

Sixteenth
ANNUAL REPORT 1955

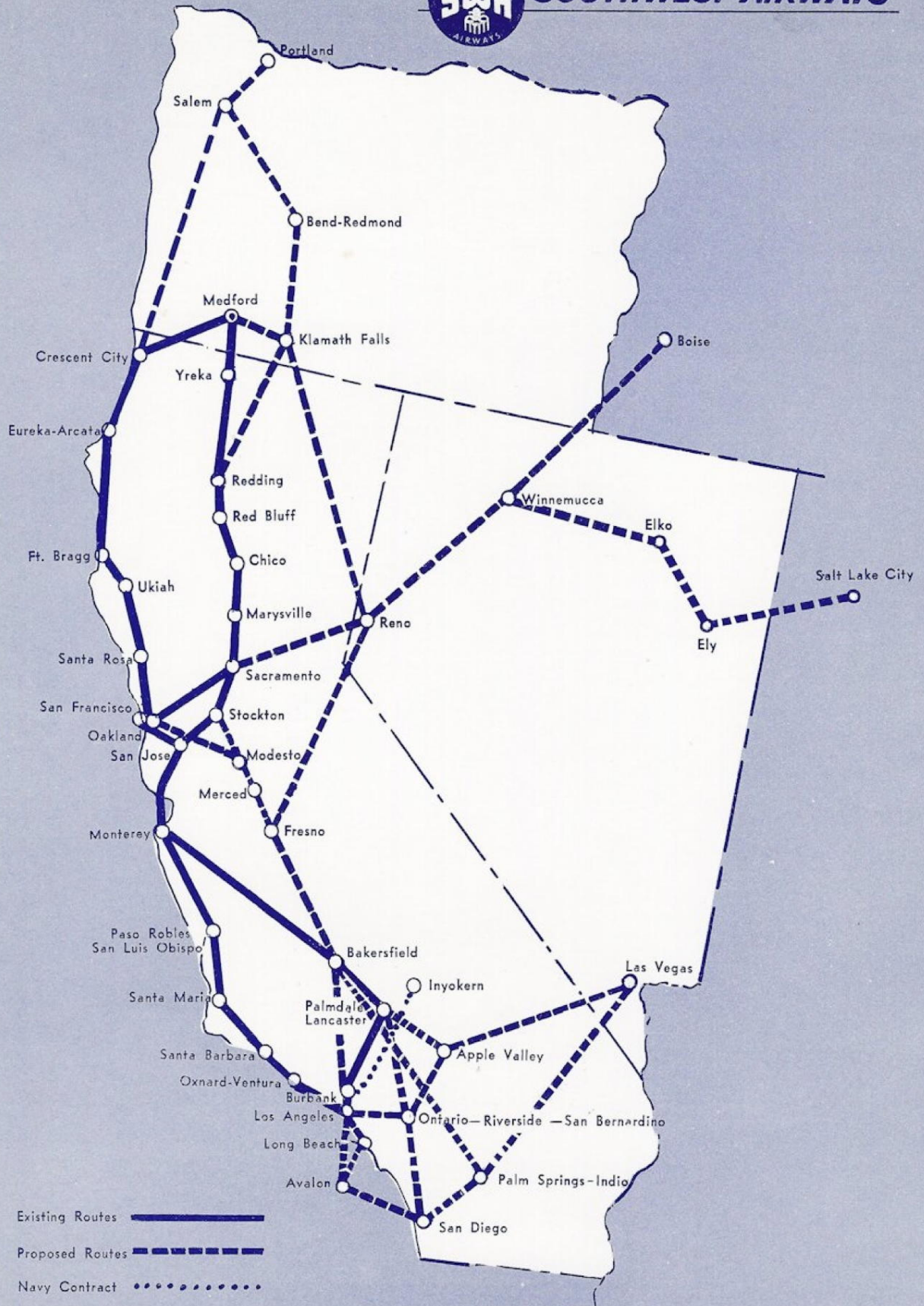


SOUTHWEST AIRWAYS





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Eighty-fourth Congress of the United States of America

AT THE FIRST SESSION

Begun and held at the City of Washington on Wednesday, the fifth day of January, one thousand nine hundred and fifty-five

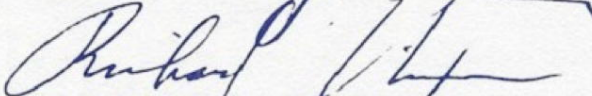
An Act

To amend section 401 (e) of the Civil Aeronautics Act of 1938, as amended.

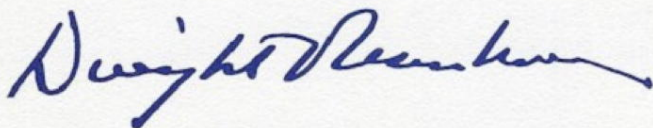
Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 401 (e) of the Civil Aeronautics Act of 1938, as amended (49 U. S. C. 487 (e); 52 Stat. 987), is amended by adding at the end thereof the following:

*"(3) If any applicant who makes application for a certificate within one hundred and twenty days after the date of enactment of this paragraph shall show that, from January 1, 1953, to the date of its application, it or its predecessor in interest, was an air carrier furnishing, within the continental limits of the United States, local or feeder service consisting of the carriage of persons, property, and mail, under a temporary certificate of public convenience and necessity issued by the Civil Aeronautics Board, continuously operating as such (except as to interruptions of service over which the applicant or its predecessors in interest have no control) the Board, upon proof of such fact only, shall, unless the service rendered by such applicant during the period since its last certification has been inadequate and inefficient, issue a certificate or certificates of unlimited duration, authorizing such applicant to engage in air transportation between the terminal and intermediate points within the continental limits of the United States between which it, or its predecessor, so continuously operated between the date of enactment of this paragraph and the date of its application: *Provided*, That the Board in issuing the certificate is empowered to limit the duration of the certificate as to not over one-half of the intermediate points named therein, which points it finds have generated insufficient traffic to warrant a finding that the public convenience and necessity requires permanent certification at such time."*


Speaker of the House of Representatives


*Vice President of the United States and
President of the Senate.*

APPROVED
MAY 19 1955





SOUTHWEST AIRWAYS COMPANY

General Offices:
San Francisco International Airport
San Francisco, California

OFFICERS

John H. Connelly *President and General Manager*
Ted R. Mitchell *Executive Vice-President*
Alwin W. Johnson *Vice-President and Treasurer*
R. E. Costello *Vice-President—Traffic and Sales*
Max A. King *Vice-President—Public Relations*
Walter Roche *Secretary*
Floyd Hendrickson *Assistant Secretary*

BOARD OF DIRECTORS

Leland Hayward, *Chairman*

Bert Allenberg	Ted R. Mitchell*
John H. Connelly	Daniel O'Shea
Floyd Hendrickson	Walter Roche
Alwin W. Johnson	William B. Smullin

*Elected June 4, 1956

AUDITORS

PRICE, WATERHOUSE & COMPANY
120 Montgomery Street, San Francisco, California

REGISTRAR AND TRANSFER AGENT

WALTER ROCHE

858 First National Bank Building
Phoenix, Arizona



P R E S I D E N T ' S R E P O R T

To the stockholders and employees of Southwest Airways Company

Gross operating revenues reached a new high of \$4,228,022 for the year 1955, an increase of 22.36% over the previous year. This gain was accomplished in spite of a 9.67% reduction in federal subsidy. Net earnings for the year were \$115,518 or \$.17 per share of outstanding capital stock after providing for federal income taxes of \$72,784. Our auditors, Price Waterhouse & Company, have prepared detailed financial statements which cover the year's operations and are printed immediately after this letter.

The following important events occurred in 1955 having a direct effect on your company's business:

As a result of legislation passed by Congress and signed by the President of the United States on May 19, 1955, the Civil Aeronautics Board issued to your company the first permanent operating certificate awarded to a local service air line. The significance of having a franchise of unlimited duration will be reflected in future years by a stability of operations not heretofore possible.

A new route was awarded to the Company for a three-year period between San Francisco and Los Angeles, California, via the intermediate points San Jose, Monterey, Bakersfield, Palmdale/Lancaster, and Burbank. Service on this new route was inaugurated on January 19, 1956. Operating restrictions over the Company's entire system were also liberalized so that flights operating between terminal points are now required to make only two intermediate stops, provided that a service pattern is maintained which will give each city served at least two trips per day. This change in restrictions has made it possible to now provide non-stop service for the first time between (a) Eureka/Arcata and San Francisco and (b) Monterey and Los Angeles; one stop service between San Jose and Los Angeles; and one stop service between Bakersfield and San Francisco. Service from Sacramento to Los Angeles is also greatly improved. The Civil Aeronautics Board, at the same time, decided

to restore United Air Lines' competitive service to Santa Barbara and Monterey. This decision will result in a substantial diversion of the business we have developed over the past several years at these cities. The resulting reduction in income will be covered by additional public service revenue, and a petition for such increased federal subsidy was filed with the Civil Aeronautics Board in January 1956.

The Company's fleet of aircraft was increased in 1955 by one Martinliner, one Douglas DC-3, and one Lockheed 12-A executive-type airplane which will be used for charter and executive travel. In addition, two Martinliner aircraft were purchased in January 1956. At the present time our fleet consists of 7 Martinliners, 10 Douglas DC-3 aircraft, and one Lockheed 12-A.

On December 29, 1955, a fire razed one of the leased hangers which we occupied on the San Francisco Airport and destroyed one Martinliner aircraft and a substantial amount of equipment and other personal property. The loss was fully insured and collection of insurance proceeds has already been accomplished. The aircraft was replaced within a few days and there was no interruption whatsoever of our normal air line service.

Service to the public was improved in 1955 over the previous year by an increase of 29.39% in revenue miles flown, providing service to 268,618 passengers. This represents an increase of 64,804 in passengers carried or 31.3%.

Since the close of the year public hearings have been commenced by the Civil Aeronautics Board to consider the extension of the Company's routes to Reno and Las Vegas, Nevada. A decision may be expected before the end of 1956. In addition, the Company has filed route applications extending north to Portland, Oregon; west to Boise, Idaho and Salt Lake City, Utah; and south to San Diego, California.

Respectfully submitted,

**ASSETS**

	<i>December 31</i>	
	<i>1955</i>	<i>1954</i>
<i>Current Assets:</i>		
Cash	\$ 188,004	\$ 217,958
Accounts receivable:		
U. S. Government—mail, passengers and other	188,796	335,612
Traffic and agents	247,845	201,155
Insurance claims receivable (Note A)	178,758	
Miscellaneous, less allowance for possible losses in collection (1955—\$467; 1954—\$570)	28,757	30,003
Employees	3,143	2,885
Inventories of materials and supplies, motor fuel, and customers' work in process, at approximate cost, not in excess of market	184,123	175,524
Prepaid expenses	68,800	112,561
	<u>\$ 1,088,226</u>	<u>\$ 1,075,698</u>
<i>Insurance Claims Receivable</i> (Note A)	<u>\$ 751,078</u>	
<i>Property and Equipment</i> , at cost:		
Flight equipment—pledged under note payable	\$ 2,442,432	\$ 2,608,070
Ground and other equipment	300,304	445,631
	<u>\$ 2,742,736</u>	<u>\$ 3,053,701</u>
Less—Accumulated depreciation	1,461,432	1,488,562
	<u>\$ 1,281,304</u>	<u>\$ 1,565,139</u>
Construction in progress	24,260	11,283
	<u>\$ 1,305,564</u>	<u>\$ 1,576,422</u>
<i>Investments in Stocks of Service Organizations</i> , at cost	<u>\$ 4,321</u>	<u>\$ 4,321</u>
<i>Deferred Charges:</i>		
Extension and development expense	\$ 15,814	\$ 34,083
Other	25,041	33,265
	<u>\$ 40,855</u>	<u>\$ 67,348</u>
	<u>\$ 3,190,044</u>	<u>\$ 2,723,789</u>

**LIABILITIES**

	<i>December 31</i>	
	1955	1954
<i>Current Liabilities:</i>		
Note payable to bank, current instalments	\$ 132,000	\$ 168,000
Accounts payable	597,777	602,724
Taxes collected or withheld from others	69,674	61,648
Accrued expenses	79,854	90,177
Transportation sold, not yet used or refunded	22,678	20,358
Federal taxes on income (estimated) (Note A)	72,658	104,000
	<u>\$ 974,641</u>	<u>\$ 1,046,907</u>
<i>Long-Term Debt:</i>		
Notes payable to bank — secured by Chattel mortgage on flight equipment (Note B):		
4% note maturing in monthly instalments to February 15, 1960	\$ 434,000	
5% note		\$ 336,000
Conditional sales contracts, payable through 1958	8,397	13,607
	<u>\$ 442,397</u>	<u>\$ 349,607</u>
<i>Provision For Federal Income Taxes of Future Years</i> (Note A)	<u>\$ 171,711</u>	
<i>Capital Stock and Surplus:</i>		
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 (Note B)	1,019,266	745,246
	<u>\$ 1,601,295</u>	<u>\$ 1,327,275</u>
	<u>\$ 3,190,044</u>	<u>\$ 2,723,789</u>



SOUTHWEST AIRWAYS

STATEMENT OF EARNINGS

	<i>Year Ended December 31</i>	
	1955	1954
Operating revenues:		
Passenger	\$ 2,781,027	\$ 2,006,971
Mail	74,259	61,885
Charter and contract operations	293,683	226,700
Express, freight and excess baggage	94,851	69,382
Other	19,390	22,514
	<u>\$ 3,263,210</u>	<u>\$ 2,387,452</u>
Federal subsidy	964,812	1,068,067
	<u>\$ 4,228,022</u>	<u>\$ 3,455,519</u>
Operating expenses:		
Flying operations	\$ 1,287,113	\$ 1,014,978
Flight equipment maintenance	554,057	340,801
Depreciation on flight equipment	184,450	189,461
	<u>\$ 2,025,620</u>	<u>\$ 1,545,240</u>
Ground operations	\$ 641,880	\$ 528,081
Ground and indirect maintenance	291,425	233,089
Passenger service	177,120	136,826
Traffic and sales	446,009	352,911
Advertising and publicity	107,615	84,886
General and administrative	314,456	252,097
Depreciation on ground equipment	52,450	52,561
	<u>\$ 2,030,955</u>	<u>\$ 1,640,451</u>
	<u>\$ 4,056,575</u>	<u>\$ 3,185,691</u>
Operating income	<u>\$ 171,447</u>	<u>\$ 269,828</u>
Other (income) and expense:		
Interest	\$ 27,786	\$ 30,485
Extension and development	21,058	8,553
Net loss on disposition of assets	621	1,715
Other, net	(14,395)	(1,664)
	<u>\$ 35,070</u>	<u>\$ 39,089</u>
	<u>\$ 136,377</u>	<u>\$ 230,739</u>
Estimated federal taxes on income	65,784	104,000
Net earnings before extraordinary credit	\$ 70,593	\$ 126,739
Extraordinary item:		
Excess of insurance recoverable over carrying value of replacement parts, etc. destroyed by fire, less estimated federal income taxes \$7,000	44,925	
Net earnings for year	\$ 115,518	\$ 126,739
Earnings retained for use in the business:		
Balance, beginning of year	745,246	618,507
Excess of insurance recoverable over net book value of equipment destroyed by fire, less provision for federal income taxes of future years (Note A)	158,502	
Balance, end of year	<u>\$ 1,019,266</u>	<u>\$ 745,246</u>

PRICE WATERHOUSE & CO.

120 MONTGOMERY STREET
SAN FRANCISCO 4

June 27 1956

To the Board of Directors of
Southwest Airways Company

In our opinion, the accompanying statements, together with the notes thereto, present fairly the financial position of Southwest Airways Company as of December 31 1955 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 & Co.

NOTES TO FINANCIAL STATEMENTS

December 31, 1955

Note A

On December 29, 1955, fire destroyed certain equipment and replacement parts having an aggregate net book value of approximately \$525,000, and subsequent to December 31, 1955 insurance claims totaling approximately \$910,000 were collected by the Company; claims remaining to be settled are nominal in amount. Claims receivable for damages sustained to replacement parts have been included in current assets and claims receivable for damages sustained to equipment have been shown separately.

The Company proposes to elect use of the involuntary conversion provisions of Section 1033 of the Internal Revenue Code of 1954, under which (a) taxable income is limited to the amount by which the insurance proceeds exceed the cost of equipment purchased to replace that destroyed and (b) the tax cost basis of the new equipment will be equal to the basis of the destroyed equipment. The Company proposes to record in its accounts the newly acquired equipment at purchase cost, which is greater than the tax basis of the destroyed equipment, and therefore, in future years the depreciation recorded in

the accounts will exceed the amount allowable for income tax purposes. The excess of insurance recoverable over net book value of equipment destroyed, less provision for federal income taxes of future years (representing estimated taxes which will be payable on income equivalent to the difference between depreciation per books and depreciation allowable for tax purposes), has been credited to earnings retained for use in the business.

Note B

A new loan agreement was entered into January 3, 1956 and subsequently amended whereby the bank loan has been increased to \$1,202,000 to provide for the purchase of additional flight equipment. The new loan will mature in monthly instalments of \$15,000 to November 15, 1960 with interest at 4% per annum; the remaining unpaid principal matures December 15, 1960. The 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) will maintain current assets at least equal to current liabilities.

Note C

The Company is now operating under a certificate of public convenience and necessity of unlimited duration, ordered by the Civil Aeronautics Board September 27, 1955.

SOUTHWEST AIRWAYS COMPANY

Nine Year Record of Progress

FINANCIAL

	Total Revenues	Operating Expenses	Non-Operating Income (Expense)	Profit or (Loss) Before Income Taxes	Federal Income Taxes	Net Profit or (Loss) After Taxes
1955	\$4,228,022	\$4,056,575	\$16,855	\$188,302	\$ 72,784	\$115,518
1954	3,455,519	3,185,691	(39,089)	230,739	104,000	126,739
1953	3,271,655	3,401,012	(14,596)	(143,953)	(53,141)	(90,812)
1952	2,883,069	2,740,413	(3,942)	138,714	52,000	86,714
1951	2,390,964	2,352,265	56,932	95,631	22,400	73,231
1950	2,213,745	1,968,883	(16,856)	228,006	92,533	135,473
1949	2,398,580	2,263,878	(481)	134,221	53,078	81,143
1948	2,363,753	2,283,989	(15,602)	64,162	36,100	28,062
1947	2,214,961	2,172,077	(37,403)	5,481	5,481



OPERATIONS AND TRAFFIC

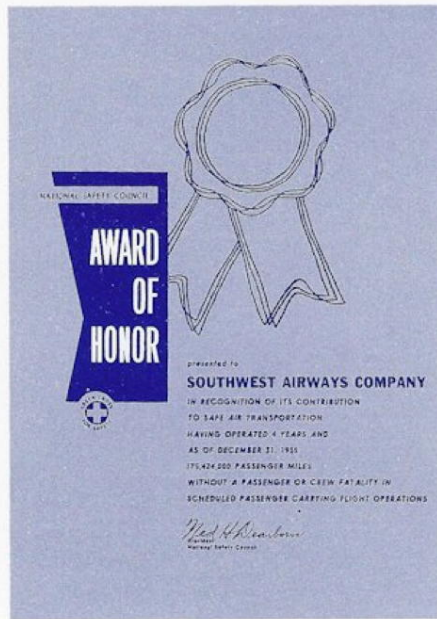
	Revenue Miles Flown	Number of Passengers Carried			Seat Miles—Scheduled Service		
		Total	Charter, Etc.	Scheduled Service	Sold	Produced	% Sold
1955	3,316,457	268,618	32,535	236,083	47,131,928	79,005,186	59.66%
1954	2,563,039	203,814	23,099	180,715	34,842,303	57,528,963	60.56%
1953	2,845,172	188,366	9,549	178,817	34,763,675	63,007,173	55.16%
1952	2,716,503	165,057	776	164,281	31,133,636	56,621,670	54.99%
1951	2,526,630	137,821	2,663	135,158	26,332,303	51,216,039	51.41%
1950	2,375,224	121,971	3,111	118,860	22,236,008	48,546,414	45.80%
1949	2,419,695	115,918	1,345	114,573	20,947,484	50,399,055	41.56%
1948	2,363,827	97,424	530	97,424	17,783,649	49,356,216	36.03%
1947	1,854,117	85,076	1,082	83,994	15,160,237	38,627,001	39.25%



New Terminal Building, Sacramento, California



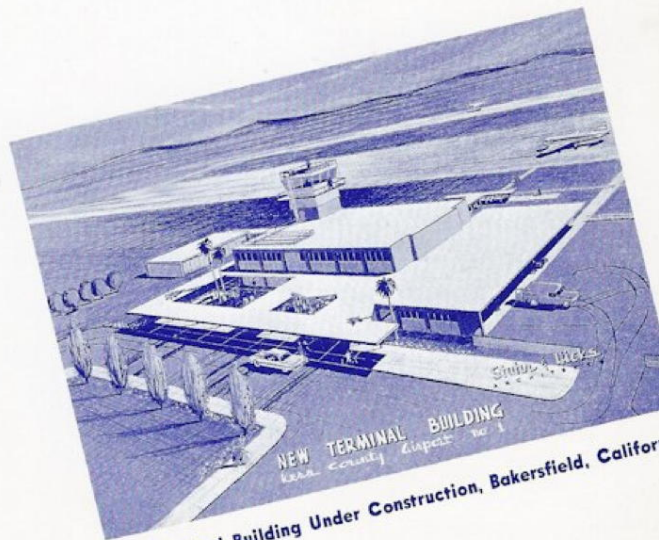
"Spirit of St. Louis" Visits Southwest



Safety Award



Hydraulic Lift Speeds Baggage Handling



NEW TERMINAL BUILDING
 Kern County Airport No. 1
 Bakersfield, California

