized from the sale of common stock in 1964. Other cash generation included \$6,779,000 from sale of flight equipment and other property.

The major application of funds during the year consisted of additions to fleet and advance deposits for aircraft on order, which totalled \$71,194,000. In addition, long-term debt was reduced by approximately \$20,000,000. Other applications included cash dividends paid to stockholders in the amount of \$2,602,000.

### Stockholder Dividends and Net Worth

Quarterly cash dividends of 15¢ per share (after two-for-one stock split) were paid on common stock during 1964.

On February 22, 1965, your directors authorized an increase in the quarterly dividend to 20¢ per share, payable on March 31, 1965. This is the third increase in dividend since the close of 1962 and, at an annual rate of \$.80 per share, represents an actual doubling of the dividend rate paid through 1962. With the March, 1965, dividend Northwest Airlines will have completed 10 years of consecutive quarterly cash dividends.

Stockholders' equity increased from \$68,436,000 to \$122,960,000 during the year just ended, reflecting both the issue of additional equity and retained earnings for the year. Book value per share of common stock increased from \$18.76 at December 31, 1963, to \$26.91 at the end of 1964.

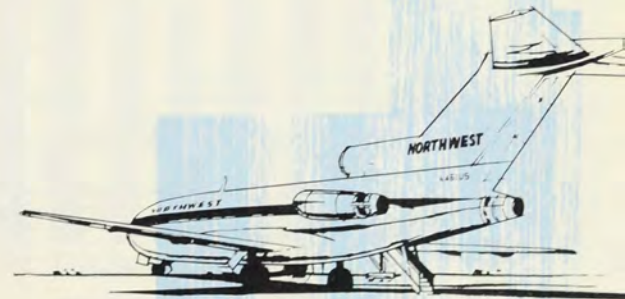
### Financial Position

Long-term debt arrangements remained essentially unchanged during 1964 and outstanding debt at the close of the year amounted to \$45,000,000.

During 1964, our bank credit agreement was revised to place the maximum credit line at \$40,000,000 of which \$5,000,000 was borrowed at year-end. Under the revolving feature of this agreement, the credit line may be repaid and reborrowed with reductions in maximum credit to \$33,500,000 at December 31, 1966, and thereafter in a series of steps to final maturity at June 30, 1969. During 1964 your Company repaid in full the conditional contracts of sale for Lockheed Electras and the subordinated note payable to The Boeing Company.

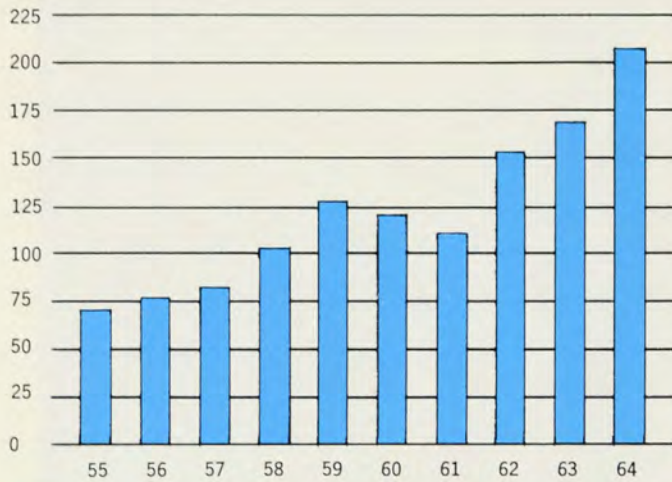
The note purchase agreements with insurance companies reflect \$40,000,000 in outstanding debt. This loan is subject to repayment beginning October 1, 1966, with a payment of \$3,000,000, and annual payments thereafter in the same amount to a final payment of \$4,000,000 at October 1, 1978.

At year-end Northwest Airlines had on order five Boeing 707-320C long-range convertible fan-jet aircraft and 17 Boeing 727 trijet aircraft. Financing for these aircraft will be available from existing credit and from internal cash generation.



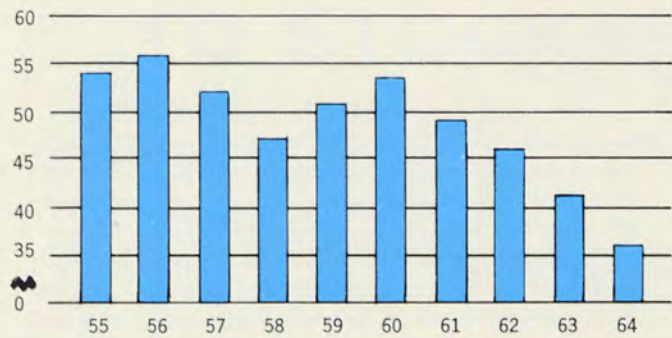
## Operating Revenues

MILLIONS OF DOLLARS



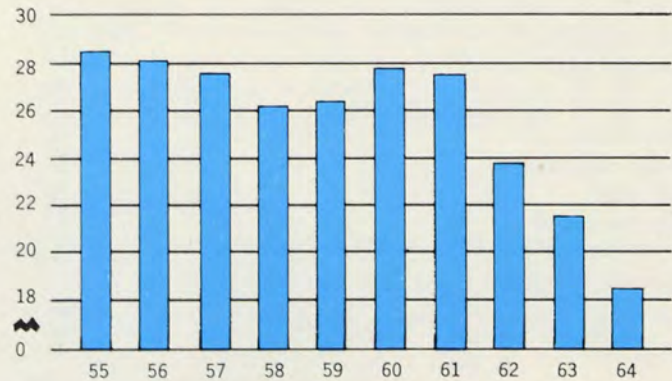
## Break-Even Passenger Load Factor

PER CENT



## Expense per Available Ton-Mile

CENTS



# 1964 OPERATIONS

Service improvements along our varied route structure with an expanded fleet included, in 1964, the offering of additional schedules and increased capacity. During the year a 15 per cent increase in revenue plane-miles brought an increase of slightly more than 19 per cent in available seat-miles and 26 per cent in available ton-miles. The latter increase reflects the larger weight capacity in our growing jet fleet which, in varying configurations of convertible passenger-cargo capability, serves to improve the cargo lift ratio of our schedules. Traffic response to these service increases was in favorable proportion, as the traffic-carried elements rose by higher percentages than reflected in capacity increases.

## Passenger Traffic and Revenues

In 1964, Northwest Airlines surpassed the 2.5 billion passenger-mile mark for the first time, recording a total of 2,668,812,000 system revenue passenger-miles in scheduled service. This was an increase of 22.5 per cent over 1963. Major traffic gains were realized on our domestic routes with passenger-miles up more than 25 per cent, far greater than the domestic trunk industry gain of 14 per cent. Among our major cities showing greater-than-average rates of increase in passenger boardings were highly competitive markets such as Detroit, Cleveland, New York-Newark, Chicago, Milwaukee and Miami-Fort Lauderdale. As a result of such gains our proportionate share of U. S. total traffic increased so that one of every 20 domestic trunk passenger-miles in 1964 was flown on Northwest Airlines.

Our improved passenger traffic also reflected itself in another important economic measure, with a gain in system passenger load factor from 50.6 per cent in 1963 to 52.0 per cent in 1964.

System passenger revenues of \$163,807,000 were 21 per cent more than in 1963. Our over-all yield per passenger-mile declined slightly from 6.20¢ in 1963 to 6.14¢ in 1964. The passenger fare structure generally was stable during the past year despite the continuance of a number of promotional fares, and our small drop in average yield came primarily from a larger percentage of total passenger-miles in coach or economy service—79.1 per cent in 1964 compared with 74.4 per cent in 1963.

## Cargo and Charter Revenues

Our largest percentage traffic gains were realized in the carriage of cargo. Freight and express ton-miles increased almost 40 per cent during 1964, reflecting a growing use of our greater capacity to handle large volume shipments of all sizes. The largest gain was realized in international air freight with an increase of 50 per cent over ton-miles carried in 1963. Mail revenues showed a smaller increase, due in part to reduced rates for international air mail made effective by CAB action on October 1, 1964.

The importance of cargo in our total revenues is highlighted by the fact that in 1964, revenues from mail, freight, express and excess baggage on scheduled services totalled more than \$33,700,000, or about one dollar for every five of passenger revenue.

During 1964 we continued to serve the military establishment with an extensive charter contract in the Pacific. Revenues from these military passenger and cargo flights and from other charters more than doubled in 1964, reaching a new high of \$12,965,000. The current contract with the military extends to June 30, 1965, and Northwest Airlines will seek renewal in fiscal 1966.

## Operating Expenses

Despite further upward trends in wage rates and other costs of providing service, total operating expenses increased only 10.9 per cent in 1964 in contrast to larger increases in available seat-miles and available ton-miles. Our total operating expenses for the year amounted to \$158,479,314 including depreciation and amortization of \$22,851,790. Expenses in 1963 were \$142,872,523, with depreciation and amortization of \$19,158,899.

Total operating cost expressed in units of capacity declined from 21.7¢ per available ton-mile in 1963 to 18.5¢ in 1964.

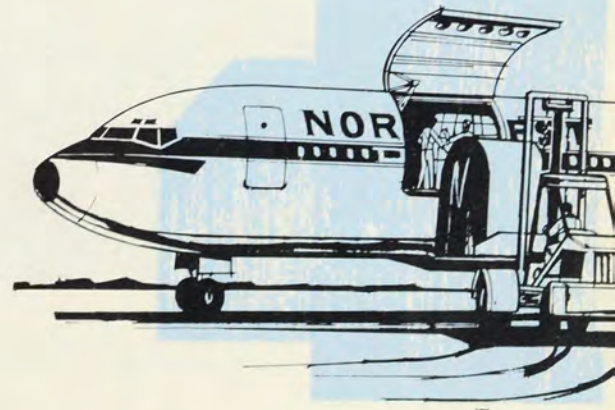
Cost per revenue ton-mile of traffic carried was 39.7¢ in 1964, down from 46.8¢ in 1963, and the passenger break-even load factor required to cover operating expenses and interest declined again in 1964 to 35.8 per cent from the level of 41.6 per cent realized in 1963.

Northwest Airlines added approximately 10 per cent to its labor force in 1964 to meet the needs of growing traffic, to implement our new domestic route and to improve our service to the public. Further increases will be made in our work force as our expanding services develop the need for such additions.

We will continue to monitor costs in careful fashion to develop the lowest possible operating cost levels consistent with our goal of maintaining the finest standards of safe, efficient and comfortable service.

## Distribution of Our Revenue Dollar

In 1964 employees' wages and other benefits absorbed 24.5¢ of each revenue dollar. Other principal applications of revenue were taxes (including income taxes), 13.5¢; rentals, landing fees and purchased services, 11.0¢; depreciation, 10.8¢; fuel, 10.0¢; and various other expenses, 16.5¢. Dividends and interest accounted for 2.3¢ of each revenue dollar. The remainder of 11.4¢ per dollar was reinvested to provide for necessary broadening of our financial structure, to insure continued growth in services to the public and a sound economic future for your Company.



# 10 YEAR SUMMARY

## NORTHWEST AIRLINES, INC. and SUBSIDIARY

(Dollars in thousands except per share figures)

### Operating Revenues

Passenger . . . . .	\$163,807	\$135,222	\$121,781	\$ 85,971	\$ 97,680	\$100,641	\$ 81,116	\$ 66,674	\$ 60,264	\$ 57,253
Mail . . . . .	15,313	14,233	14,228	11,701	10,711	11,219	10,228	8,350	7,858	7,090
Freight, Express and Excess Baggage . . . . .	18,402	13,745	11,828	8,443	11,368	11,881	8,667	7,541	7,155	6,124
Charter and Other Transportation . . . . .	12,965	6,442	2,646	1,482	823	526	1,237	226	816	111
Nontransport . . . . .	1,123	(854)	(30)	3,456	2,780	1,763	709	641	386	510

### Total Operating Revenues

	\$211,610	\$168,788	\$150,453	\$111,053	\$123,362	\$126,030	\$101,957	\$ 83,432	\$ 76,479	\$ 71,088
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### Operating Expenses

Depreciation and Amortization . . . . .	\$ 22,852	\$ 19,159	\$ 18,445	\$ 17,118	\$ 14,413	\$ 11,310	\$ 8,638	\$ 5,851	\$ 6,996	\$ 6,455
Other . . . . .	135,627	123,713	112,802	84,213	104,455	103,811	81,281	72,597	64,888	60,216

### Total Operating Expenses

	\$158,479	\$142,872	\$131,247	\$101,331	\$118,868	\$115,121	\$ 89,919	\$ 78,448	\$ 71,884	\$ 66,671
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Operating Income . . . . .	\$ 53,131	\$ 25,916	\$ 19,206	\$ 9,722	\$ 4,494	\$ 10,909	\$ 12,038	\$ 4,984	\$ 4,595	\$ 4,417
Other Income and (Deductions)—Net . . . . .	(1,125)	(4,166)	(4,578)	(2,828)	(1,882)	335	(559)	2,247	1,306	(131)

Earnings Before Taxes . . . . .	\$ 52,006	\$ 21,750	\$ 14,628	\$ 6,894	\$ 2,612	\$ 11,244	\$ 11,479	\$ 7,231	\$ 5,901	\$ 4,286
Income Taxes . . . . .	25,220	11,297	7,398	3,233	986	5,530	5,865	2,412	2,675	2,170

### Net Earnings

	\$ 26,786	\$ 10,453	\$ 7,230	\$ 3,661	\$ 1,626	\$ 5,714	\$ 5,614	\$ 4,819	\$ 3,226	\$ 2,116
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Earnings per Share** . . . . .	\$ 5.86	\$ 2.86	\$ 1.99	\$ 1.01	\$ .45	\$ 1.57	\$ 2.04	\$ 1.73	\$ 1.15	\$ .75
Stockholders' Equity . . . . .	122,960	68,436	59,712	54,177	52,193	52,267	48,224	33,065	30,172	28,228
Book Value per Share** . . . . .	26.91	18.76	16.40	14.88	14.35	14.37	13.39	11.90	10.79	10.02
Cash Dividends . . . . .	2,602	1,823	1,702	1,701	1,700	1,714	1,110	1,117	1,110	939

### Assets and Long-Term Debt

Flight Property at Cost . . . . .	\$219,523	\$176,655	\$169,413	\$170,772	\$121,441	\$104,389	\$ 90,608	\$ 71,716	\$ 51,669	\$ 51,109
Flight Property at Net Book Value . . . . .	160,925	127,074	122,980	133,485	86,957	76,647	56,461	43,023	21,692	23,791
Total Assets . . . . .	237,226	196,765	186,887	189,103	148,698	130,097	105,061	76,222	58,337	55,515
Long-Term Debt . . . . .	45,000	64,996	74,968	90,286	68,500	50,000	34,250	27,000	13,800	14,500

### Unit Expenses

Per Available Ton-Mile . . . . .	18.5¢	21.7¢	23.9¢	27.6¢	27.8¢	26.5¢	26.1¢	27.4¢	28.2¢	28.4¢
Per Revenue Ton-Mile . . . . .	39.7¢	46.8¢	50.2¢	54.2¢	54.2¢	51.0¢	49.0¢	50.4¢	48.5¢	50.0¢
Per Cent of Operating Revenues . . . . .	74.9%	84.6%	87.2%	91.2%	96.4%	91.3%	88.2%	94.0%	94.0%	93.8%

### Statistics—Scheduled Services

Revenue Plane Miles (000) . . . . .	52,157	45,356	41,821	31,143	46,671	47,568	39,113	34,742	31,421	30,097
Available Seat Miles (000) . . . . .	5,129,944	4,305,147	3,697,796	2,611,840	3,073,400	3,149,000	2,574,848	2,125,505	1,807,337	1,746,149
Revenue Passenger Miles (000) . . . . .	2,668,812	2,179,208	1,904,112	1,361,790	1,653,966	1,738,138	1,408,743	1,205,765	1,094,121	1,017,400
Passenger Load Factor . . . . .	52.0%	50.6%	51.5%	52.1%	53.8%	55.2%	54.7%	56.7%	60.5%	58.3%
Revenue Passengers Carried . . . . .	3,663,077	2,911,914	2,437,342	1,723,667	2,139,547	2,138,970	1,827,129	1,574,035	1,427,063	1,343,337
Freight and Express Ton-Miles (000) . . . . .	55,100	39,417	35,179	23,035	32,480	31,377	22,285	19,714	18,825	16,341
Total Revenue Ton-Miles (000) . . . . .	351,886	284,732	254,033	182,704	217,722	225,110	181,678	155,323	145,135	133,531

\* Affected by major strike.

\*\*Per share figures reflect two-for-one stock split in 1964 and conversion of preferred stock as applicable in years prior to 1963.



## FLEET & FACILITIES

Northwest Airlines in 1964 continued to enhance the competitive excellence of its fleet of aircraft.

Nine new fan-jets—three more 720B's, three 707-320C's and three 727's—were delivered to the airline by The Boeing Company. Orders were placed for delivery in 1965 of five additional 320C's and for delivery in 1965 and '66 of 17 more of the three-engined 727 and 727C, short-to-medium-range fan-jets.

At December 31, Northwest's well balanced fleet comprised five 707-320B's and three 707-320C's, for transcontinental and trans-Pacific passenger and cargo service; 16 medium-range 720B's; three 727's; 16 Electra jet-propellor airliners; and six piston-engined DC-7C and DC-7CF transports.

As part of the airline's program for orderly disposal of older aircraft, the four remaining piston-engined DC-6B's have been sold and the last will be phased out of Northwest's operations and delivered to its buyer in May.

Approval was obtained for operation of 320B and 320C aircraft on trans-Pacific and Hawaii routes using the Doppler airborne radar and self-contained navigation system. With this system, the pilot is provided with continuous position, ground speed and drift data, enabling him to conduct his flight with maximum safety and efficiency.

### Ground Facilities

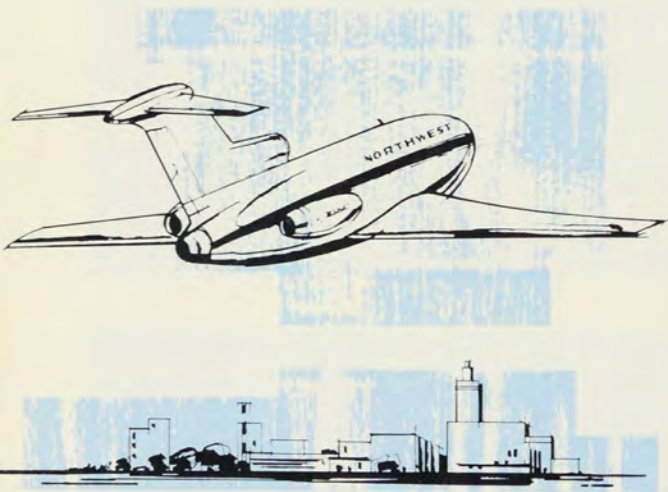
Continued improvement of ground facilities to provide for greater efficiency and customer convenience kept pace with Northwest's developments in the air during 1964.

Additional gate facilities and another Top Flight Loader—providing terminal to jet aircraft passenger boarding protected from the weather—were installed at Seattle-Tacoma Airport, along with a new passenger lounge. Two Top Flight Loaders to keep Portland passengers out of the weather while boarding Northwest fan-jets were completed early in 1965, and two additional similar facilities are under construction at Minneapolis-St. Paul.

New reservations space and a new city ticket office were completed in Atlanta and a new, larger and more convenient air cargo facility was occupied at the Atlanta Airport. At Cleveland's airport, NWA reworked its facilities in order to handle increased traffic resulting from new Cleveland route authority.

### New Computer

Throughout 1964, communications facilities were improved, with the addition of more reservations telephone circuits to accommodate increasing passenger traffic. Service to Northwest's customers will be speeded even more through use of a new Univac 490 Real-Time Computer System, which went "on line" on March 1, 1965. This computer, which replaced the Univac File Computer in use for reservations since 1959, operates 10 times faster than the old unit and in addition will take over the automatic switching center functions of Northwest's teletype network. Additional computer applications are planned.



AIRCRAFT  
TYPE

December  
31, 1964

On Order

JET

707-320B  
& 320C

8

5

720B

16

—

727 &  
727C

3

17

Total Jet

27

22

PROP-JET

Electra

16

—

PISTON

DC-7C

6

—

DC-6B

4\*

—

Total Fleet

53

22



\*All DC-6B aircraft have been sold for delivery in 1965.

# alaska



## FLORIDA



## Hawaii

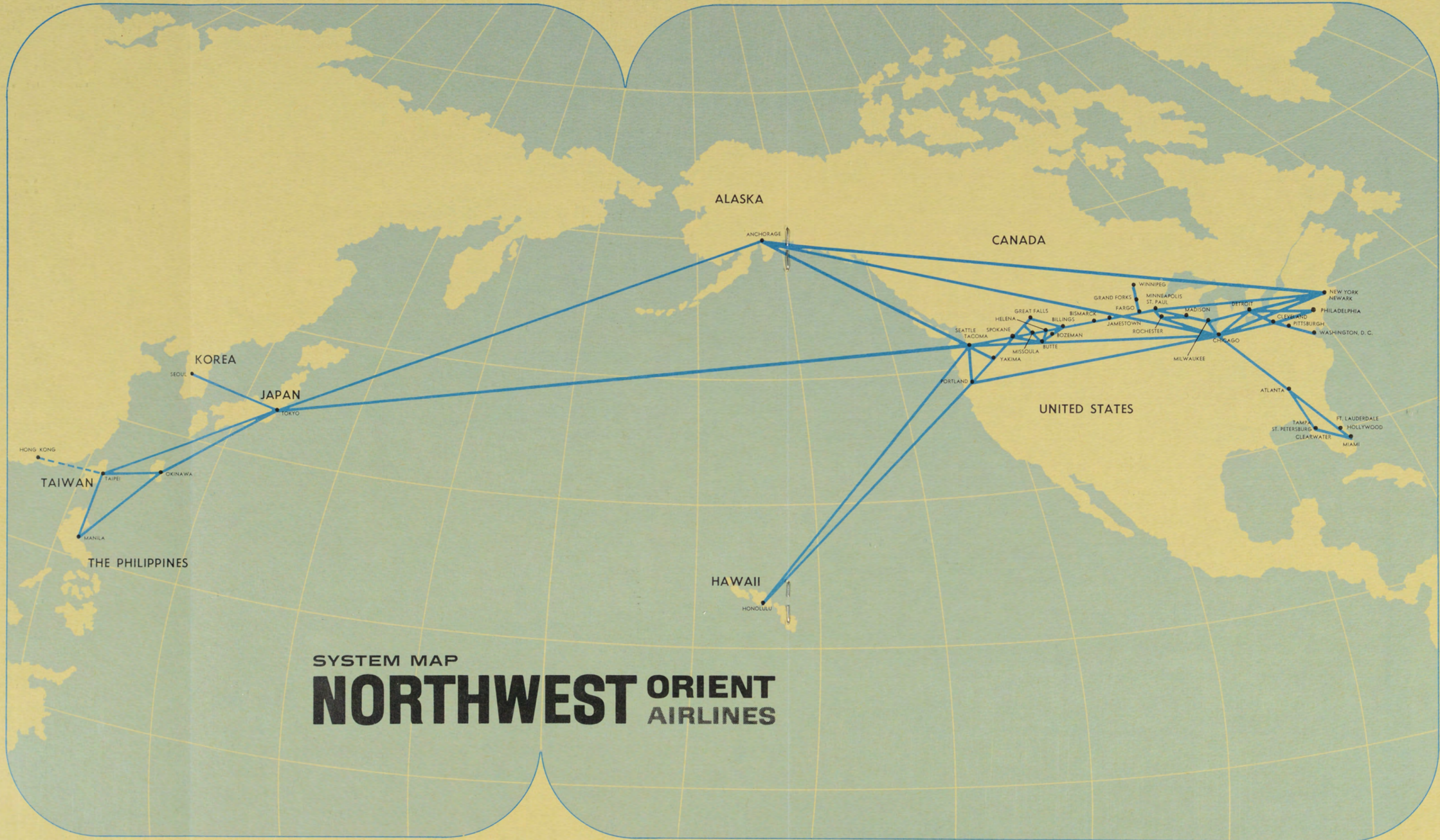


## JAPAN



## PHILIPPINES







PHILADELPHIA'S historic Independence Hall, birthplace of the United States. Northwest Airlines inaugurates service to the City of Brotherly Love on April 1, 1965.

## ROUTES

New route authority granted Northwest Airlines in 1964 in the Eastern part of the United States will increase our participation in traffic to and from this area of heavy population.

As a result of action by the Civil Aeronautics Board in the United Air Lines Competitive Service Investigation, Northwest was authorized to add a new city—Philadelphia—and three new segments to its route structure east of Chicago. The new markets are Chicago-Cleveland, Cleveland-Philadelphia and Detroit-Philadelphia.

Northwest inaugurated service between Chicago and Cleveland on October 5, 1964, the effective date of the Board's route award. An all-fan-jet

schedule pattern will be inaugurated in the Philadelphia markets on April 1, 1965, after completion of ground facilities at this new station.

During 1964, the Board initiated a proceeding to determine the need for new, one-carrier long-haul service linking the Pacific Northwest with the Southwest. Northwest is one of a number of applicant airlines seeking such route authority. As established by the Board, the proceeding will involve new route authority between the Pacific Northwest cities now served by NWA on the one hand, via Salt Lake City and Denver, and major cities in Texas, Louisiana, Oklahoma, Kansas, New Mexico and Southeast Colorado and the cities of St. Louis and Kansas City, Mo., on the other hand. While definite procedural dates have not been assigned, it is expected the hearing before the Examiner will be completed in 1965.

The proceeding is of great importance to Northwest Airlines because new, direct routings from these Southern points to Seattle-Tacoma would enhance Northwest's ability to attract Orient traffic originating and terminating in this growing area.

In an investigation to determine possible revisions in the airline route structure between the Pacific Northwest and Alaska, a CAB Examiner has recommended against any restriction on Northwest Airlines' operating authority between Seattle-Tacoma and Anchorage. Northwest vigorously had opposed any restrictions on its rights in the market. The case now is awaiting Board decision.

In the Service to Spokane Case, despite Northwest's opposition, the CAB awarded West Coast Airlines nonstop authority between Spokane and Seattle, competitive with Northwest's service in this market. In addition, United Air Lines received nonstop rights from Spokane to Salt Lake City and Denver. The case has been re-opened for further proceedings to determine the possible need for additional nonstop authorizations between Spokane and Portland. Northwest opposed such awards at a hearing held early in 1965 and will continue to do so in further stages of the proceeding.

The Postmaster General early in 1964 petitioned for a reduction of approximately 50 per cent in the service rates for international priority mail including the Pacific. The Board's decision, effective October 1, 1964, included a reduction of about 24 per cent on routes operated by Northwest. In December, 1964, the Postmaster General petitioned for reductions in domestic service mail rates. This petition is awaiting Board action.

## SERVICES

Northwest Airlines' sales force merchandised a wide variety of expanded and improved customer services in 1964.

On the Orient route, for example, addition by mid-year of three intercontinental-range 707-320C's to the previous fleet of five 320B's enabled Northwest to increase its trans-Pacific frequencies by 50 per cent. Your airline now operates 12 round trips each week over the shorter North Pacific route between New York/Chicago and Japan—eight on a non-stop routing between Seattle-Tacoma and Tokyo and the four others via Anchorage, Alaska. In addition, several extra flights were operated to Tokyo during the Olympic Games, including two which Northwest operated as an official United States carrier for American team members.

### Cargo Services

Since all of our intercontinental fan-jets are equipped with large forward cargo doors giving access to the airliners' main decks, Northwest's capability to lift volume shipments of cargo was increased substantially. A concentrated advertising, public relations and sales program—coupled with a cargo-development contest among domestic stations—called public attention to these large-door combination passenger and cargo planes, as well as Northwest's well rounded pattern of other freight services, with a resulting substantial increase in freight traffic.

Also in the area of cargo services, Northwest designed and put into service on the 320C fleet early in 1965 "igloo" containers which attach to the cabin-width cargo pallets and expedite the loading of smaller items of freight.

### Domestic and Hawaii Schedules

Delivery during 1964 of additional shorter-range fan-jet aircraft enabled Northwest Airlines to up-grade its domestic passenger and cargo services as well.

Inauguration of scheduled service with the new 727's on January 1, 1965, marked the beginning of an all-fan-jet service on the route between the Midwest and Florida; during the peak of the winter vacation season Northwest is operating nine round trips daily between Chicago and Miami, with intermediate service to Atlanta, Tampa-St. Petersburg and Fort Lauderdale. Northwest now is the only domestic airline serving Miami with an all-fan-jet operation.

Piston-engined DC-6B's were phased out of Pacific Northwest operations and replaced with Electras—giving such cities as Bozeman, Butte and Helena turbine-powered service and a choice of both first-class and tourist fares. Northwest thus extended the benefits of economical coach fares to every city on its route system.

An eighth fan-jet frequency each week was provided during the peak travel season between the Pacific Northwest and Hawaii, in addition to daily through-plane round trips from New York and Chicago to Honolulu. Service to and from the New York area was increased to handle the traffic demand created by the World's Fair.

A pattern of 15 flights daily between Chicago and Cleveland was inaugurated October 5, 1964, and plans have been completed



for the start of service in the Cleveland-Philadelphia and Detroit-Philadelphia markets on April 1, 1965.

### Promotion

Northwest continued to enhance its reputation for providing the finest in-flight cuisine and beverage service in the airline industry. Additional luxury items were placed on the menu for the Regal Imperial flights to Florida and similar embellishments were provided in the meal service on other routes. In trans-Pacific first-class service, plans developed during 1964 were culminated in January, 1965, with food service from silver trays on luxurious aisle carts and fine china plates for the passengers.

A number of specific sales programs during the year complemented Northwest's effective media advertising. Special Hawaii, Alaska and Orient tour seminars were conducted for personnel of travel agencies and connecting airlines. Detailed presentations were made to travel agents during the fall on winter schedules to Florida. Special cargo seminars were conducted for air freight customers.

Group tours via Northwest to the Orient, Hawaii and other vacation destinations were sold by a number of newspapers and radio-television stations. Both traffic and additional identity for the airline resulted from promotion of these tours by the participating media.

Now in the final planning stage is a program for expanded use of a new Northwest Airlines credit card. In addition, we have concluded agreements with American Express, Carte Blanche and Diners Club, for use of these credit cards for online travel.

### Maintenance

Provision of convenient and dependable customer service during the year was supported by Northwest's efficient maintenance organization. The continuing high reliability of Northwest's aircraft and engines was illustrated by further government-approved extensions of the time between required overhauls for turbine engines.

For the first time in history, overhaul of all piston engines was phased out during the last months of the year. Concurrently, work progressed toward establishment early in 1965 of a production line for the JT8D fan-jet engines on the new 727's.

### Personnel

The year 1964 was one of stability in labor relations. In the first half of the year, agreements were consummated with nine classes or crafts of employees, assuring reasonable rates of pay, rules and working conditions.

At the end of 1964, Northwest employed a total of 6,671 persons at more than 50 locations in the United States, Canada, and overseas—a net increase of 581 over the number employed at the end of 1963.



## Source and Application of Funds

for the years ended December 31, 1964 and 1963

	1964	1963
<b>SOURCE OF FUNDS:</b>		
Net Earnings . . . . .	\$26,785,523	\$10,452,957
Depreciation and Amortization . . . . .	22,851,790	19,158,899
Deferred Taxes . . . . .	3,796,200	2,690,500
Unamortized Investment Credit . . . . .	4,431,500	1,868,400
 Total from Operations . . . . .	 \$57,865,013	 \$34,170,756
Sale of Common Stock . . . . .	30,337,228	95,593
Disposals of Operating Property . . . . .	6,779,257	21,738,798
Other . . . . .	96,305	215,339
 Total of Sources . . . . .	 \$95,077,803	 \$56,220,486
<b>APPLICATION OF FUNDS:</b>		
Flight Equipment and Other Property Additions . . . . .	\$52,201,424	\$36,031,451
Advance Deposits on Aircraft . . . . .	18,992,339	8,699,753
Reduction of Long-Term Debt . . . . .	19,995,515	9,972,013
Cash Dividends . . . . .	2,601,682	1,822,656
Other . . . . .	1,672,776	1,517,136
 Total of Applications . . . . .	 \$95,463,736	 \$58,043,009
 Net Increase (Decrease) in Working Capital . . . . .	 <u>\$ (385,933)</u>	 <u>\$ (1,822,523)</u>

## Application of Investment Tax Credit

for the years 1962-1963-1964

Year	Realization of Investment Credit		Credit Reflected In Net Earnings (8-yr. Amortization)
	Tax Credit Available	Utilized to Reduce Taxes	
1962	\$ 300,000	\$ 300,000	\$ 18,000
1963	2,930,800	1,974,000	105,600
1964	4,157,500	5,114,300	682,800
 Total	 <u>\$7,388,300</u>	 <u>\$7,388,300</u>	 <u>\$806,400</u>
		806,400 ←	
To be amortized to income in future years		<u>\$6,581,900</u>	

## STATEMENT OF FINANCIAL

December 31

	1964	1963
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash . . . . .	\$ 14,437,075	\$ 12,866,565
Notes receivable from sale of aircraft . . . . .	—	6,911,619
Trade receivables, less allowance (1964—\$120,000; 1963—\$105,000) . . . . .	19,369,385	15,248,025
Flight equipment parts, at average cost, less allowance for depreciation (1964—\$3,365,312; 1963—\$2,765,206) . . . . .	5,285,295	6,100,076
Maintenance and operating supplies at average cost . . . . .	2,136,884	2,176,335
Prepaid expenses . . . . .	2,171,652	2,706,816
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 43,400,291</b>	<b>\$ 46,009,436</b>
 <b>INVESTMENTS AND OTHER ASSETS at cost</b>		
Related industry investments and other advances . . . . .	\$ 544,881	\$ 638,615
 <b>PROPERTY AND EQUIPMENT at cost</b>		
Flight equipment . . . . .	\$219,522,697	\$176,654,741
Less allowances for depreciation . . . . .	58,597,808	49,580,630
	<u>\$160,924,889</u>	<u>\$127,074,111</u>
Advances on purchase contracts—Note D . . . . .	18,992,339	8,699,753
	<u>\$179,917,228</u>	<u>\$135,773,864</u>
Other property and equipment . . . . .	\$ 21,673,570	\$ 21,523,556
Less allowances for depreciation . . . . .	12,613,130	12,031,320
	<u>\$ 9,060,440</u>	<u>\$ 9,492,236</u>
	<u>\$188,977,668</u>	<u>\$145,266,100</u>
 <b>DEFERRED CHARGES</b>		
Unamortized training and other costs in connection with aircraft fleets . . . . .	\$ 3,232,258	\$ 3,885,157
Rentals . . . . .	1,071,207	965,385
	<u>\$ 4,303,465</u>	<u>\$ 4,850,542</u>
	<u>\$237,226,305</u>	<u>\$196,764,693</u>

See notes to financial statements.

## NORTHWEST AIRLINES, INC. and SUBSIDIARY

December 31

	1964	1963
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable . . . . .	\$ 15,472,568	\$ 14,466,973
Salaries, wages and vacations . . . . .	5,516,467	7,764,811
Air travel card deposits . . . . .	1,211,675	1,195,100
Unredeemed ticket liability . . . . .	2,286,999	1,865,862
Income taxes . . . . .	13,071,972	6,750,302
Current maturities of long-term debt . . . . .	—	7,739,845
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 37,559,681</b>	<b>\$ 39,782,893</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 . . . . .	5,000,000	19,000,000
Other (paid in 1964) . . . . .	—	5,995,515
	<u>\$ 45,000,000</u>	<u>\$ 64,995,515</u>
 <b>DEFERRED CREDITS—Note F</b>		
Income taxes—arising principally from accelerated depreciation methods . . . . .	\$ 23,780,800	\$ 19,984,600
Investment credit . . . . .	6,581,900	2,150,400
Other . . . . .	1,344,338	1,415,338
	<u>\$ 31,707,038</u>	<u>\$ 23,550,338</u>
 <b>STOCKHOLDERS' EQUITY—Note B</b>		
Cumulative Preferred Stock, \$25 par value, authorized 1,000,000 shares, outstanding none . . . . .	\$ —	\$ —
Common Stock, after giving effect to two-for-one stock split in 1964, \$5 par value; authorized 10,000,000 shares; issued and outstanding 1964—4,568,634 shares; 1963—3,648,904 shares—Note C . . . . .	22,843,170	18,244,520
Capital surplus . . . . .	39,328,261	13,587,113
Retained earnings . . . . .	60,788,155	36,604,314
	<u>\$122,959,586</u>	<u>\$ 68,435,947</u>
 <b>COMMITMENTS—Note D</b>		
	<u>\$237,226,305</u>	<u>\$196,764,693</u>

See notes to financial statements.



NORTHWEST AIRLINES, INC.  
and  
SUBSIDIARY

STATEMENT OF EARNINGS

Year Ended December 31

	1964	1963
<b>OPERATING REVENUES</b>		
Transport:		
Passenger . . . . .	\$163,807,113	\$135,222,118
United States mail . . . . .	14,032,937	12,917,441
Foreign mail . . . . .	1,280,673	1,316,118
Excess baggage . . . . .	1,200,868	1,146,730
Freight and express . . . . .	17,201,103	12,597,528
Charter and other transportation . . . . .	12,964,989	6,441,700
	<u>\$210,487,683</u>	<u>\$169,641,635</u>
Nontransport:		
Federal mail subsidy . . . . .	—	( 1,833,123)
Other . . . . .	1,122,748	979,528
	<u>\$211,610,431</u>	<u>\$168,788,040</u>
<b>OPERATING EXPENSES</b>		
Flying operations . . . . .	\$ 48,367,765	\$ 42,906,211
Maintenance . . . . .	26,557,091	26,203,309
Passenger service . . . . .	14,194,368	11,412,619
Aircraft and traffic servicing . . . . .	21,558,723	19,690,557
Reservations, sales and advertising . . . . .	19,557,196	16,985,125
Administrative and general . . . . .	5,392,381	6,515,803
Depreciation and amortization . . . . .	22,851,790	19,158,899
	<u>\$158,479,314</u>	<u>\$142,872,523</u>
	\$ 53,131,117	\$ 25,915,517
<b>OTHER INCOME AND (DEDUCTIONS)</b>		
Interest on long-term debt . . . . .	(\$ 2,187,578)	(\$ 3,876,789)
Disposals of property . . . . .	912,656	( 307,732)
Other income . . . . .	149,828	19,261
	<u>(\$ 1,125,094)</u>	<u>(\$ 4,165,260)</u>
<b>EARNINGS BEFORE TAXES</b>	\$ 52,006,023	\$ 21,750,257
<b>TAXES ON EARNINGS</b> , including deferred taxes and investment credit—Note F . . . . .	25,220,500	11,297,300
<b>NET EARNINGS FOR THE YEAR</b>	<u>\$ 26,785,523</u>	<u>\$ 10,452,957</u>

See notes to financial statements.

## CAPITAL SURPLUS AND RETAINED EARNINGS

Year Ended December 31

### CAPITAL SURPLUS

	1964	1963
Balance at beginning of year . . . . .	\$ 13,587,113	\$ 6,612,905
Additions arising from:		
Sale of shares of Common Stock in public offering (less expenses of \$784,671), in excess of par value . . . . .	25,674,465	—
Sale of shares of Common Stock under option agree- ments, in excess of par value . . . . .	64,118	58,213
Redemption of shares of Preferred Stock and con- version into shares of Common Stock . . . . .	2,565	6,915,995
Balance at end of year . . . . .	<u>\$ 39,328,261</u>	<u>\$ 13,587,113</u>

### RETAINED EARNINGS

Balance at beginning of year . . . . .	\$ 36,604,314	\$ 27,974,013
Add net earnings for the year . . . . .	26,785,523	10,452,957
	<u>\$ 63,389,837</u>	<u>\$ 38,426,970</u>
Deduct cash dividends on Common Stock (after giving effect to two-for-one stock split in 1964) 1964—\$.60 a share; 1963—\$.50 a share . . . . .	2,601,682	1,822,656
Balance at end of year . . . . .	<u>\$ 60,788,155</u>	<u>\$ 36,604,314</u>

## ACCOUNTANTS' REPORT

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

We have examined the statement of financial position of Northwest Airlines, Inc. and subsidiary as of December 31, 1964 and the related statements of 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 and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination for the prior year.

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, 1964 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.

Saint Paul, Minnesota  
February 15, 1965

*Ernst & Ernst*  
Certified Public Accountants

See notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## NORTHWEST AIRLINES, INC. and SUBSIDIARY

December 31, 1964

### Note A—Long-Term Debt

Under Note Purchase Agreements with twelve insurance companies the Company has borrowed \$40,000,000 at 6% payable \$3,000,000 annually beginning October 1, 1966 and a final payment of \$4,000,000 on October 1, 1978. Certain optional prepayments at par are permitted. The Agreements contain certain other provisions with respect to redemption as a whole, but not from borrowed funds, at premiums ranging from 5% to 1%.

Under the Amendatory Credit Agreement with fifteen banks the Company has outstanding \$5,000,000. This Agreement provides for revolving credit of \$40,000,000 reducing to \$33,500,000 by December 31, 1966, to \$20,500,000 by December 31, 1967, to \$7,000,000 by December 31, 1968, and terminating on June 30, 1969. Interest on funds borrowed is 4%.

Under provisions of long-term debt agreements the Company has agreed, among other things, that it will not permit its working capital at any time to be less than certain specified amounts and its funded debt to exceed certain percentages of net tangible assets, of net worth and of depreciated value of flight equipment, as those terms are defined in the agreements. At December 31, 1964 the Company had complied with the covenants then in effect.

### Note B—Restrictions on Stockholders' Equity

The Note Purchase Agreements and the Amendatory 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 unrestricted for such purposes at December 31, 1964 was \$23,042,485.

### Note C—Common Stock Options and Reservation

At December 31, 1964, 6,179 unissued shares of Common Stock were subject to outstanding options, exercisable by Company officers and employees at \$13.73 a share which price was not less than 95% of the market when the options were granted in 1962. Options for 800 shares expire in 1965 and for 5,379

shares in 1966. Options for 7,345 shares at \$13.73 were exercised during the year. The foregoing options have been adjusted for the two-for-one stock split in 1964.

An additional 150,000 shares are reserved for options which may be granted to officers and employees in the future.

### Note D—Commitments

The Company has contracted to purchase from The Boeing Company five 320C, eleven 727 and six 727C turbo-jet aircraft for delivery in 1965 and 1966, which with spare parts and equipment will require expenditures of \$122,354,000. Of this amount, \$18,992,000 had been deposited with manufacturers at December 31, 1964 and approximately \$71,519,000 and \$31,843,000 become payable in 1965 and 1966, respectively.

Annual rental payments of approximately \$3,165,000 are required under various lease agreements for periods up to thirty-four years covering airport facilities, ticket offices, etc.

### Note E—Mail Transportation Compensation

No final determination of total mail compensation has been made by the Civil Aeronautics Board on international and domestic routes for 1951. The ultimate effect of any redetermination is not known at this time.

### Note F—Taxes on Earnings

The provision for taxes on earnings consists of the following:

	<i>Year Ended December 31</i>	
	<i>1964</i>	<i>1963</i>
Current provision .....	\$16,992,800	\$ 6,738,400
Deferred taxes .....	3,796,200	2,690,500
Deferred investment credit ..	5,114,300	1,974,000
	<u>\$25,903,300</u>	<u>\$11,402,900</u>
Less amortization of deferred investment credit over eight years .....	682,800	105,600
	<u>\$25,220,500</u>	<u>\$11,297,300</u>

Amounts for 1963 have been reclassified to conform to changes adopted under provisions of the Revenue Act of 1964.



# Northwest Airlines, Inc.

General Offices

Minneapolis-St. Paul International Airport, St. Paul, Minn. 55111

## DIRECTORS\*

### CROIL HUNTER

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

### JAMES H. BINGER

President, Honeywell Inc.  
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

Retired Chairman of the Board  
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, Reavis and McGrath  
New York, New York

### ALBERT G. REDPATH

Partner, Auchincloss, Parker & Redpath  
New York, New York

### LYMAN E. WAKEFIELD, JR.

Vice President, First National Bank of Minneapolis  
Minneapolis, Minnesota

### ALBERT J. WEATHERHEAD, JR.

President, The Weatherhead Company  
Cleveland, Ohio

## OFFICERS\*

### DONALD W. NYROP

President

### PAUL L. BENSOTER

Vice President—Transportation Services

### ROBERT A. EBERT

Vice President—Personnel

### A. E. FLOAN

Vice President and Secretary

### BENJAMIN G. GRIGGS, JR.

Vice President—Flight Operations

### 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

### RONALD McVICKAR

Assistant Vice President

### DALE MERRICK

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

\*As of March 1, 1965

REGISTRAR: The Chase Manhattan Bank, New York, N. Y. STOCK LISTED: Common Stock listed on New York Stock Exchange  
TRANSFER AGENT: Bankers Trust Company, New York, N. Y. and Midwest Stock Exchange



ANCHORAGE	MILWAUKEE
ATLANTA	MINNEAPOLIS
BILLINGS	MISSOULA
BISMARCK	MOORHEAD
BOZEMAN	NEW YORK
BUTTE	NEWARK
CHICAGO	OKINAWA
CLEARWATER	PHILADELPHIA
CLEVELAND	PITTSBURGH
DETROIT	PORTLAND
FARGO	ROCHESTER
FT. LAUDERDALE	ST. PAUL
GRAND FORKS	ST. PETERSBURG
GREAT FALLS	SEATTLE
HELENA	SEOUL
HOLLYWOOD	SPOKANE
HONOLULU	TACOMA
JAMESTOWN	TAIPEI
MADISON	TAMPA
MANDAN	TOKYO
MANILA	WASHINGTON, D. C.
MIAMI	WINNIPEG
	YAKIMA