

# 1948 ANNUAL REPORT

**67** *MINUTES*  *to* **SAN FRANCISCO**

**Southwest Airways**

1948 18 1948





**SOUTHWEST AIRWAYS COMPANY  
PERFECT SAFETY RECORD**



**Southwest**

*Airways*

**COVER.** One of 100 "Scotchlite" roadside billboards manufactured and installed over its route system by Southwest Airways.



## SOUTHWEST AIRWAYS COMPANY

### DIRECTORS

BERT ALLENBERG	ALWIN W. JOHNSON
JOHN H. CONNELLY	DANIEL O'SHEA
LELAND HAYWARD	WALTER ROCHE
FLOYD HENDRICKSON	HARRY S. WHITE

### OFFICERS AND OFFICIALS

LELAND HAYWARD . . . . .	Chairman
JOHN H. CONNELLY . . . . .	President
TED R. MITCHELL . . . . .	Vice-President
ALWIN W. JOHNSON . . . . .	Treasurer
WALTER ROCHE . . . . .	Secretary
CORNELIUS H. SULLAVAN . . . . .	Assistant Secretary
FLOYD HENDRICKSON . . . . .	Assistant Secretary
MICHAEL E. COLE . . . . .	General Traffic Manager

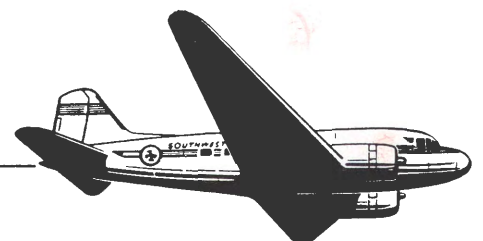
### GENERAL OFFICES

SAN FRANCISCO AIRPORT • SOUTH SAN FRANCISCO, CALIF.

### TRANSFER AGENT

WALTER ROCHE, Secretary

309 FIRST NATIONAL BANK BUILDING • PHOENIX, ARIZONA





## TO THE STOCKHOLDERS AND EMPLOYEES OF SOUTHWEST AIRWAYS COMPANY

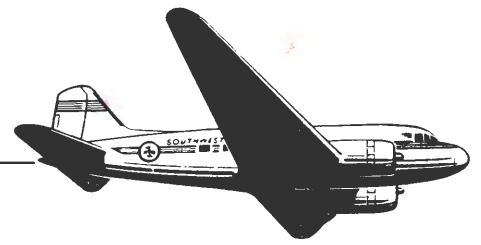
This annual report for the year 1948 covers the ninth year of operation of Southwest Airways and its second full year as a certificated scheduled air carrier. The year has been a significant one for the Company, witnessing its emergence as a solid and determined member of the airline industry and as an important factor in the economy of the West.

In addition to making a fine traffic record, substantial improvements in the Company's financial position have been accomplished, including a reduction in bank indebtedness from \$902,300 to \$96,690. In spite of rising wage and material costs, the Company was able to reduce its 1948 unit costs per revenue airplane mile by approximately 18% over the previous thirteen-month period. Net profits for the year 1948 before provision for Federal income taxes amounted to \$64,161.66. The net current assets of the Company (working capital) amounted to \$341,071.58 on December 31, 1948, which with available bank and equity financing should be adequate to meet the requirements of presently anticipated future extension and development of the Company's route system.

Financial statements of the Company as prepared by our independent auditors, Messrs. Price, Waterhouse & Co., are included with this report and they set forth in detail the Company's financial condition as of December 31, 1948, and the results of operations during the year 1948.

## OPERATING REVIEW

Southwest Airways completed 95.78% of all its scheduled flights during the year 1948. This high percentage of operating efficiency has resulted in greatly improved reliability of service and is due to the constant and unceasing efforts of Southwest's personnel in developing and improving operating procedures. The Civil Aeronautics Administration has recognized the Company's excellent experience record by extending the time of use before overhaul of engines to 900 hours, carburetors to 1800 hours, tires to 300 hours and reducing the frequency of several maintenance operations. The use of commercial broadcasting stations in making aircraft approaches, pioneered and perfected by the Company, has now been removed from an experimental status by the Civil Aeronautics Administration and made available to the entire airline industry.



The current year's operating and traffic statistics are compiled in the following table in comparison with previous years' results:

	Revenue Miles Flown	Number of Passengers Carried	Passenger Revenue	Ton-Miles		
				Mail	Express	Freight
1946 (December)	37,096	897	\$ 7,994.59	1,106	882	.....
1947	1,817,021	84,179	\$669,166.95	34,040	31,295	10,431
1948:						
January	157,570	4,494	\$ 43,964.07	2,907	1,741	2,992
February	157,289	4,660	43,829.43	3,098	2,039	5,830
March	164,582	5,473	51,517.40	3,880	2,023	7,565
April	172,347	5,769	52,327.49	2,776	1,701	5,602
May	204,816	8,460	78,600.47	3,559	2,494	6,513
June	221,253	9,508	87,469.56	3,485	3,204	5,373
July	227,928	10,692	98,987.31	3,650	2,752	5,714
August	222,570	11,539	106,934.35	3,949	3,048	7,358
September	221,990	11,246	105,210.98	4,104	3,335	5,765
October	207,443	9,221	85,451.57	4,136	3,007	7,237
November	212,833	8,959	80,689.76	3,982	2,781	7,127
December	193,206	7,933	70,119.80	6,366	3,731	7,988
	<u>2,363,827</u>	<u>97,954</u>	<u>\$905,102.19</u>	<u>45,892</u>	<u>31,856</u>	<u>75,064</u>
Increase of 1948 over 1947	<u>30.09%</u>	<u>16.36%</u>	<u>35.26%</u>	<u>34.82%</u>	<u>1.79%</u>	<u>619.62%</u>

While the annual percentage increases shown above are encouraging, actually the most significant improvement was made in the last quarter of 1948 when the number of passengers carried increased by 29.62% over the same quarter of 1947. This trend has continued without abatement and the number of passengers carried in the first quarter of 1949 reflected an increase of 46% over the same period in 1948.

The Company operated twenty-five airport station and ticket offices and one downtown San Francisco ticket office. These offices included Burbank and Crescent City, California, which were added temporarily to Southwest's route system in the fall of 1948. Permanent authorization of service to Burbank and Crescent City, together with certain other points, was awarded in June 1949. These awards are discussed more fully on page 7.

Of the total business performed by all eleven of the nation's operating certificated local airlines, Southwest in 1948 carried 23% of the total number of passengers, 16% of all mail ton-miles, 20% of all express ton-miles, and 28% of all freight ton-miles.



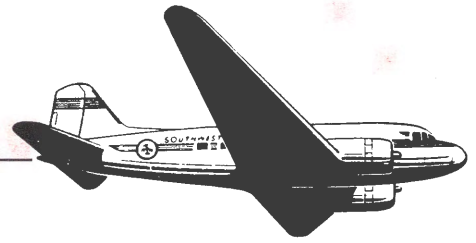
# Southwest Airways



ROUTE MAP  
**SOUTHWEST**  
 AIRWAYS  
 COMPANY



- EXISTING ROUTE 76
- PROPOSED SERVICE (DECISION EXPRESSLY DEFERRED BY CIVIL AERONAUTICS BOARD)



## ROUTE APPLICATIONS

During the year the Civil Aeronautics Board initiated action to extend the duration of the Company's certificate of public convenience and necessity—its order to show cause why the certificate should not be extended for a period of five years to November 22, 1954, also directed United Air Lines to show cause why its authority to serve Santa Barbara, Monterey, Eureka, and Red Bluff should not be suspended during that period, thus contemplating service to those points solely by Southwest Airways.

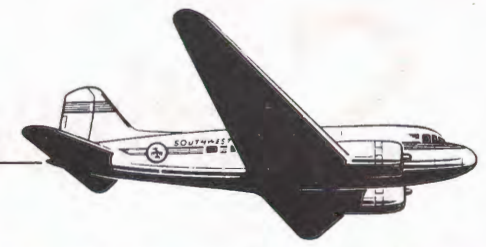
In June 1949, the Civil Aeronautics Board rendered its decision in the Additional California-Nevada Service Case, in which the Company sought extensive modifications of its route pattern. Highlights of the decision were: (1) Addition of Long Beach, Burbank, Paso Robles, Oroville, and Crescent City as new regular points of service; (2) Formal redesignation of certain existing points to include the names of nearby cities; (3) Deferment of action upon the Company's proposed routes between Los Angeles and San Diego and Los Angeles and Phoenix for consideration in connection with another proceeding involving that area; (4) Consolidation in the Company's Certificate Renewal Case of the question of substituting Southwest Airways' service for that of United Air Lines at Salinas, California, and Klamath Falls, Oregon; (5) Relaxation of existing restrictions requiring each flight to serve all points, so as to permit flights to make only three intermediate stops on the route segments north of San Francisco and only four intermediate stops on the segment south of San Francisco; (6) Authority to avoid physically landing the airplane at any point scheduled for service when there is neither enplaning nor deplaning traffic.

## EQUIPMENT

There was no change in the Company's flight equipment during the year 1948 other than the execution of a complete fire prevention program in each passenger aircraft at an aggregate cost of \$18,664.00. This work was performed in the Company's own shops. The aircraft fleet consists of nine Douglas DC-3 airplanes in scheduled passenger service, one Douglas C-47 airplane used for training purposes and non-scheduled charter service, and one non-operating Douglas C-47 airplane being held in reserve for future use. Preliminary overhaul of these latter two aircraft has been commenced preparatory to conversion to passenger service.

The Company overhauls its own aircraft engines, instruments and equipment in modern overhaul shops located at the San Francisco Airport and manufactures and installs an important part of its station radio communication equipment. These facilities make possible substantial savings by eliminating sub-contracting and permit greater utilization of supervision and a broader base for spreading overhead costs. In addition, the Company is now in a position to accept outside overhaul work and has just commenced performance on an instrument overhaul contract for the U. S. Navy.





GENERAL OFFICES



EXECUTIVE COMMITTEE



FLIGHT CREW



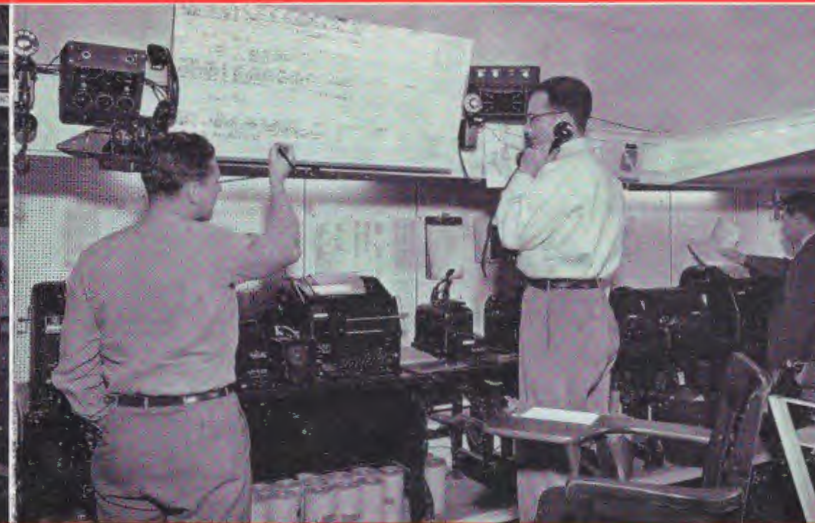
ACCOUNTING



SHEET METAL



LINE MAINTENANCE



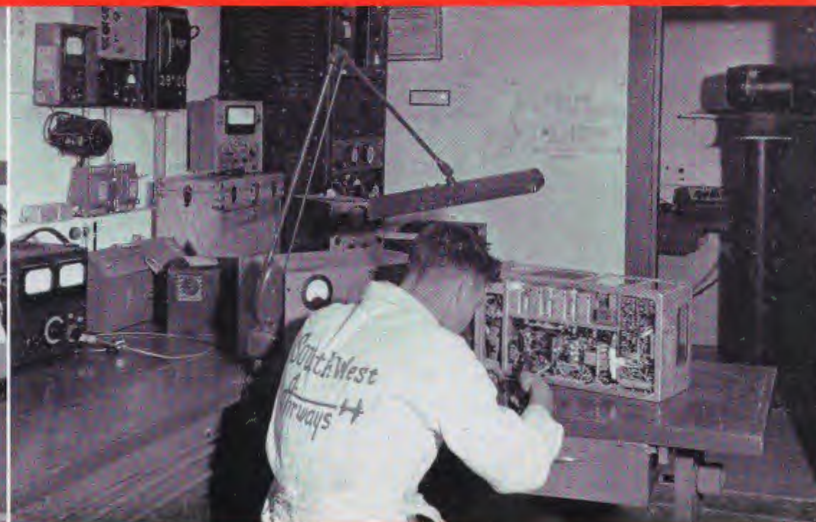
FLIGHT CONTROL



ENGINE OVERHAUL



INSTRUMENT OVERHAUL



COMMUNICATION SHOP



STORES AND SUPPLIES



RESERVATIONS





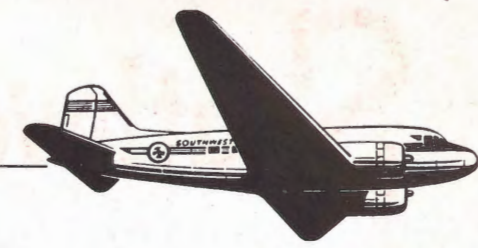
## SIMPLIFIED COMPARATIVE STATEMENT OF INCOME AND EXPENSES

	<u>Year Ended</u> <u>December 31, 1948</u>	<u>Thirteen Months</u> <u>Ended</u> <u>December 31, 1947</u>
Income derived from following sources:		
Passengers . . . . .	\$ 905,102.19	\$ 677,161.54
Mail . . . . .	1,401,331.71	1,504,510.00
Express . . . . .	12,647.50	11,488.87
Freight . . . . .	25,451.03	4,233.97
Charter . . . . .	12,162.27	11,006.37
Excess Baggage . . . . .	4,107.02	2,726.43
Other Income . . . . .	8,396.27	7,615.42
Total Income . . . . .	\$2,369,197.99	\$2,218,742.60
Income disposed of as follows:		
Materials, Supplies and Outside Services . . . . .	\$ 301,097.48	\$ 440,425.20
Gasoline and Oil . . . . .	252,593.43	135,794.23
Insurance . . . . .	76,503.08	76,880.07
Rentals and Landing Fees . . . . .	71,272.32	52,406.56
Travel and Incidental Expense . . . . .	54,184.66	83,782.75
Advertising and Public Relations . . . . .	54,839.69	61,798.92
Depreciation of Ground and Flight Equipment, and Amortization of Leasehold Improvements . . . . .	384,154.90	311,204.57
Taxes other than Income Taxes . . . . .	68,980.16	57,059.89
Increase in Reserve for Engine Overhaul . . . . .	26,369.58	22,554.29
Interest on Bank Loans . . . . .	19,216.61	28,904.95
Federal Income Taxes . . . . .	36,100.00	.....
	\$1,345,311.91	\$1,270,821.43
This left available for Employees and Stockholders . . . . .	\$1,023,886.08	\$ 947,921.17
This balance was divided as follows:		
Paid to Employees as wages and salaries . . . . .	\$ 995,824.42	\$ 942,440.48
Stockholders' share, retained by Company for use in the business . . . . .	\$ 28,061.66	\$ 5,480.69









## ASSETS

### CURRENT ASSETS:

Cash in banks and on hand . . . . .		\$ 312,789.98	
Accounts receivable:			
U. S. Post Office Department, for carrying mail . . . . .	\$ 123,136.33		
Traffic and agents . . . . .	81,949.59		
Miscellaneous, less \$1,511.46 for possible losses in collection . . . . .	26,100.77		
Employees . . . . .	1,791.59	232,978.28	
Inventories of motor fuels, lubricants and materials and supplies at approximate cost, not in excess of market . . . . .		63,974.89	
		<u>\$ 609,743.15</u>	

### INVESTMENT IN STOCK OF SERVICE ORGANIZATION . . . . .

1,001.00

### PROPERTY AND EQUIPMENT, at cost:

Flight equipment—pledged, per contra . . . . .	\$1,040,533.28		
Ground and shop equipment . . . . .	78,516.66		
Leasehold improvements . . . . .	105,446.24		
Other . . . . .	76,073.98		
	<u>\$1,300,570.16</u>		
Less—Accumulated depreciation . . . . .	709,626.09	590,944.07	

### DEFERRED CHARGES:

Prepaid insurance . . . . .	\$ 26,456.80		
Prepaid taxes . . . . .	4,047.46		
Extension and development expense . . . . .	20,240.35		
Prepaid advertising, deposits, etc. . . . .	11,211.67	61,956.28	
		<u>\$1,263,644.50</u>	

## LIABILITIES

### CURRENT LIABILITIES:

Accounts payable . . . . .	\$ 135,674.82
Taxes collected or withheld from others . . . . .	26,277.06
Accrued expenses . . . . .	61,676.79
Transportation sold, not yet used or refunded . . . . .	7,542.90
Federal taxes on income (estimated) . . . . .	37,500.00
	<u>\$ 268,671.57</u>

### NOTES PAYABLE TO BANK—secured by chattel mortgage on flight equipment (due, November 30, 1950) . . . . .

96,690.00

### RESERVE FOR AIRCRAFT ENGINE OVERHAUL . . . . .

48,923.87

### CAPITAL STOCK AND SURPLUS.

#### Common stock:

Authorized, 10,000,000 shares of 50¢ par value per share—Note B . . . . .			
Issued, 647,660 shares—Note C . . . . .	\$ 323,830.00		
Capital surplus, per accompanying statement . . . . .	228,273.50		
Earned surplus, per accompanying statement—Note D . . . . .	297,255.56	849,359.06	

\$1,263,644.50



# STATEMENT OF PROFIT AND LOSS

## FOR THE YEAR ENDED DECEMBER 31, 1948

Operating revenue:

Passenger . . . . .	\$ 905,102.19	
Mail . . . . .	1,401,331.71	
Express . . . . .	12,647.50	
Freight . . . . .	25,451.03	
Charter and special revenue . . . . .	12,162.27	
Other . . . . .	7,058.68	
Total operating revenue . . . . .		\$2,363,753.38

Operating expenses:

Flying operations . . . . .	\$ 571,667.36	
Flight equipment maintenance—direct . . . . .	300,828.40	
Depreciation—flight equipment . . . . .	321,987.44	
	\$1,194,483.20	
Ground operations . . . . .	331,632.68	
Ground and indirect maintenance . . . . .	105,747.42	
Passenger service . . . . .	79,656.66	
Traffic and sales . . . . .	233,875.09	
Advertising and publicity . . . . .	64,060.27	
General and administrative expenses . . . . .	212,366.31	
Depreciation—ground equipment . . . . .	62,167.46	
Total operating expense . . . . .		2,283,989.09
Net operating profit . . . . .		\$ 79,764.29

Other income:

Discounts earned . . . . .	\$ 648.66	
Profit on sale of equipment . . . . .	3,974.28	
Other . . . . .	821.67	
		5,444.61
		\$ 85,208.90

Other deductions:

Interest . . . . .	\$ 19,216.61	
Other . . . . .	1,830.63	
		21,047.24

Provision for estimated Federal taxes on income . . . . .

\$ 64,161.66  
36,100.00

Net profit for year, carried to earned surplus . . . . .

\$ 28,061.66





# STATEMENT OF SURPLUS

## YEAR ENDED DECEMBER 31, 1948

	Capital surplus	Earned surplus
Balance, beginning of year . . . . .	\$178,971.00	\$580,568.90
Excess of cash received over par value of 1,517 shares of capital stock sold during 1948 prior to issuance of stock dividend mentioned below . . . . .	49,302.50	
Profit for year, per accompanying statement . . . . .		28,061.66
	\$228,273.50	\$608,630.56
Amount transferred to capital stock account, as authorized by the Board of Directors, representing the par value of 622,750 shares of common stock issued as a 2,500% stock dividend . . . . .		311,375.00
Balance, end of year—Note D . . . . .	\$228,273.50	\$297,255.56

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1948

**NOTE A:** The Company is operating under a temporary certificate of public convenience which expires November 21, 1949. An application was filed on August 17, 1948, for a permanent certificate of public convenience and necessity. (See page 7 of management's report regarding proposal by Civil Aeronautics Board to extend the Company's operating certificate for five years to November 22, 1954.)

**NOTE B:** During the year stock options were issued to certain officers and employees of the Company. These options, which if not exercised expire on December 31, 1952, entitle the holders to purchase 23,750 shares of unissued common stock of the Company at \$1.26 per share. None of the options has been exercised.

**NOTE C:** Of the 647,660 shares of stock issued, certificates representing 2,106 shares have not been delivered to the stockholders entitled thereto, but will be issued upon the surrender of certificates representing 54 shares of stock of merged predecessor.

**NOTE D:** Under the terms of the bank loan agreement, no cash dividends may be paid by the Company, so long as the credit granted thereby remains available and until final payment of all indebtedness incurred thereunder.

PRICE, WATERHOUSE & CO.

381 CALIFORNIA STREET  
SAN FRANCISCO 4  
March 9 1949

To the Board of Directors of  
Southwest Airways Company

We have examined the accompanying balance sheet of Southwest Airways Company as of December 31 1948 and the related statements of income and surplus 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. It was not practicable to confirm the amounts receivable from the United States Post Office Department, as to which we have satisfied ourselves by other means.

In our opinion, the accompanying balance sheet and statements of income and surplus, together with the notes attached thereto, present fairly the position of Southwest Airways Company as of December 31 1948 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price, Waterhouse & Co.

