



**Northwest Airlines, Inc.**

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

19  54

## 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
1954	\$63,595,851	\$51,053,599	\$4,676,190	909,674,550	6,990,462	27,029,860
1953	66,140,027	48,652,465	4,890,153	851,174,754	5,002,605	27,816,827
1952	61,552,380	41,962,758	4,781,081	720,046,264	5,017,993	23,210,634
1951	54,685,060	35,192,765	4,371,533	602,220,853	4,571,276	19,531,632
1950	52,456,700	33,148,395	4,122,222	613,446,244	4,987,561	26,868,177
1949	39,970,747	27,873,942	3,163,278	495,114,870	4,722,800	25,908,552
1948	34,369,835	24,074,778	2,072,362	386,509,809	4,026,074	22,288,002
1947	26,800,428	20,520,631	1,019,497	382,544,382	2,736,938	20,824,912
1946	19,976,204	18,062,492	553,875	385,858,473	2,049,659	19,304,234
1945	12,196,652	10,060,619	409,613	218,469,773	2,698,378	12,870,714

## TO SHAREOWNERS OF NORTHWEST AIRLINES, INC.

The report of the independent auditors and the financial statements for 1954 are presented herewith.

### EARNINGS

Net income from operations after taxes and before property disposals amounted in 1954 to \$2,203,144 and showed a substantial gain over net income of \$1,339,503 in 1953.

Net income from property disposals after taxes amounted to \$212,380 in 1954 compared with \$605,190 in 1953.

The total net income for 1954 was \$2,415,524. Preferred dividends amounted to \$429,554, leaving \$1,985,970 or \$2.38 per share for the 834,933 outstanding shares of common stock. In 1953 total net income was \$1,944,693, of which \$1,510,482 or \$1.84 per share was applicable to the common stock.

If we exclude from 1953 operating revenues gross income derived from operating an airlift over the Pacific for the United States Government in that year, commercial revenues show an increase in 1954 of \$1,640,413 over 1953.

Combined with the development of revenues the company put into effect a cost reduction program which reduced total expenses below 1953 even though 10.2% more available ton miles were offered for sale in 1954. Our average system unit operating cost per available ton mile was reduced 9.5% from 1953.

During 1954, 1,199,193 revenue passengers were carried on the entire system (domestic, Orient and Honolulu routes), an increase of 9.1% over the previous high, in 1953. Revenue passenger miles in 1954 totaled 909,674,550, an increase of 6.9% over 1953.

For the first time since 1947 your company at the end of 1954 had no outstanding bank loans nor other long term debts. The company became debt free on October 29 when it paid off in advance all obligations to banks. Your company is the only major trunk carrier which was debt free as of the end of 1954.

A new \$18 million bank credit agreement has been arranged which will provide funds for the acquisition of four Lockheed 1049G Constellation aircraft as well as additional Douglas DC-6B aircraft which your company is seeking. The first borrowing under the new bank credit

agreement was made on January 28 in the amount of \$2,500,000. As of March 7, 1955 your company has borrowed \$6,500,000 under the new agreement.

### NET WORTH

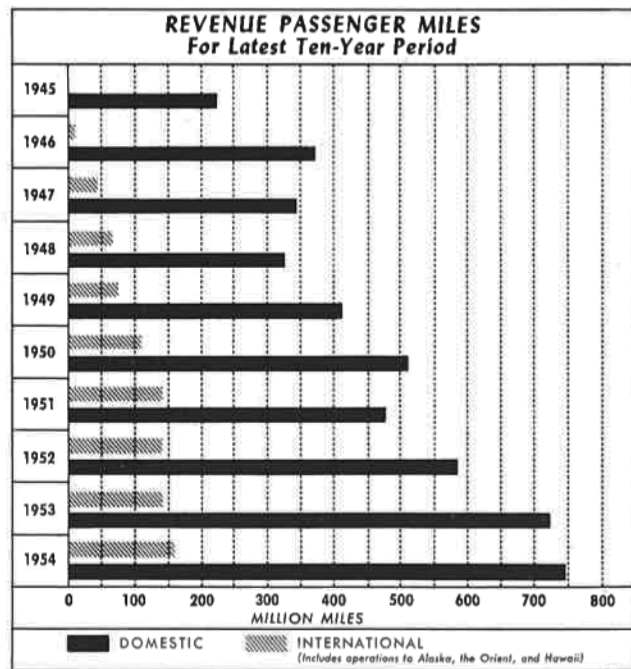
The net worth of the company at the end of 1954 was \$26,829,107, of which \$21.11 per share was applicable to the common stock. This compares with \$24,736,702 at the end of 1953, of which \$15,359,827 or \$18.71 was applicable to the common stock. Our earned surplus was \$6,275,889 at the end of the year compared with \$4,289,919 at the end of 1953.

### PREFERRED DIVIDENDS

Dividends on the 4.60% Cumulative Preference Stock are now paid up to date. The quarterly dividends which had been due February 1 and May 1, 1954 were temporarily withheld in the light of the operating results for the first part of the year but these were declared and paid when it became apparent that the general financial situation was improving. The dividends due November 1, 1954 and February 1, 1955, were paid on their due dates. Preferred dividends are cumulative and must be paid before any dividends can be paid on common shares.

### ROUTES

On February 16, 1955 the Civil Aeronautics Board issued decisions in the Transpacific Certificate Renewal Case and the West Coast-Hawaii Case in accordance with instructions from the President. In the Transpacific case the Board authorized your company to serve Portland, Seattle, Anchorage and Japan over the Great Circle Route for a period of seven years. The authorization to serve Okinawa, Formosa, Hong Kong and the Philippines will continue in effect for a period of five years, and the authorization to serve points within Korea will continue for a period of three years. In the West Coast-Hawaii Case the Board's revised order authorized your company to continue service between Seattle/Tacoma-Portland and Honolulu for a period of three years and also authorized for the same period the continuation of competitive service on this run by another American carrier. Your company had urged



that the certificates be issued on a permanent basis inasmuch as it had pioneered and developed the Great Circle Route to the Orient and because traffic volumes have shown a very favorable growth trend and because the cost to the Government in the form of subsidy requirement is being rapidly reduced. However, they were granted on a temporary basis and the matter of service to Shanghai and other points in Communist China as well as the application (opposed by your company) of a competitive American carrier for authority to operate over the Great Circle Route to points in the Orient were deferred for possible future consideration.

In the West Coast-Hawaii Case your company offered to operate the route between Seattle/Tacoma-Portland and Honolulu on a non-subsidy basis if it were the sole operator on the route, and the Civil Aeronautics Board unanimously recommended to the President that your company should be given the sole right to operate this route on a permanent basis.

Decisions have not yet been rendered on the recertification of your company's right to operate the so-called "inside" route to Alaska from New York and Chicago to Anchorage, Alaska via the Twin Cities of Minneapolis and St. Paul, and Edmonton, Alberta. This decision as well as that on your company's right to operate local service between Seattle/Tacoma, Washington and Anchorage, Alaska will be made in the pending States-Alaska Case. Your company is hopeful that the advantages inherent in the

operation of the "inside" route to Anchorage will again be recognized as longer range aircraft are used and transpolar operations become more prevalent in the future.

Ultimate decision in matters involving international routes rests in the President of the United States.

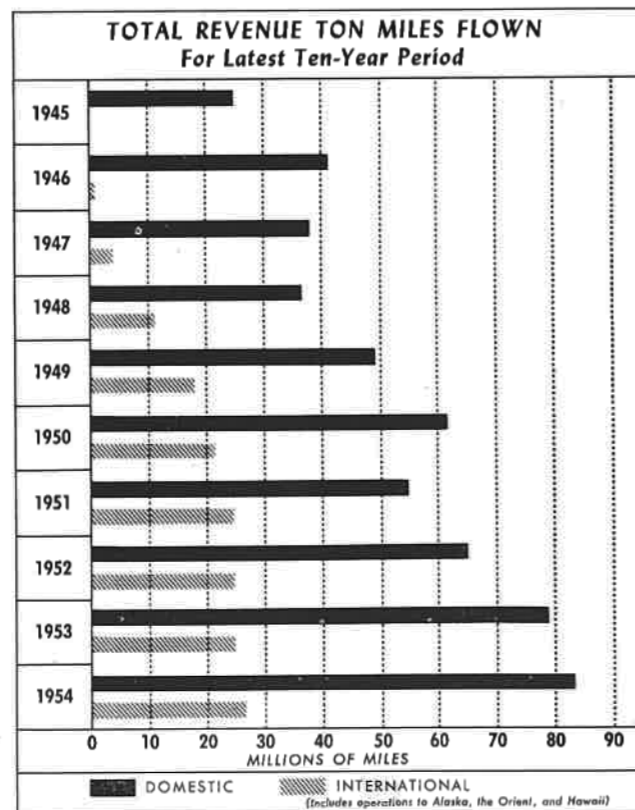
Your company is also seeking certification to operate between Chicago and New York and between Chicago and Detroit, as well as the removal of restrictions which prevent the operation of local turn around flights between Detroit and New York. Hearings on this matter, designated as the New York-Chicago Service Case, were held in 1953, but decision has not yet been rendered by the Civil Aeronautics Board.

Hearings likewise were held in 1953 on your company's long standing Cleveland-New York application. No decision on this application has yet been made by the Board.

#### EQUIPMENT AND SERVICE

Three Douglas DC-6B aircraft were acquired during the year bringing our total DC-6B fleet to seven. Continuing efforts are being made to acquire additional DC-6B aircraft.

We have now taken delivery on three new Lockheed 1049G Constellation aircraft and expect delivery on the fourth Constellation,



which completes our order with Lockheed, before April 15, 1955. These aircraft, powered by Wright Turbo Compound engines, will be flown exclusively in international operations. These luxurious planes will enable your company to offer its customers the finest and fastest service between the United States and the Orient and to Hawaii. All of these aircraft will offer a choice of first class or tourist accommodations. Constellation service between Seattle/Tacoma and Anchorage commenced in February and service between Seattle/Tacoma and the Orient started on March 4. By the middle of April four weekly round trips will be operated between the United States and Tokyo and Manila with Constellations. We expect to have Constellations on three weekly round trips between Seattle/Tacoma-Portland and Honolulu by early May.

In addition to the Constellation schedules your company plans to continue its present twice weekly cargo and mail service between the United States and Tokyo with DC-4 or DC-6B aircraft. In addition to the three weekly Constellation schedules to Honolulu there will be one DC-6B weekly schedule.

Boeing Stratocruisers are being used in first class operations on many segments of our domestic routes. In addition, your company provides first class Douglas DC-6B service, and coach schedules are flown by both Douglas DC-6B and Douglas DC-4 aircraft. Coast to coast one stop Douglas DC-6B coach service between New York and Seattle was inaugurated in 1954. We have also inaugurated an overnight freight service between New York and Minneapolis/St. Paul via Milwaukee to provide early morning deliveries of cargo to customers in the midwest. We have entered into an interchange agreement with Eastern Air Lines, effective December 15, 1954, which provides daily Boeing Stratocruiser service between Minneapolis/St. Paul and Miami via Chicago. Under the arrangement Stratocruisers manned by your company's crews on the Twin Cities-Chicago segment and by Eastern Air Lines' crews on the Chicago-Miami segment are flown one round trip each day from Minneapolis/St. Paul to Miami. During the summer months Eastern Air Lines' Constellation equipment will be flown on the interchange service. It is expected

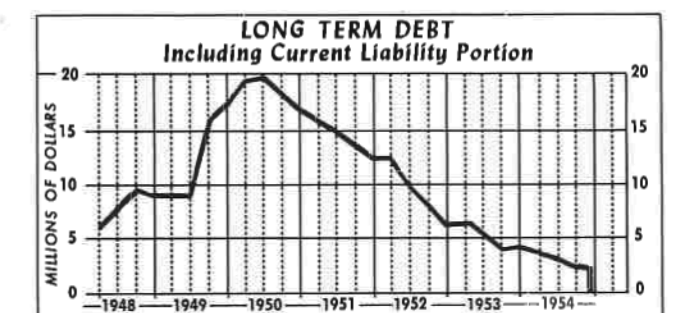
that additional frequencies will be provided on the interchange service as the volume of business grows.

Several months ago your company made available a means of financing the sale of passenger air transportation on an installment payment basis. This plan is popularly known as "Fly Now Pay Later." The plan enables a prospective air traveler to make a trip by air after having made a modest down payment with the privilege of paying the balance of the price of the ticket over an extended period of time thus allowing many persons to enjoy the advantages of air travel who would not otherwise do so.

#### MAIL RATES

*International*—The Civil Aeronautics Board reopened our international mail rate as of January 1, 1954. To date only preliminary discussions have been held regarding settlement of this rate. Pending such finalization a temporary rate of \$4,913,000 per year has been established by the Board for all of the company's international services. The actual payment of this amount is divided into two parts—service pay and subsidy. Service mail pay is calculated on the basis of U. S. mail ton miles carried and is paid by the Post Office Department. The remainder is considered subsidy and is paid by the Civil Aeronautics Board.

During the past year substantially increased volumes of U. S. mail carried by Northwest in its international services have resulted in a sharp decline in subsidy payments from the United States Government. In December 1953 the total subsidy mail pay for our entire international operation was \$381,000 and in December 1954 this total had declined to \$92,434, a decline of 76%. The reduction was accomplished in spite of the fact that the service mail rate for international mail was lowered by the CAB in December 1954. Had the previous mail rate



been in effect during December, the reduction in subsidy would have been 86%.

This downward trend in Government subsidy payments was accomplished before the Government announced its policy of increasing the volume of Army Post Office and Fleet Post Office mail for commercial airlines. The trend toward lower subsidy will be greatly accelerated by the Government's decision to divert large volumes of air mail from military planes to the commercial airlines. Your company will be one of three U. S. international airlines to which the bulk of this increased mail will be assigned. Thus, it is possible that in the near future your company may completely eliminate its need for subsidy. The volume of mail carried in international service in February 1955 resulted in subsidy free operation for that month.

*Domestic*—As of April 1, 1954 the Board reopened domestic mail rates of all trunk carriers. Under the terms of rates proposed by the Board our domestic mail revenues would be reduced approximately \$192,000 or 13% annually. Domestic mail pay for the industry would be reduced about 11%. We have reduced our domestic mail revenues on the books to agree with the rates indicated by the Board.

In the latter part of 1953 the Post Office Department inaugurated an experimental program of flying 3c first class mail between certain major cities via commercial airlines. The first phase of the program did not include any of the pairs of cities served by Northwest. However, in November 1954 the experiment was extended to include north-south service to seventeen Pacific coast cities in California, Oregon and Washington. Your company has joined in that program and participates in the lift of 3c first class mail between Portland and Seattle as a part of the west coast mail operation between San Diego and Seattle. Success of this type of mail operation in the areas tested thus far indicates that further expansion can be expected.

*Prior Years*—Our mail rates, both international and domestic, for the calendar year 1951 are still open and, therefore, are subject to settlement with the CAB. Rates for the years 1952 and 1953 and for all years prior to 1951 are closed.

By authority of the Board of Directors

  
Chairman of the Board

  
President

March 7, 1955  
St. Paul, Minnesota

## PERSONNEL

Cooperative relations and understanding between management and its 5,000 employees have reached a new high.

Contract negotiations during 1954 were conducted within an excellent employee relations atmosphere in which satisfactory understandings were reached providing for fair and equitable working conditions and rates of pay.

The company training program is continually being strengthened and improved. Increased on-the-job and off-the-job training was provided to technical, maintenance and flight personnel with particular emphasis on training needs relative to the integration of new types of equipment into our fleet. Intensive training of sales and station personnel made a substantial contribution to improved service to our customers. Special stress will be placed on administrative and supervisory training during 1955.

Your management believes that it has one of the finest groups of employees in the airline industry. It is proud of their work performance and their demonstrated interest and loyalty to their company. This fine attitude on the part of our employees has been a great factor in the increased efficiency of our operation.

## MANAGEMENT CHANGES

Your directors elected Donald W. Nyrop as president of Northwest Airlines, Inc. effective September 27. Mr. Nyrop comes to your company with an extensive background in aviation affairs having been chairman of the Civil Aeronautics Board, counsel for the Conference of Local Airlines, and having served in other executive capacities in the aviation industry.

Two Minneapolis business executives, Lyman E. Wakefield, Jr., Vice President of First National Bank of Minneapolis, and James H. Binger, Vice President of Minneapolis-Honeywell Regulator Company, both of Minneapolis, Minnesota, were named to the Board of Directors. Leo G. Jacques, President and General Manager of Motor Products Corporation of Detroit, Michigan, resigned from the Board of Directors.

# FIVE YEAR STATEMENT OF INCOME

(Amounts shown in thousands)

## NORTHWEST AIRLINES, INC.

Five years ended December 31, 1954

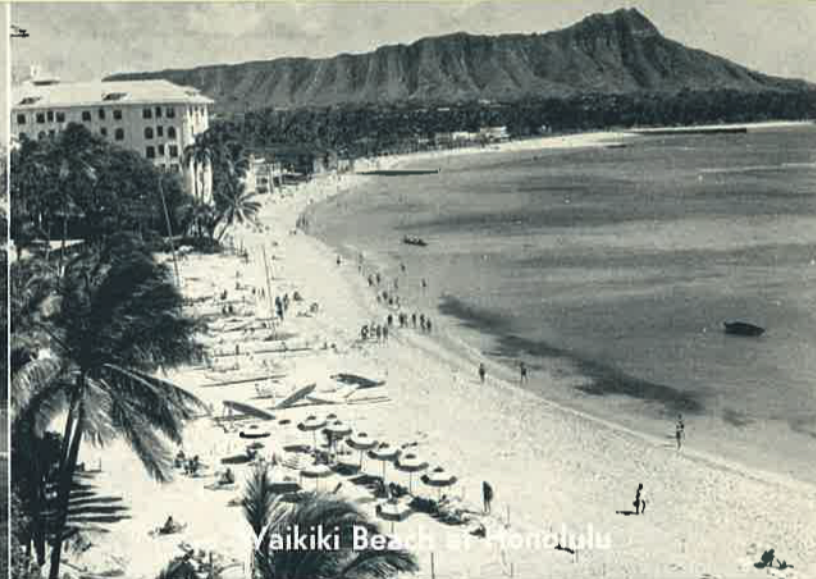
	1954	Per cent Increase (Decrease) 1954 to 1953	1953	1952	1951	1950
<b>OPERATING REVENUES</b>						
Passenger .....	\$51,054	4.9%	\$48,652	\$41,963	\$35,193	\$33,148
United States mail .....	6,282	( 8.5 )	6,869	6,767	7,789	9,938
Foreign mail .....	504	1.6	496	706	620	532
Express, freight, and excess baggage .....	5,296	( 1.4 )	5,373	5,116	4,648	4,388
Charter and other transportation .....	50	( 72.2 )	180	1,055	305	227
Pacific airlift for United States Government .....	—	(100.0 )	4,185	5,464	5,724	3,970
Repair and service income, rents, etc., net .....	410	6.5	385	481	406	254
	<u>\$63,596</u>	( 3.8 )	<u>\$66,140</u>	<u>\$61,552</u>	<u>\$54,685</u>	<u>\$52,457</u>
<b>OPERATING EXPENSES</b>						
Flying and ground operations .....	\$30,044	( 5.5 )	\$31,801	\$28,371	\$25,226	\$24,944
Maintenance and repairs .....	11,672	( 15.9 )	13,886	15,061	11,837	12,025
Provision for depreciation .....	5,606	( 2.2 )	5,731	5,816	5,429	5,873
Traffic, sales, and advertising .....	7,383	.8	7,324	6,504	5,482	5,426
Administrative and general (including pay roll taxes, property taxes, etc.) .....	4,180	( 1.8 )	4,255	4,294	3,651	3,386
	<u>\$58,885</u>	( 6.5 )	<u>\$62,997</u>	<u>\$60,046</u>	<u>\$51,625</u>	<u>\$51,654</u>
	<u>\$ 4,711</u>	49.9	<u>\$ 3,143</u>	<u>\$ 1,506</u>	<u>\$ 3,060</u>	<u>\$ 803</u>
<b>OTHER DEDUCTIONS, NET .....</b>	<u>108</u>	( 68.0 )	<u>338</u>	<u>311</u>	<u>667</u>	<u>735</u>
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES .....</b>	<u>\$ 4,603</u>	64.1	<u>\$ 2,805</u>	<u>\$ 1,195</u>	<u>\$ 2,393</u>	<u>\$ 68</u>
<b>INCOME TAXES, on income from operations .....</b>	<u>2,400</u>	63.8	<u>1,465</u>	<u>640</u>	<u>601(A)</u>	<u>(A)</u>
<b>NET INCOME FROM OPERATIONS .....</b>	<u>\$ 2,203</u>	64.4	<u>\$ 1,340</u>	<u>\$ 555</u>	<u>\$ 1,792</u>	<u>\$ 68</u>
<b>INCOME FROM DISPOSALS OF PROPERTY .....</b>	<u>\$ 287</u>	( 64.8 )	<u>\$ 815</u>	<u>\$ 1,709</u>	<u>\$ 592</u>	<u>\$ 199</u>
Less applicable income taxes .....	75	( 64.3 )	210	475	599(A)	(A)
<b>NET INCOME (LOSS) FROM DISPOSALS OF PROPERTY .....</b>	<u>\$ 212</u>	( 65.0 )	<u>\$ 605</u>	<u>\$ 1,234</u>	<u>(\$ 7)</u>	<u>\$ 199</u>
<b>NET INCOME FOR THE YEAR .....</b>	<u>\$ 2,415</u>	24.2	<u>\$ 1,945</u>	<u>\$ 1,789</u>	<u>\$ 1,785</u>	<u>\$ 267</u>

NOTE A—Taxes on income were reduced as a result of the carry-forward of the 1948 operating loss: \$225,000—1951, \$135,000—1950.

Income from disposals of property during the years 1948 through 1950 reduced by \$836,487 the operating loss carry-forward to 1951. Income taxes of \$429,000 applicable thereto have been treated in 1951 as allocable to income from disposals of property.



Presidential Palace in Manila



Waikiki Beach in Honolulu








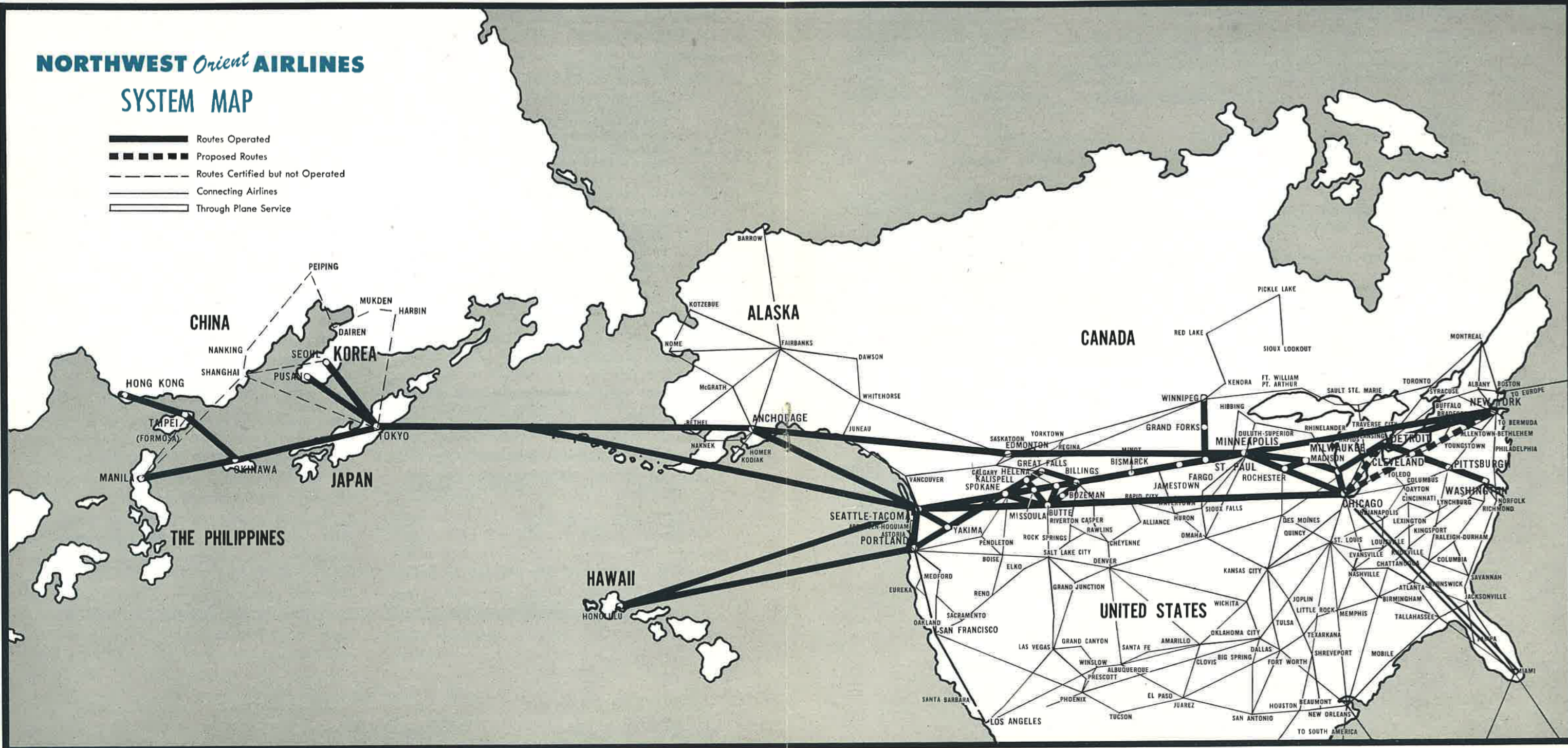
United Nations Headquarters



U. S. Capitol, Washington, D. C.

# NORTHWEST *Orient* AIRLINES SYSTEM MAP

-  Routes Operated
-  Proposed Routes
-  Routes Certified but not Operated
-  Connecting Airlines
-  Through Plane Service



# STATEMENTS OF FINANCIAL POSITION

## NORTHWEST AIRLINES, INC.

### ASSETS

	December 31,	
CURRENT ASSETS	1954	1953
Cash .....	\$ 8,263,775	\$11,212,100
Accounts receivable, less allowance of \$70,000—1954 and 1953.....	5,219,396	4,764,141
Maintenance and operating supplies, at average cost.....	991,327	1,249,084
Prepaid insurance, rent, taxes, etc.....	395,348	499,557
<b>TOTAL CURRENT ASSETS</b>	<b>\$14,869,846</b>	<b>\$17,724,882</b>
<b>INVESTMENTS AND OTHER ASSETS</b>		
Related industry investments and advances, at cost.....	216,021	247,790
<b>FLIGHT EQUIPMENT</b> at cost.....		
(Including fully amortized amounts \$9,061,323—1954, \$7,939,935—1953)	\$41,357,394	\$37,642,757
Less allowances for depreciation and obsolescence.....	24,560,976	21,727,967
	\$16,796,418	\$15,914,790
Advances on purchase contracts—Notes A and E.....	1,762,140	1,066,710
	\$18,558,558	\$16,981,500
<b>OTHER EQUIPMENT, BUILDINGS, AND LAND</b> , at cost.....		
(Including fully amortized amounts \$3,004,022—1954, \$2,974,370—1953)	\$11,688,676	\$11,304,038
Less allowances for depreciation.....	6,773,507	6,262,152
	\$ 4,915,169	\$ 5,041,886
<b>DEFERRED CHARGES</b>		
Training and other costs in connection with aircraft fleets, less accumulated amortization of \$637,644—1954, \$485,098—1953.....	\$ 523,502	\$ 478,098
Other .....	121,900	134,755
	\$ 645,402	\$ 612,853
	<b>\$39,204,996</b>	<b>\$40,608,911</b>

*See accompanying Notes to Financial Statements.*

### LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
CURRENT LIABILITIES	1954	1953
Accounts payable.....	\$ 4,938,465	\$ 4,277,826
Salaries, wages, and vacations.....	1,946,800	2,584,142
Collections as agent—taxes, pay roll deductions, etc.....	969,383	1,079,832
Air travel card deposits.....	865,725	811,325
Accrued local and pay roll taxes.....	322,693	377,449
Unredeemed ticket liability.....	757,367	660,785
Income taxes—estimated.....	2,575,456	1,785,850
Current maturities of long-term debt.....	—	3,340,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$12,375,889</b>	<b>\$14,917,209</b>
<b>LONG-TERM DEBT</b> —Note A		
4% Notes payable to banks, less amounts maturing within one year.....	—	955,000
<b>STOCKHOLDERS' EQUITY</b> —Note C		
Cumulative Preference Stock, \$25 par value; authorized 600,000 shares issuable in series:		
4.6% Series; authorized shares 375,125—1954, 390,000—1953; outstanding shares 368,110—1954, 375,075—1953—Note B.....	9,202,750	9,376,875
Common Stock, \$10 par value; authorized 3,000,000 shares; issued and outstanding shares 834,933—1954, 820,933—1953—Note D.....	8,349,330	8,209,330
Common Stock subscription for 3,650 shares (issued January, 1955).....	36,500	—
Capital surplus, after deduction of \$560,625 in prior years for part of dividends paid on 4.6% Cumulative Preference Stock.....	2,964,638	2,860,578
Earned surplus.....	6,275,889	4,289,919
<b>CONTINGENT LIABILITY</b> —for repurchase of travel contracts sold—\$84,048		
<b>COMMITMENTS</b> —Note E		
	<b>\$39,204,996</b>	<b>\$40,608,911</b>

*See accompanying Notes to Financial Statements.*

# STATEMENTS OF INCOME

## NORTHWEST AIRLINES, INC.

	Year Ended	
	1954	1953
<b>OPERATING REVENUES</b>		
Passenger .....	\$51,053,599	\$48,652,465
United States mail—Note F.....	6,282,057	6,869,219
Foreign mail.....	504,334	495,843
Express, freight, and excess baggage.....	5,295,694	5,373,113
Charter and other transportation.....	50,406	179,947
Pacific airlift for United States Government.....	—	4,184,589
Repair and service income, rents, etc., net.....	409,761	384,851
	<u>\$63,595,851</u>	<u>\$66,140,027</u>
<b>OPERATING EXPENSES</b>		
Flying and ground operations.....	\$30,043,761	\$31,801,108
Maintenance and repairs.....	11,672,122	13,885,447
Provision for depreciation.....	5,606,174	5,730,820
Traffic, sales, and advertising.....	7,383,113	7,324,210
Administrative and general (including pay roll taxes, property taxes, etc.) .....	3,764,202	3,811,411
Employees' retirement plan.....	415,182	444,000
	<u>\$58,884,554</u>	<u>\$62,996,996</u>
	\$ 4,711,297	\$ 3,143,031
<b>OTHER DEDUCTIONS (INCOME), NET</b>		
Interest on long-term debt.....	\$ 172,600	\$ 282,229
Other long-term debt expense.....	17,137	59,651
Other, net.....	( 81,584)	( 3,352)
	<u>\$ 108,153</u>	<u>\$ 338,528</u>
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES</b> .....	\$ 4,603,144	\$ 2,804,503
<b>INCOME TAXES</b> , estimated federal and other taxes on income from operations .....	2,400,000	1,465,000
<b>NET INCOME FROM OPERATIONS</b> .....	\$ 2,203,144	\$ 1,339,503
<b>INCOME FROM DISPOSALS OF PROPERTY</b> .....	\$ 287,380	\$ 815,190
Less applicable income taxes.....	75,000	210,000
<b>NET INCOME FROM DISPOSALS OF PROPERTY</b> .....	\$ 212,380	\$ 605,190
<b>NET INCOME FOR THE YEAR</b> .....	<u>\$ 2,415,524</u>	<u>\$ 1,944,693</u>

See accompanying Notes to Financial Statements.

# NOTES TO FINANCIAL STATEMENTS

## NORTHWEST AIRLINES, INC.

December 31, 1954

### Note A—Bank Credit Agreement

The long-term loan outstanding at December 31, 1953, was paid during 1954, and the related bank credit agreement terminated.

On November 1, 1954, the Company entered into a new Bank Credit Agreement under which it may borrow, subject to certain conditions, on or before August 31, 1955, for the purpose of equipment financing (Note E) not to exceed \$18,000,000. At March 7, 1955, \$6,500,000 had been borrowed under the Agreement. Loans made under this Agreement are unsecured and bear interest at a rate of 3¾% per annum. The Company has agreed to pay a commitment fee of ¼ of 1% on the average daily unused portion of the commitment. The Agreement requires repayments aggregating \$3,000,000 annually beginning in 1955.

The Company has covenanted that, among other things, (a) it will not permit the excess of current assets and advances on certain flight equipment, over current liabilities (excluding current maturities under the Agreement) to be less than \$3,000,000 (subject to reduction in the event and to the extent of optional prepayments on amounts due within one year) and (b) it will not permit its capital and surplus to be less than \$20,000,000.

### Note B—4.6% Cumulative Preference Stock

This Stock Series is entitled upon liquidation (voluntary) or redemption to \$25.25 per share, plus accumulated unpaid dividends; is convertible per share into one and one half shares of Common Stock to January 1, 1957; and is subject to retirement through market or sinking fund provisions. 7,015 of the authorized shares at December 31, 1954, had been permanently retired through market fund purchases and conversion.

So long as any of this Stock Series is outstanding, the Company is required to set aside on or before March 31 in each year to and including 1957 a non-cumulative fund, for the purchase of shares of such Stock on the market at not exceeding \$25 per share exclusive of brokerage charges and taxes. On or before March 31, 1955, \$184,774 will be required to be set aside for this purpose. After 1957, other, and cumulative, sinking fund provisions become applicable.

During any period while the Company is in default with respect to payment of dividends on the Cumulative Preference Stock, the Company may not purchase any of such Stock except pursuant to an offer to all holders thereof and may not redeem less than all of such Stock then outstanding. Dividends accruing to February 1, 1955, have been paid.

### Note C—Restrictions on Earned Surplus

At December 31, 1954, under provisions of the Bank Credit Agreement and Cumulative Preference Stock, \$5,019,792 of earned surplus was restricted as to payment of cash dividends on capital stock. The Agreement prohibits repurchase of the Company's capital stock, except that 4.6% Cumulative Preference Stock may be retired through market fund purchases (Note B). The terms of the Cumulative Preference Stock also contain restrictions relating to repurchase of Common Stock which were less limiting at December 31, 1954.

### Note D—Common Stock Reservations and Options

Of the 2,165,067 shares of authorized but unissued Common Stock at December 31, 1954:

- 552,165 shares may be required for conversion of 4.6% Cumulative Preference Stock;
- an aggregate of 37,350 shares (of which 17,350 shares were exercisable at December 31, 1954) were subject to outstanding options held by two of the Company's officers and a former officer. The option prices approximated, or were higher than, market at the date of grant. During 1954, options for 17,150 shares (at \$14.375 per share) and for 500 shares (at \$12.125 per share) were exercised by the optionees, at which time market prices ranged from \$17.25 to \$19.75 per share. Options for 17,850 shares (10,000 at \$11.25 per share and 7,850 at \$14.375 per share, including 5,000 shares which became exercisable in 1955) were exercised prior to February 25, 1955. Options for 19,500 shares (at \$12.125 per share), including 15,000 shares which will become exercisable during 1955, 1956, and 1957, will expire in October, 1959; and
- 30,000 shares were reserved for options which may be granted in the future to officers and employees.

### Note E—Commitments

At December 31, 1954, the Company had on order four Lockheed Super Constellation aircraft and spare parts at an approximate cost of \$9,400,000 on which advance payments of \$1,762,140 had been made. At March 7, 1955, three of these aircraft had been delivered and paid for and the remaining aircraft is expected to be delivered in April.

In addition, the Company's expansion and replacement program at this time relating to aircraft and spare parts, including purchase contracts placed in March, 1955, will require expenditures of approximately \$18,300,000 prior to 1958.

Reference is made to Note A with respect to the Bank Credit Agreement for initial borrowings to finance these transactions.

### Note F—Mail Transportation Compensation

Mail rates for all years through 1953, except 1951, have been settled and made permanent by the Civil Aeronautics Board. No determination for 1951 has been made.

Mail compensation from the United States Government for international routes for the calendar year 1954 has been opened for redetermination. The ultimate effect of this is not known at this time.

Mail compensation for domestic routes for the first three months of 1954 has been settled and made permanent. As to the remainder of the calendar year 1954, the Civil Aeronautics Board has issued an order to the Company and all other domestic trunk carriers to show cause why proposed rates (which reduces the Company's permanent rate from 45 cents to an estimated yield of 39.12 cents per ton mile) should not be made permanent. The Company is accruing income on the basis of the lesser of the two rates.

## STATEMENTS OF SURPLUS

### NORTHWEST AIRLINES, INC.

	Year Ended December 31,	
	1954	1953
<b>CAPITAL SURPLUS</b> (after deduction of \$560,625 in prior years for part of dividends paid on 4.6% Cumulative Preference Stock)		
Balance at beginning of year.....	\$2,860,578	\$2,839,663
Add:		
Excess of par value over cost of 4.6% Cumulative Preference Stock permanently retired through market fund purchases.....	35,892	20,415
Excess of proceeds over par value of 17,650 shares of Common Stock sold under option agreements, less expenses (\$7,926) of issuance .....	68,168	—
Excess of par value of 4.6% Cumulative Preference Stock, upon conversion, over par value of Common Stock.....	—	500
Balance at end of year.....	\$2,964,638	\$2,860,578
<b>EARNED SURPLUS</b>		
Balance at beginning of year.....	\$4,289,919	\$2,779,437
Add:		
Net income from operations.....	\$2,203,144	\$1,339,503
Net income from disposals of property.....	212,380	605,190
Net income for the year.....	\$2,415,524	\$1,944,693
	\$6,705,443	\$4,724,130
Deduct dividends on 4.6% Cumulative Preference Stock for the year ended November 1—\$1.15 per share.....	429,554	434,211
Balance at end of year.....	\$6,275,889	\$4,289,919

See accompanying Notes to Financial Statements.

### ACCOUNTANTS' REPORT

Board of Directors  
Northwest Airlines, Inc.  
Saint Paul, Minnesota

We have examined the statement of financial position of NORTHWEST AIRLINES, INC. as of December 31, 1954, 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 possible to confirm by communication accounts receivable from certain U. S. Government departments and agencies, as to which accounts we satisfied ourselves by other auditing procedures.

In our opinion, the accompanying statement of financial position and statements of income and surplus present fairly the financial position of NORTHWEST AIRLINES, INC. at December 31, 1954, 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.

Saint Paul, Minnesota  
March 7, 1955

ERNST & ERNST  
Certified Public Accountants

### OFFICERS

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MALCOLM S. MACKAY, *Executive Vice President*  
FRANK C. JUDD, *Vice President—Operations*  
LINUS C. GLOTZBACH, *Vice President—Personnel*  
JAMES W. MARINER, *Vice President—Sales*  
LAWRENCE B. KINPORTS, *Vice President—Orient Region*  
A. E. FLOAN, *Vice President and Secretary*  
LEONARD S. HOLSTAD, *Comptroller*  
WM. J. EIDEN, *Treasurer*  
ALROY D. PIEPGRAS, *Assistant Comptroller*  
DONALD H. HARDESTY, *Assistant Treasurer*  
FRANK J. SCOTT, *Assistant Secretary*  
DALE MERRICK, *Assistant Vice President—Properties*  
C. L. STEWART, *Assistant Vice President—Plans*

### DIRECTORS

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ALBERT F. TEGEN—*President, General Public Utilities Corporation, New York City*  
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ALBERT J. WEATHERHEAD, JR.—*President, The Weatherhead Company, Cleveland, Ohio*  
WHELOCK WHITNEY—*Director and Member of Executive Committee, Truax-Traer Coal Company, Chicago, Ill.*

Registrar THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, N. Y.

Transfer Agent BANKERS TRUST COMPANY, NEW YORK, N. Y.

\*As of March 7, 1955.

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





NORTHWEST AIRLINES, INC.