



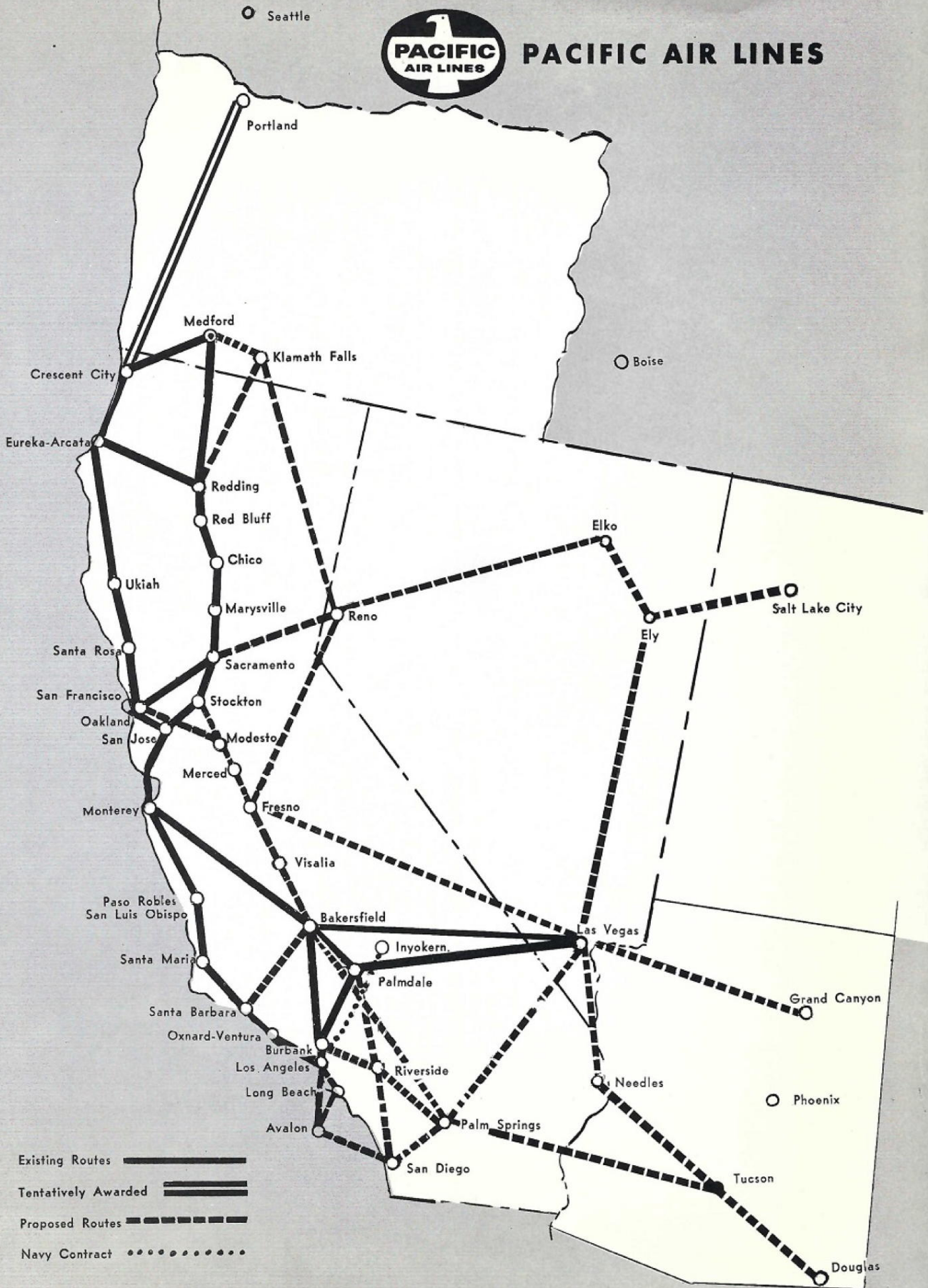
* FORMERLY SOUTHWEST AIRWAYS



ANNUAL REPORT 1957



PACIFIC AIR LINES



- Existing Routes
- Tentatively Awarded
- Proposed Routes
- Navy Contract



PACIFIC AIR LINES, INC.

General Offices:
San Francisco International Airport
San Francisco 28, California

OFFICERS

John H. Connelly *President and General Manager*
T. R. Mitchell *Executive Vice-President*
E. Roger Dahl *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	**Harry White
John H. Connelly	T. R. Mitchell
*R. E. Costello	Daniel O'Shea
Floyd Hendrickson	Walter Roche
William B. Smullin	

AUDITORS

PRICE WATERHOUSE & CO.
120 Montgomery Street, San Francisco, California

REGISTRAR

Bank of America
300 Montgomery Street
San Francisco

TRANSFER AGENT

Crocker-Anglo National Bank
1 Montgomery Street
San Francisco

* Resigned June, 1958
** Elected June, 1958



PACIFIC AIR LINES

THE YEAR IN BRIEF

	1957	1956
FINANCIAL		
Operating revenues, including subsidy	\$ 6,402,996	\$ 5,225,736
Operating expenses	6,044,896	5,154,251
Non-operating expenses	122,961	48,230
Net income, after taxes	103,139	5,010
Extraordinary income	125,645	
Retained earnings	1,253,060	1,024,276
Total stockholders' equity	1,835,089	1,606,305
Stockholders' Equity Per Share	2.73	2.39
STATISTICAL		
Revenue miles flown	4,551,716	4,048,797
Number of passengers carried*	319,276	259,522
Available seat miles flown*	124,398,543	107,084,154
Available seat miles sold*	69,999,789	55,917,208
Per cent of available capacity sold	56.3%	52.2%

* Scheduled Service

Serving more than 30 cities in California, Oregon, and Nevada



THE PRESIDENT'S REPORT

TO OUR STOCKHOLDERS, EMPLOYEES, AND FRIENDS

The year 1957 was one of continued progress for Pacific Air Lines. During the year we flew an all-time high of 319,000 passengers almost 70,000,000 passenger miles.

On September 29, 1957, we inaugurated daily round-trip service from Burbank to Las Vegas, and from San Francisco to Las Vegas. The traffic trends indicate that these routes will enjoy a substantial further growth and develop into important and profitable segments of our operations.

On March 7, 1958, the Civil Aeronautics Board approved our application to change the Company's name to Pacific Air Lines, Inc., which we believe to be more suitable of the area in which we serve.

At this time we find ourselves standing on the threshold of the jet age, which we are confident will result in vastly improved service to the public and, also, further opportunity for the progress of your company and its employees.

The following pages, reflecting economic data, are respectfully submitted.

President

Above all fly Pacific Air Lines

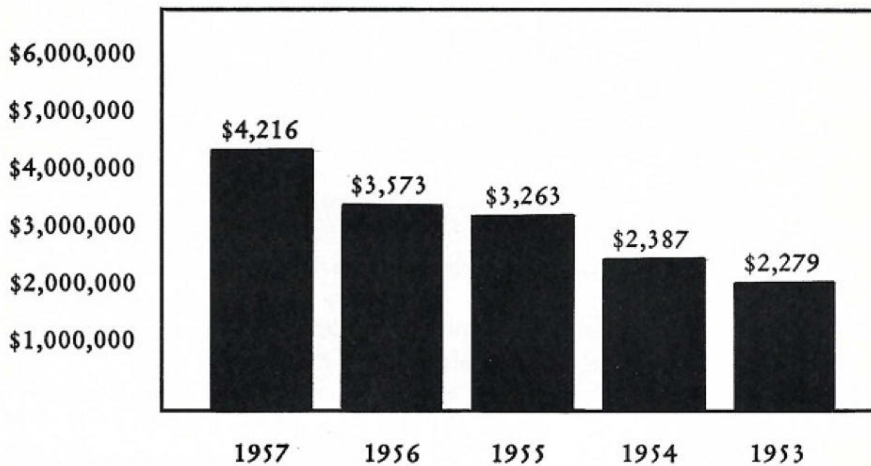


PACIFIC AIR LINES

FINANCIAL RESULTS

1957 revenues, excluding subsidy, reached an all-time high of \$4,216,000. The graph below depicts the growth during the last five years.

REVENUE GROWTH



In spite of the rising costs of providing service, the results of operations for the year produced a net profit, after taxes of \$103,139. At the end of the year stockholders' equity amounted to \$1,835,089 or \$2.73 per share and the net worth of your company was the highest in the local service industry.



FINANCIAL RESULTS — (Continued)

A petition has been presented to the Civil Aeronautics Board to establish a permanent rate of subsidy through June 30, 1958 and it is anticipated that the Board will act upon this petition late in 1958. The attached statement of earnings includes two thirds of the total amount of the claim remaining after a retroactive increase in the temporary rate in December, 1958.

During the 1957 session of Congress legislation was enacted whereby the government will guarantee 90% of a loan, up to \$5,000,000, to an air carrier for the purchase of new aircraft equipment. On November 17, 1958, our petition for such a guarantee was approved by the Civil Aeronautics Board and, consequently, a government-guaranteed loan commitment totaling slightly more than \$5,000,000 was obtained from the Bank of America. Your company has purchased six Fairchild aircraft under this loan and it is estimated that delivery of this equipment will be effected during the first half of 1959.

OPERATIONS AND EQUIPMENT

You will recall the disastrous fire which destroyed much of our overhaul facilities late in 1955. During 1957 we completed our rebuilding program and are proud to say that our overhaul shop is unequalled elsewhere in the local service industry. The modern facilities now allow us to perform all maintenance and overhauls necessary to "keep 'em flying" and, after expenditures for additional equipment, will also enable us to service the forty-four passenger turbo-prop Fairchild airplanes to be delivered in 1959.

At the end of the year our fleet consisted of 7 Martinliners and 11 DC-3 aircraft.



PACIFIC AIR LINES

B A L A N C E

A S S E T S

December 31

Current Assets:

	1957	1956
Cash	\$ 12,120	\$ 114,011
Accounts receivable:		
United States Government—mail, passengers and other (Notes C and D)	1,237,033	689,596
Traffic and agents	160,038	286,157
Miscellaneous, less allowance for possible losses (1957 - \$13,000; 1956 - \$2,692)	26,192	26,041
Employees	3,834	4,834
Inventories of materials and supplies, at approximate cost, not in excess of market	233,379	206,945
Prepaid expenses	114,489	119,873
	<u>\$ 1,787,085</u>	<u>\$ 1,447,457</u>

Property and Equipment, at cost:

Flight equipment—pledged under notes payable	\$ 3,661,357	\$ 3,736,446
Ground and other equipment	678,956	561,455
	<u>\$ 4,340,313</u>	<u>\$ 4,297,901</u>
Less—Accumulated depreciation	2,123,072	1,765,020
	<u>\$ 2,217,241</u>	<u>\$ 2,532,881</u>
Construction in progress	92,695	81,080
Deposits on purchase of flight equipment (Note B)	145,786	
	<u>\$ 2,455,722</u>	<u>\$ 2,613,961</u>

Investments in Service Organizations,

at cost	<u>\$ 4,321</u>	<u>\$ 4,321</u>
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Deferred Charges:

Extension and development expense ..	\$ 37,521	\$ 34,230
Other	157,293	164,795
	<u>\$ 194,814</u>	<u>\$ 199,025</u>
	<u>\$ 4,441,942</u>	<u>\$ 4,264,764</u>



LIABILITIES

December 31

<i>Current Liabilities:</i>	1957	1956
Notes payable—current instalments on long-term debt	\$ 490,187	\$ 335,210
Accounts payable	917,697	1,029,379
Taxes collected or withheld from others	92,108	79,985
Accrued expenses	155,960	134,545
Transportation sold, not yet used or refunded	29,997	28,876
Estimated federal income taxes	301,341	53,821
	<u>\$ 1,987,290</u>	<u>\$ 1,661,816</u>
 <i>Long-Term Debt:</i>		
5½% notes payable to bank—secured by chattel mortgage on flight equipment—maturing in monthly instalments to June 15, 1963 (Note A) ..	\$ 515,787	\$ 857,000
Conditional sales contracts		3,187
	<u>\$ 515,787</u>	<u>\$ 860,187</u>
 <i>Provision For Federal Income Taxes of Future Years</i>	 <u>\$ 103,776</u>	 <u>\$ 136,456</u>
 <i>Capital Stock and Surplus:</i>		
Common stock:		
Authorized, 10,000,000 shares of 50c par value per share (Note G)		
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 A)	1,253,060	1,024,276
	<u>\$ 1,835,089</u>	<u>\$ 1,606,305</u>
	 <u>\$ 4,441,942</u>	 <u>\$ 4,264,764</u>



PACIFIC AIR LINES

STATEMENT OF EARNINGS

	<i>Year ended December 31</i>	
	1957	1956
Operating revenues:		
Passenger	\$ 3,791,591	\$ 3,129,855
Mail	116,605	102,496
Charter and contract operations	199,257	224,101
Express, freight and excess baggage	91,684	95,855
Other	17,589	21,417
	<u>\$ 4,216,726</u>	<u>\$ 3,573,724</u>
Federal subsidy (Notes C and D)	2,186,270	1,652,012
	<u>\$ 6,402,996</u>	<u>\$ 5,225,736</u>
Operating expenses (Note H):		
Flying operations	\$ 1,906,179	\$ 1,604,876
Direct maintenance—flight equipment	1,014,200	847,228
Depreciation—flight equipment (Note E)	350,955	264,646
	<u>\$ 3,271,334</u>	<u>\$ 2,716,750</u>
Direct maintenance—ground equipment	\$ 82,204	\$ 72,280
Maintenance burden	351,828	320,164
Passenger service	231,340	209,605
Aircraft servicing	379,739	342,246
Traffic servicing	870,970	763,249
Promotion and sales	122,900	107,621
Advertising	218,956	193,828
General and administrative	424,850	383,529
Depreciation—ground equipment	90,775	44,979
	<u>\$ 2,773,562</u>	<u>\$ 2,437,501</u>
	<u>\$ 6,044,896</u>	<u>\$ 5,154,251</u>
Operating income	<u>\$ 358,100</u>	<u>\$ 71,485</u>
Other (income) and expenses:		
Interest	\$ 62,757	\$ 45,902
Extension and development	10,172	7,243
Net (gain) or loss on disposition of assets	6,741	(2,497)
Adjustment of spare parts inventory	43,417	
Other, net	(126)	(2,418)
	<u>\$ 122,961</u>	<u>\$ 48,230</u>
	<u>\$ 235,139</u>	<u>\$ 23,255</u>
Estimated federal income taxes	132,000	18,245
Net earnings for year	<u>\$ 103,139</u>	<u>\$ 5,010</u>
Additional temporary subsidy (\$12,100—Note C) and estimated final subsidy (\$249,660—Note D) for 1956, less related federal income tax	125,645	
	<u>\$ 228,784</u>	<u>\$ 5,010</u>
Earnings retained for use in the business:		
Balance, beginning of year	1,024,276	1,019,266
Balance, end of year	<u>\$ 1,253,060</u>	<u>\$ 1,024,276</u>

PRICE WATERHOUSE & CO.

120 MONTGOMERY STREET

SAN FRANCISCO 4

December 1 1958

To the Board of Directors of
Pacific Air Lines, Inc.

In our opinion, the accompanying statements present fairly the financial position of Pacific Air Lines, Inc. (formerly Southwest Airways Company) at December 31 1957 and the results of its operations for the year, in conformity with generally accepted accounting principles. These principles have been applied on a basis consistent with that of the preceding year, except for the change which we approve, in the basis of providing depreciation on certain flight equipment as described in Note E to the financial statements. Our examination of these 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 tests were not confirmed by direct correspondence, but we satisfied ourselves as to these amounts by means of other auditing procedures.

Price Waterhouse & Co.



NOTES TO FINANCIAL STATEMENTS

December 31, 1957

NOTE A:

Notes payable at December 31, 1957 comprised the following:

5½% secured bank loan, under agreement dated May 1, 1957, payable in monthly instalments of \$15,000 to May 15, 1958, and balance payable June 15, 1958.....\$	307,000
5½% secured bank loan, under agreement dated May 1, 1957, payable in monthly instalments of \$30,000 commencing July 15, 1958 to May 15, 1963, and balance payable June 15, 1963	695,787
Conditional sales contract	3,187
	<u>\$ 1,005,974</u>

During 1958, repayment extensions were obtained for both bank loans; as at November 21, 1958, the balances payable were \$142,000 and \$695,787, respectively.

On November 21, 1958, the Company entered into two new bank loan agreements to finance the purchase of new flight equipment (see Note B) and provision was made for repayment of the balances due under the May 1, 1957 loan agreement. Particulars of the new loan agreements are as follows:

5½% loan, payable in monthly instalments of \$16,700, commencing December 15, 1958—secured by the Company's present flight equipment.....\$	1,000,000
5¼% loan, payable in monthly instalments of \$5,500 for each new Fairchild aircraft acquired, to January 15, 1960, and \$33,000 monthly thereafter—to be secured by new Fairchild aircraft and equipment	3,964,500
5¼% loan, payable in monthly instalments of \$5,550, commencing July 15, 1959—to be secured by new Fairchild aircraft and equipment	666,500

On November 17, 1958, the Civil Aeronautics Board undertook to guarantee 90% of the principal amount and 100% of the interest on the two 5¼% loans aggregating \$4,631,000.

Under the terms of the November 21, 1958 loan agreements, the Company has agreed that (1) it will not, without the prior written consent of the bank, pay any dividends (except in stock) or purchase, redeem or otherwise acquire for value any if its outstanding shares, and (2) commencing January 1, 1959 will maintain current assets at least equal to current liabilities; for the purpose of this computation, current instalments under both loan agreements may be excluded from current liabilities and 60-75% of claims for retroactive subsidy pending before the Civil Aeronautics Board, less provision for taxes, may be included in current assets.

NOTE B:

The Company has undertaken a program calling for the purchase of six new Fairchild F-27 turbo-prop aircraft and related spare engines, equipment and parts for a total cost of approximately \$5,340,000, against which advance payments of \$145,786 had been made as of December 31, 1957. Delivery is scheduled for the first half of 1959, at which time the balance will be payable.

NOTE C:

On December 5, 1958, the Civil Aeronautics Board increased the temporary rate of pay for the transportation of mail for the period from January 9, 1956 to June 30, 1958. As a result, the Company is entitled to receive additional compensation of \$135,857 for 1957 and \$12,100 for 1956 and these amounts have been included in the accompanying financial statements.

NOTE D:

The Company has applied to the Civil Aeronautics Board to establish a final rate for the period January 9, 1956 through June 30, 1958, and has filed a claim for additional compensation for this period. In the opinion of the management, the amount claimed is reasonable and has been determined in accordance with airline subsidy practices and procedures. However, in order to provide for possible disallowances by the Civil Aeronautics Board only 66⅔% of the amount claimed for the period from January 9, 1956 to December 31, 1957, has been included in the accompanying financial statements; these amounts were \$276,590 for 1957 and \$249,660 for 1956.



NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 1957

NOTE E:

During the year ended December 31, 1957, the Company changed the basis of providing depreciation on certain flight equipment acquired during 1956 in order that such equipment would become fully depreciated at approximately the same time as similar equipment previously acquired. The effect of such change was to increase 1957 depreciation by approximately \$50,000.

NOTE F:

During 1956, the Company created an insured retirement plan for its pilots. During the year ended December 31, 1957, income was charged with \$28,476 representing cost of current service and a portion of past service liability. As at December 31, 1957, the estimated unfunded portion of past service costs, payable over the next nine years, amounted to approximately \$167,000.

On September 8, 1958, the Board of Directors approved a participating retirement plan for all employees of the Company, other than those who participate in the retirement plan for pilots. The plan

is to be insured and is to be effective July 1, 1958. To become eligible to participate in this plan an employee must have had five years service with the Company and have attained the age of 25; no credits accrue to employees for services prior to July 1, 1958. The estimated cost to the Company of such plan is not expected to exceed \$30,000 per year.

NOTE G:

On October 23, 1958, the Company's Articles of Incorporation were amended to increase the authorized capital stock of the Company to \$20,000,000 comprising 40,000,000 shares of common stock having a par value of 50c per share. This action was necessary under the laws of the State of Arizona in order to enable the Company to increase the limitation on maximum indebtedness.

NOTE H:

Operating expenses for the year ended December 31, 1956, have been reclassified in accordance with the provisions of the new uniform system of accounts prescribed by the Civil Aeronautics Board, effective January 1, 1957.

Soon...

ROLLS-ROYCE

JET-POWERED

F-27's



RADAR Equipped



PACIFIC AIR LINES



PACIFIC
AIR LINES