

FOURTEENTH
ANNUAL REPORT 1953



SOUTHWEST AIRWAYS





SEPARATION OF CARGO SAVES TIME

HANDLING AND SORTING OF BAGGAGE REDUCED BY COMPARTMENT ALLOCATION SYSTEM, THE 'BELLY' COMPARTMENTS ARE QUICKLY LOADED FROM GROUND LEVEL.



NO WAITING FOR HAND LUGGAGE

CARRY-ON BAGGAGE RACKS SIMPLIFY AND SPEED THE HANDLING OF 'OVER-NIGHT' AND COMMUTER PASSENGERS.



PASSENGER LOADING RAMP

BUILT-IN HYDRAULIC PASSENGER LOADING RAMPS FACILITATE THE RECORD 3 1/2 MINUTE AVERAGE LOADING TIME.



SOUTHWEST AIRWAYS



NATIONAL SAFETY COUNCIL

**1952
AVIATION
SAFETY AWARD**

**TO
SOUTHWEST AIRWAYS COMPANY**

*in recognition of its contribution to Safe Air Transportation
having operated the entire year of 1952 and
as of December 31, 1952*

53,884,000 PASSENGER MILES

*without a passenger or crew fatality in
scheduled passenger carrying flight operations*

Wm. H. Rouse



DIVISION OF CARGO SPACE FACILITATES LOADING

**EASILY ACCESSIBLE FROM TWO-DECK CART, LARGE
INDIVIDUAL STATION CARGO BINS ON BOTH SIDES OF
FORWARD COMPARTMENT ARE QUICKLY LOADED.**



ONE MAN BAGGAGE CARTS

RAMP AGENT LOADS BAGGAGE AND CARGO WHILE PURSER HANDLES PASSENGER TRAFFIC.

BOARD of DIRECTORS

LELAND HAYWARD, *Chairman*

BERT ALLENBERG ALWIN W. JOHNSON
JOHN H. CONNELLY DANIEL O'SHEA
FLOYD HENDRICKSON WALTER ROCHE
WILLIAM B. SMULLIN

OFFICERS

JOHN H. CONNELLY, *President and General Manager*

T. R. MITCHELL, *Executive Vice President*
R. E. COSTELLO, *Vice President Traffic and Sales*
WALTER ROCHE, *Secretary*

ALWIN W. JOHNSON, *Vice President and Treasurer*
MAX A. KING, *Vice President Public Relations*
FLOYD HENDRICKSON, *Assistant Secretary*

AUDITORS

PRICE, WATERHOUSE & Co.
351 California Street, San Francisco, California

REGISTRAR and TRANSFER AGENT

WALTER ROCHE
309 First National Bank Building, Phoenix, Arizona

SOUTHWEST AIRWAYS COMPANY

San Francisco International Airport, South San Francisco, California



PRESIDENTS REPORT

to the stockholders and employees of Southwest Airways Company

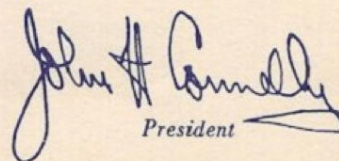
The statement of Income reproduced herein for the year of 1953, as certified by our auditors, Price, Waterhouse & Company, reflects a net loss of \$90,812 based upon a temporary mail rate from July 22, 1953. The final determination of revenues for that period will not be known until settlement of the mail rate proceedings which is now in process. It is anticipated that this settlement will be concluded in July of this year. The new mail rate, when determined, will be retroactive to July 22, 1953, and, to the extent of any increase over our present temporary mail rate, will reduce or eliminate the loss for the period July 22, 1953, through December 31, 1953. If upon determination of the permanent mail rate the full amount applied for is allowed, there will be additional revenue to the company of \$100,538 for the year ended December 31, 1953.

The avenues which led to the loss for 1953 are clear. First, the inflationary cost spiral continued throughout the year of 1953. The second factor was the addition of Martinliner aircraft, early in 1953, to our operating fleet. The public introduction of this new equipment and the training costs of both our pilot and mechanical personnel were absorbed entirely by your company during the first half of 1953. The absorption of these costs became necessary because of the position taken by the Civil Aeronautics Board for the first time in the Pioneer Airlines' Mail Rate Case. This decision was issued over six months after the acquisition by Southwest of the Martinliners. Prior to the Pioneer decision and since the inception of the Civil Aeronautics Act of 1938, the Civil Aeronautics Board had recognized for rate purposes, increases in costs attributable to new equipment. Third, during the latter half of 1953 Southwest sustained a decrease in passenger revenue of approximately \$110,000 due to the closing of Camp Roberts at Paso Robles, Camp Cooke at Santa Maria, and Camp San Luis Obispo. The closing of these military camps was inevitable. Efforts toward replacing this lost mili-

tary revenue with civilian traffic are proving successful largely because of the stimulating effect of the Martinliners on traffic development.

After a full year of operating the Martinliners in scheduled service, we can now tell you that this equipment is well suited to our local type of operation; that its loading time at intermediate station gates is but 9/10 of a second longer than with our DC-3 equipment; that there are no operational or mechanical problems resulting from our standard procedure of shutting off one engine while loading at intermediate points, and that the built-in passenger stairs and carry-on luggage racks are properly located. The freight and mail compartments, which are divided into separate spaces for each city, serve to accelerate the loading and unloading and are definitely an improvement over the DC-3. Ground handling and flight characteristics are improved over the DC-3, and maintenance-wise the aircraft is sturdy and simple. Most important of all, the airplane is acceptable to our customers as is demonstrated by the fact that in the first year of operation of Martinliners a passenger load factor of 56.3% was achieved, resulting in an average load of 20.3 passengers per mile. This produced commercial revenues (exclusive of mail pay) of \$1.18 for each mile flown. While the Martinliner is efficient on high density flights, the DC-3 is more efficient on the lighter density flights and in this respect will be suitable in local airline operations for many more years.

The management has confidence that having weathered the equipment and military traffic problems of 1953, your company is now in a more favorable equipment position to meet the local air transportation needs of the rapidly growing area which it serves.


President

ASSETS

	December 31	
	1953	1952
CURRENT ASSETS:		
Cash in banks and on hand.....	\$ 147,993	\$ 171,622
Accounts receivable:		
U.S. Government—mail, passengers and other.....	250,347	219,968
Traffic and agents.....	188,393	180,099
Miscellaneous, less allowances for possible losses in collection (1953 - \$1,189; 1952 - \$864).....	41,916	36,619
Employees.....	2,345	2,210
Refundable federal taxes on income.....	49,023	
Inventories of materials and supplies, motor fuel, and customers' work in process, at approximate cost, not in excess of market.....	199,513	183,469
Prepaid expenses.....	161,239	79,494
	<u>\$1,040,769</u>	<u>\$ 873,481</u>
INVESTMENTS IN STOCKS OF SERVICE		
ORGANIZATIONS, at cost.....	\$ 4,321	\$ 4,321
PROPERTY AND EQUIPMENT, at cost:		
Flight equipment—pledged under note payable.....	\$2,545,862	\$2,305,908
Ground and other equipment.....	426,975	441,268
	<u>\$2,972,837</u>	<u>\$2,747,176</u>
Less—Accumulated depreciation.....	1,262,655	1,155,445
	<u>\$1,710,182</u>	<u>\$1,591,731</u>
Construction work in progress.....	25,339	
	<u>\$1,735,521</u>	<u>\$1,591,731</u>
DEFERRED CHARGES:		
Extension and development expense.....	\$ 22,092	\$ 23,932
Other.....	22,998	11,253
	<u>\$ 45,090</u>	<u>\$ 35,185</u>
	<u>\$2,825,701</u>	<u>\$2,504,718</u>

WAYS COMPANY

(CORPORATION)

BALANCE SHEET

LIABILITIES

December 31

CURRENT LIABILITIES:

	1953	1952
Note payable to bank.....	\$ 175,000	\$ 87,500
Accounts payable.....	729,326	490,398
Taxes collected or withheld from others.....	77,773	66,086
Accrued expenses.....	86,552	77,032
Transportation sold, not yet used or refunded.....	33,697	26,714
Federal taxes on income (estimated).....		53,140
	<u>\$1,102,348</u>	<u>\$ 800,870</u>

LONG-TERM DEBT:

Note payable to bank, maturing in monthly installments to November 15, 1957, interest at 5% per annum (installments due within one year included in current liabilities) — secured by chattel mortgage on flight equipment (Note B).....

\$ 504,000 \$ 412,500

Conditional sales contracts, payable through 1958.....

18,817
\$ 522,817 \$ 412,500

CAPITAL STOCK AND SURPLUS:

Common stock:

Authorized, 10,000,000 shares of 50c par value per share

Issued—671,410 shares.....

\$ 335,705 \$ 335,705

Paid-in surplus.....

246,324 246,324

Earnings retained for use in the business, per accompanying statement.....

618,507 709,319

\$1,200,536 \$1,291,348

\$2,825,701 \$2,504,718



STATEMENT

of Income and Earnings Retained for Use in the Business

	Year ended December 31	
	1953	1952
Operating revenues:		
Passenger.....	\$1,926,293	\$1,727,621
Mail.....	1,065,121	1,031,734
Express.....	25,059	23,718
Freight.....	44,447	48,788
Charter.....	159,710	14,092
Excess baggage.....	7,569	6,705
Other.....	16,039	30,411
Total operating revenue.....	<u>\$3,244,238</u>	<u>\$2,883,069</u>
Operating expense:		
Flying operations.....	\$1,068,165	\$ 889,930
Flight equipment maintenance.....	372,795	220,766
Depreciation on flight equipment.....	154,190	95,581
	<u>\$1,595,150</u>	<u>\$1,206,277</u>
Ground operations.....	\$ 587,666	\$ 520,901
Ground and indirect maintenance.....	268,653	201,563
Passenger service.....	154,313	146,108
Traffic and sales.....	375,541	324,758
Advertising and publicity.....	104,008	86,498
General and administrative.....	240,537	227,282
Depreciation on ground equipment.....	47,727	27,026
	<u>\$1,778,445</u>	<u>\$1,534,136</u>
Total operating expense.....	<u>\$3,373,595</u>	<u>\$2,740,413</u>
Operating profit (loss).....	(\$129,357)	\$ 142,656
Other income:		
Net gain on disposition of equipment.....	\$ 63,511	\$ 42,187
Interest.....	237	6,916
Other.....	2,355	1,485
	<u>\$ 66,103</u>	<u>\$ 50,588</u>
Other deductions:		
Interest.....	\$ 35,533	\$ 4,176
Extension and development.....	18,820	48,257
Personnel training, new equipment.....	21,986	
Other.....	4,360	2,097
	<u>\$ 80,699</u>	<u>\$ 54,530</u>
Provision for estimated federal taxes on income.....	(\$143,953)	\$ 138,714
Excess provision for federal taxes on income in prior year.....	4,118	52,000
Credit arising from claim for refund of federal taxes on income resulting from carry-back of 1953 operating loss.....	49,023	
Net income (loss) for year.....	(\$90,812)	\$ 86,714
Earnings retained for use in the business, beginning of year.....	709,319	587,102
Reserve for aircraft engine overhaul restored to earnings retained for use in the business.....		35,503
Earnings retained for use in the business, end of year.....	<u>\$ 618,507</u>	<u>\$ 709,319</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 1953

NOTE A

The Company is operating under a temporary certificate of public convenience and necessity which expires September 30, 1954. An application was filed on January 11, 1954, for the renewal of the Company's certificate.

NOTE B

The bank loan agreement provides, among other things, that the Company (1) will not, without the prior written consent of the bank, pay any dividends in cash or purchase, redeem or otherwise acquire for value any of its outstanding shares, and (2) after December 31, 1952, will maintain current assets in excess of current liabilities by an amount equal to fifty per cent of net income before depreciation but after all taxes and principal payments on the loan; this provision is cumulative and applies as to each fiscal year within ninety days after the termination of such year. Until January 1, 1955, in computing working capital under the agreement, the Company need not include in current liabilities any principal payments on the loan in excess of a total amount of \$84,000.

NOTE C

Air mail revenue for the period from July 22, 1953, to December 31, 1953, has been determined on the basis of a temporary mail rate fixed by the Civil Aeronautics Board on April 5, 1954; a proceeding for the determination of a more favorable final air mail rate is presently pending before the Board.

NOTE D

During 1953 the Company changed the estimated residual value of its Douglas DC-3 aircraft from 5% to 10% of cost in order to conform with the basis allowed by the Civil Aeronautics Board in computing air mail rates. As a result, the depreciation provided during 1953 was approximately \$40,000 less than would have been provided had no change been made.



SOUTHWEST AIRWAYS

PRICE WATERHOUSE & CO.

351 CALIFORNIA STREET

SAN FRANCISCO 4

April 14 1954

To the Board of Directors of
Southwest Airways Company

In our opinion, the accompanying financial statements, together with the notes thereto, present fairly the position of Southwest Airways Company as of December 31 1953 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. Our examination of such financial statements 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. Certain receivables from the United States Government selected for test were not confirmed by direct correspondence, but we satisfied ourselves by other auditing procedures as to these items.

Price Waterhouse

FINANCIAL SUMMARY

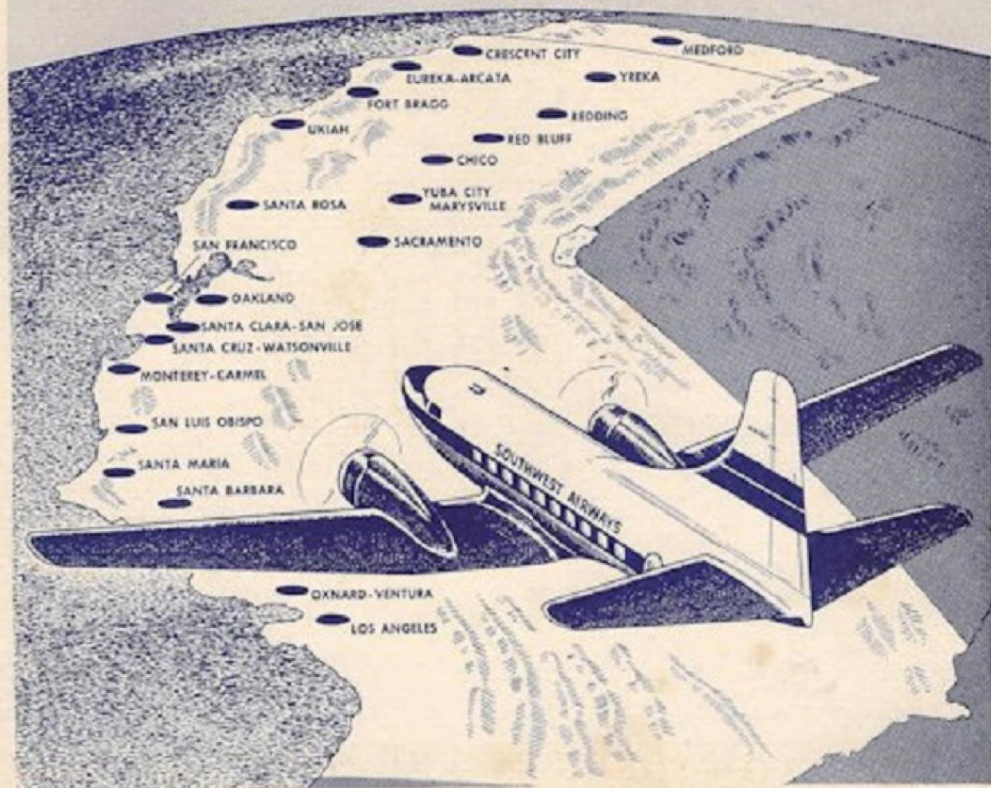
Operating Revenues:	1953	1952	1951	1950	1949	1948
<i>Passenger, express, freight, charter, etc.</i>	\$2,179,117	\$1,851,335	\$1,601,833	1,269,857	\$1,148,588	\$ 962,421
<i>Mail</i>	1,065,121	1,031,734	789,131	943,888	1,249,992	1,401,332
<i>Total operating revenues</i>	\$3,244,238	\$2,883,069	\$2,390,964	\$2,213,745	\$2,398,580	\$2,363,753
Operating Expenses.....	3,373,595	2,740,413	2,352,265	1,968,883	2,263,878	2,283,989
Operating Profit or (Loss).....	\$(129,357)	\$ 142,656	\$ 38,699	\$ 244,862	\$ 134,702	\$ 79,764
<i>Non-operating income (expense)</i>	(14,596)	(3,942)	56,932	(16,856)	(481)	(15,602)
Net Profit or (Loss) Before Federal Income Taxes.....	\$(143,953)	\$ 138,714	\$ 95,631	\$ 228,006	\$ 134,221	\$ 64,162
<i>Federal income taxes</i>	(53,141)	52,000	22,400	92,533	53,078	36,100
Net Profit or (Loss) After Taxes.....	\$(90,812)	\$ 86,714	\$ 73,231	\$ 135,473	\$ 81,143	\$ 28,062

SUMMARY of TRAFFIC and OPERATIONS

	1953	1952	1951	1950	1949	1948
Number of passengers carried	188,366	165,057	137,821	121,971	115,918	97,954
Revenue passenger miles in scheduled service	34,753,675	31,133,636	26,332,303	22,236,008	20,947,484	17,783,649
Available seat miles in scheduled service.....	63,007,173	56,621,670	51,216,039	48,546,414	50,399,055	49,356,216
Per cent of available seat miles used.....	55.16%	54.99%	51.41%	45.80%	41.56%	36.03%
Route miles operated.....	1,153	1,153	1,153	1,153	1,153	1,130
Revenue aircraft miles flown.....	2,845,172	2,716,503	2,526,630	2,375,224	2,419,695	2,363,827
Mail ton miles carried.....	78,443	84,432	62,909	46,406	51,136	45,892

SOUTHWEST AIRWAYS

Serves more California Cities than any other Scheduled Airline



Above all • fly

SOUTHWEST AIRWAYS