PACIFIC AIR LINES

19th Annual Report

1958

PACIFIC AIR LINES

BOARD OF DIRECTORS

Leland Hayward, Chairman

Bert Allenberg*	T. R. Mitchell
John H. Connelly	Daniel O'Shea
William Goetz	Walter Roche
Floyd Hendrickson	William B. Smullin

Harry White

GENERAL OFFICES:

San Francisco International Airport
San Francisco 28, California

OFFICERS:

John H. Connelly	*President and General Manager*
T. R. Mitchell	*Executive Vice President*
C. A. Myhre	*Vice President-Finance*
E. Roger Dahl	*Treasurer*
R. E. Costello	*Vice President-Traffic*
Max A. King	*Vice President-Sales*
Walter Roche	*Secretary*
Floyd Hendrickson	*Assistant Secretary*

AUDITORS

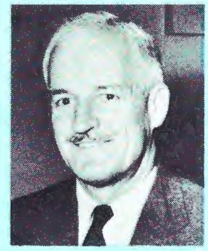
PRICE WATERHOUSE & CO.
120 Montgomery Street, San Francisco, California

REGISTRAR	TRANSFER AGENT
Bank of America	Crocker-Anglo National Bank
300 Montgomery Street	1 Montgomery Street
San Francisco	San Francisco

* Deceased

Leland Hayward
Chairman

John H. Connelly
President



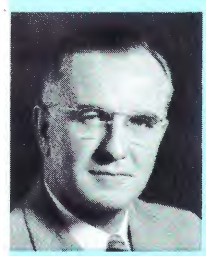
T. R. Mitchell
Vice President

C. A. Myhre
Vice President

E. Roger Dahl
Treasurer

R. E. Costello
Vice President

Floyd Hendrickson
Asst. Secretary



Walter Roche
Secretary

Max A. King
Vice President

President's Report

TO STOCKHOLDERS, EMPLOYEES, AND PATRONS
PACIFIC AIR LINES, INC.

OPERATING RESULTS

During the year 1958 more than 351,000 passengers were carried almost 79 million passenger miles in scheduled service, which is a 10 per cent increase in number of passengers carried and 12 per cent increase in passenger miles over the previous year. This growth was achieved in spite of the general business recession which was felt along the Pacific Coast during the first half of the year.

During this period more than 26,000 passengers were carried between Burbank-Las Vegas and San Francisco/Oakland-Las Vegas, over which routes service was inaugurated in September, 1957. Further substantial growth in this new market is anticipated for the coming year.

Shown below is a ten-year comparison which sets forth the gains your Company has made in market penetration and indicates the growing importance of the Company's contribution to the economic growth and development of the Pacific area.

	Miles Flown	Passengers Carried	Available Seat Miles	Passenger Miles	Load Factor
1958	5,384,049	351,982	147,312,486	78,331,650	53.2%
1957	4,551,716	319,276	124,398,543	69,999,789	56.3
1956	4,048,797	259,522	107,084,154	55,917,208	52.2
1955	3,316,457	236,083	79,005,186	47,131,928	59.7
1949	2,419,695	114,573	50,399,055	20,947,484	41.6

PACIFIC AIR LINES

REVENUE AND EXPENSE

Your Company's revenue, excluding mail pay (subsidy), increased 22 per cent over the previous year to a record high of $5,143,950. This increase was due primarily to the record number of passengers carried and an approximate 10 per cent increase in passenger fares.

As indicated in prior reports, Pacific Air Lines has been operating since January 9, 1956, under a temporary Mail Rate sufficient only to cover our operating break-even need. During December 1958 negotiations were begun with staff members of the Civil Aeronautics Board towards establishing a permanent mail rate, calculated to cover the above-mentioned break-even need recognized as necessary by the Civil Aeronautics Board and, also, a return after taxes, based on your Company's investment. These negotiations were concluded early in 1959 and, on May 19, 1959, the Board issued an order fixing a permanent rate for the period from Januay 9, 1956, through September 30, 1958. This order also fixed a rate for the year beginning October 1, 1958. In accordance with this order, cash funds totaling $869,419 were received on June 15, 1959. These funds substantially improve the working capital position of your Company as reflected in the accompanying financial statements.

The summary of the operating results for each of the three years ending December 31, (after adjustment for this revised rate) is presented below:

	YEAR ENDING DECEMBER 31		
Revenues:	1956	1957	1958
From transportation of passengers, freight, mail, etc.	$3,573,724	$4,216,726	$5,143,950
Federal subsidy	1,795,805	2,056,930	2,357,763
	$5,369,529	$6,273,656	$7,501,713
Operating expenses	5,154,251	6,044,896	7,263,997
Operating income	$ 215,278	$ 228,760	$ 237,716
Other expense, Net,	48,230	122,961	81,550
	$ 167,048	$ 105,799	$ 156,166
Estimated Federal income taxes	93,017	64,743	93,000
Net earnings for year	$ 74,031	$ 41,056	$ 63,166

FLIGHT EQUIPMENT

As previously reported to you, Pacific placed an order with Fairchild Engine & Airplane Company on February 15, 1957, for three F-27 jet powered 44-passenger aircraft. This order was subsequently increased to 6 aircraft, spare Rolls Royce engines, and other related spare equipment.

The first 3 F-27 airplanes were placed in revenue service on April 26, 1959, and the last 3, which were delivered in June, 1959, were placed in service as of July 1, 1959.

Financing for the above aircraft was arranged through the Bank of America on November 21, 1958, in the amount of $5,631,000, and, in accordance with Public Law No. 307, $4,631,000 of this loan is guaranteed by the United States Government.

Principal payments will aggregate $663,000 per year through 1963 and $463,000 per year for 1964 through 1968. It is anticipated that principal payments and a substantial portion of the interest payments will be provided by depreciation on all the Company's aircraft and related equipment.

Your Company's aircraft fleet now consists of 6 F-27 44-passenger jet powered aircraft; 7 Martin 44-passenger aircraft; 10 Douglas 28-passenger DC-3's; 1 Lockheed 6-place aircraft; and 1 PBY 28-place amphibian. The Lockheed is used by Company executives, auditors, and personnel in inspections of your stations at 28 cities. The amphibian will be used in charter and Catalina Island service.

ROUTE DEVELOPMENTS

In our continuing effort to strengthen, improve, and expand our system, the Company was involved in three major route cases during the year:

The PACIFIC NORTHWEST case concerned the question of additional local air service along the northern half of the Pacific Coast. On May 28, 1959, a Board order was issued whereby your Company's route was extended north to Portland and by the same order the route of West Coast Airlines was extended south to San Francisco. It is anticipated that service to Portland will be inaugurated (with your Company's newly-acquired jet powered Fairchild F-27 aircraft) during the summer of 1959.

In the PACIFIC SOUTHWEST case Civil Aeronautics Board certification is sought to provide non-stop service between the following pairs of cities: San Francisco-Los Angeles; San Francisco-Las Vegas; Burbank-Las Vegas; Los Angeles-Las Vegas; and Sacramento-Reno. Your Company has also applied to provide service to the San Joaquin Valley cities of Fresno, Modesto, and Visalia, as well as authority to serve the cities of San Diego, Palm Springs, and Long Beach. Formal hearings commenced in April, 1959, and it is expected that a final Board decision will be reached in 1960.

In the SERVICE TO SANTA CATALINA case, Docket No. 7149, the Company requested authority to provide service to Santa Catalina from Burbank, Los Angeles, Long Beach, and San Diego. This application was rejected by an order of the Board issued in April, 1959. However, upon petition for reconsideration, the Civil Aeronautics Board on June 4, 1959, issued Exemption Order No. E-13981 authorizing inauguration of service from Los Angeles, Burbank, and Long Beach to Catalina on a temporary basis pending final decision on our petition for reconsideration.

PERSONNEL

The progress made by your Company during 1958 was due in a large measure to the efforts of Pacific's skilled and loyal employees, all of whom are now covered by a Company pension plan. During this period Pacific reached amicable, collective bargaining agreements with all segments of its work force without loss of a single man-day due to labor disputes. These contracts provide rates of pay, fringe benefits, and working conditions in line with other comparable carriers. No labor problems are anticipated for the coming year.

IN MEMORIAM

The death of our beloved Director, Bertrum Allenberg, on November 27, 1958, terminated a long, fruitful, and happy association. His pleasant, warm companionship and sage advice will be greatly missed. He not only created a better section of the world in which he lived, but impelled by brotherly love and generosity, earned the ever-lasting gratitude of those who benefit from his association and memory.

PACIFIC AIR LINES
PACIFIC AIR LINES
Seattle
Portland
Medford
Crescent City
Eureka-Arcata
Redding
Red Bluff
Chico
Ukiah
Marysville
Reno
Elko
Ely
Salt Lake City
Santa Rosa
Sacramento
San Francisco
Stockton
Oakland
San Jose
Modesto
Merced
Fresno
Monterey
Visalia
Paso Robles
San Luis Obispo
Bakersfield
Las Vegas
Inyokern
Santa Maria
Palmdale
Santa Barbara
Grand Canyon
Oxnard-Ventura
Burbank
Los Angeles
Riverside
Long Beach
Needles
Phoenix
Avalon
Palm Springs
San Diego
Tucson
Douglas
Existing Routes
Proposed Routes
Navy Contract

FUTURE

With your Company's extended routes over which our new equipment will operate, combined with our strengthened financial position, we look forward to 1959, based on results to date, as a good year for Pacific Air Lines. As the rapid growth of this region continues, your Company, whose routes cover the very heart of the Pacific area, may be expected to become an increasingly valued property. Growth trend curves based on historical statistical data of only our Martin equipment and recent F-27 passenger loads indicate possibilities of attaining average annual loads of approximately 33 passengers while, at the same time, offering a frequency of service suitable to traffic needs, sound economy, and maintaining an conomically realistic competitive position in our major markets. To meet these growth demands, additional modern equipment will be required in order to provide the public with adequate service. Although your management feels that a reasonably high frequency of flights should be offered where warranted, a careful balance, however, must be maintained between flight frequency, cost and traffic development. High frequency, brought about as a result of small aircraft capacity, is economically undesirable. Therefore, in order to avoid resorting to high flight frequencies, with the attendant increase in operating costs, aircraft of approximately 55-passenger capacity, permitting an operating load factor of 60 per cent, may be indicated in servicing our most dense routes, which routes, of course, offer the maximum opportunity for profit. The capital requirements to finance further equipment needs will impose underwriting problems; however, improvements in net earnings should also result.

The retirement of the DC-3's begins a new era in local air service as there is now available ample, comparative statistical data indicating that the saleability of DC-3 service is not conducive to traffic development. As the transition to modern equipment takes place, passenger loads will increase through substantial diversion of intercity traffic presently moving via automobiles, buses, and trains, resulting in increased revenue and less subsidy. The traffic potential of our densely populated area can not be developed fully without the most modern equipment.

President

Statement of Earnings

	Year ended December 31 1958	1957 (Note C)
Operating revenues:		
Passenger	$4,603,419	$3,791,591
Mail	122,400	116,605
Charter and contract operations	289,475	199,257
Express, freight and excess baggage	113,321	91,684
Other	15,335	17,589
	5,143,950	4,216,726
Federal subsidy	2,357,763	2,056,930
	7,501,713	6,273,656
Operating expenses:		
Flying operations	2,372,282	1,906,179
Direct maintenance—flight equipment	1,201,281	1,014,200
Depreciation—flight equipment	358,157	350,955
	3,931,720	3,271,334
Direct maintenance—ground equipment	117,336	82,204
Maintenance burden	441,011	351,828
Passenger service	287,117	231,340
Aircraft servicing	481,018	379,739
Traffic servicing	1,063,402	870,970
Promotion and sales	168,822	122,900
Advertising	243,739	218,956
General and administrative	429,872	424,850
Depreciation—ground equipment	99,960	90,775
	3,332,277	2,773,562
	7,263,997	6,044,896
Operating income	237,716	228,760
Other (income) and expenses:		
Interest	61,798	62,757
Extension and development	14,377	10,172
Net loss on disposition of assets	10,129	6,741
Adjustment of spare parts inventory		43,417
Others, net	(4,754)	(126)
	81,550	122,961
	156,166	105,799
Estimated federal income taxes	(93,000)	(64,743)
Net earnings for year	63,166	41,056
Retroactive subsidy for 1956 less related federal income tax		69,021
Earnings retained for use in the business:		
Balance, beginning of year	1,134,353	1,024,276
Balance, end of year	$1,197,519	$1,134,353

PACIFIC AIR LINES

Balance Sheet

ASSETS

	December 31 1958	1957
Current Assets:		
Cash	$ 61,930	$ 12,120
Accounts receivable:		
United States Government — mail, passengers and other	1,672,273	989,727
Traffic and agents	211,461	160,038
Miscellaneous, less allowance for possible losses (1958—$8,306; 1957—$13,000)	74,806	26,192
Employees	7,672	3,834
Inventories of materials and supplies, at approximate cost, not in excess of market	248,315	233,379
Prepaid expenses	41,064	36,059
	2,317,521	1,461,349
Property and Equipment, at cost:		
Flight equipment — pledged under notes payable	4,215,728	3,832,399
Ground and other equipment	725,778	678,956
	4,941,506	4,511,355
Less—Accumulated depreciation	2,750,206	2,123,072
	2,191,300	2,388,283
Construction in progress	156,296	92,695
Deposits on purchase of flight equipment (Note B)	385,786	145,786
	2,733,382	2,626,764
Investments in Service Organizations, at cost	4,321	4,321
Deferred Charges:		
Extension and development expense	32,802	37,521
Other		64,681
	32,802	102,202
	$5,088,026	$4,194,636

LIABILITIES

	December 31 1958	1957
Current Liabilities:		
Notes payable — current instalments on long-term debt	$ 349,415	$ 490,187
Accounts payable	1,439,901	917,697
Taxes collected or withheld from others	131,182	92,108
Accrued expenses	193,334	155,960
Transportation sold, not yet used or refunded	30,390	29,997
Estimated federal income taxes	349,820	172,742
	2,494,042	1,858,691
Long-Term Debt:		
5½% notes payable to bank—secured by chattel mortgage on flight equipment—maturing in monthly instalments to December 15, 1963. (Note A)	735,387	515,787
Conditional sales contract	6,274	
	741,661	515,787
Provision For Federal Income Taxes of Future Years	72,775	103,776
Capital Stock and Surplus:		
Common stock:		
Authorized, 40,000,000 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 (Notes A and C)	1,197,519	1,134,353
	1,779,548	1,716,382
	$5,088,026	$4,194,636

PACIFIC AIR LINES

NOTES TO FINANCIAL STATEMENTS

December 31, 1958

NOTE A:

Notes payable at December 31, 1958 comprised the following:

5½% secured bank loan, under agreement dated May 1, 1957, due June 15, 1958. Repayment extensions were obtained and the indebtedness was liquidated on June 17, 1959	$ 142,000
5½% secured bank loan, under agreement dated November 21, 1958, payable in monthly instalments of $16,700 commencing January 15, 1959—secured by the Company's present flight equipment	935,787
Conditional sales contracts	13,289
	$1,091,076

In addition to the foregoing, the Company entered into two new bank loan agreements dated November 21, 1958 to finance the purchase of new flight equipment (see Note B); the particulars of the loan agreements are as follows:

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 of 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 the November 21, 1958 loan agreements may be excluded from current liabilities and 60-75% of any 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 agreed to purchase 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 $385,786 had been made as of December 31, 1958. All aircraft and a substantial portion of the equipment was received during the first half of 1959. Payment therefor has been made principally from the proceeds of the bank loans as mentioned in Note A.

NOTE C:

On June 9, 1959 the Civil Aeronautics Board fixed the rates of compensation which the Company is to receive for the transportation of mail by aircraft after January 9, 1956. As a result of this settlement, which was recorded in the accounts as of December 31, 1958 the statement of earnings for 1957 has been restated as follows:

	Previously reported	As restated
1957 earnings	$ 103,139	$ 41,056
Adjustment applicable to 1956	125,645	69,021
Earnings retained for use in the business, December 31, 1957,	1,253,060	1,134,353

NOTE D:

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 insured and is 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 for the first policy year is $25,000.

As at December 31, 1958, the estimated unfunded portion of past service costs, payable over the next eight years, under the retirement plan for pilots, amounted to approximately $153,000.

NOTE E:

In accordance with the request of the Civil Aeronautics Board the Company has in 1958 transferred deferred overhaul costs from deferred charges to flight equipment and the 1957 figures have been restated in order to be comparable. The Company also in 1958 changed its method of providing for the cost of overhaul of aircraft. The result of such change was to increase the charge to direct maintenance by approximately $40,000.

PRICE WATERHOUSE & CO.

120 MONTGOMERY STREET

SAN FRANCISCO 4

June 29 1959

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

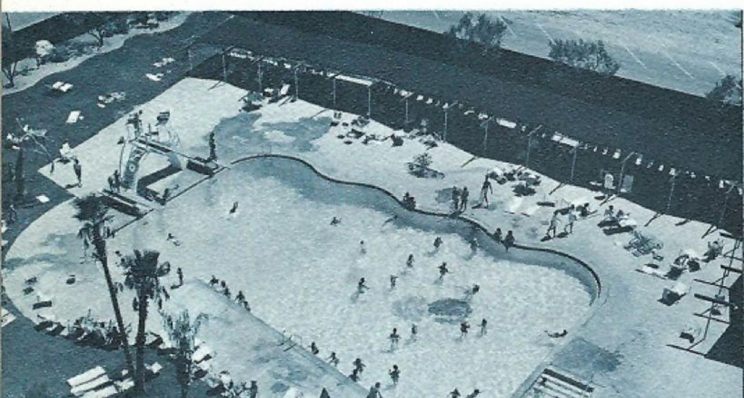
In our opinion, the accompanying statements present fairly the financial position of Pacific Air Lines, Inc. at December 31 1958 and the results of its operations for the year, in conformity with generally accepted accounting principles. These principles have been applied on a basis consistent with that of the preceding year, except for the change which we approve, in the basis of providing for the cost of overhaul of aircraft 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.

Pacific Air Lines provides fast, comfortable, economical flights to major vacation areas of the Pacific Southwest.

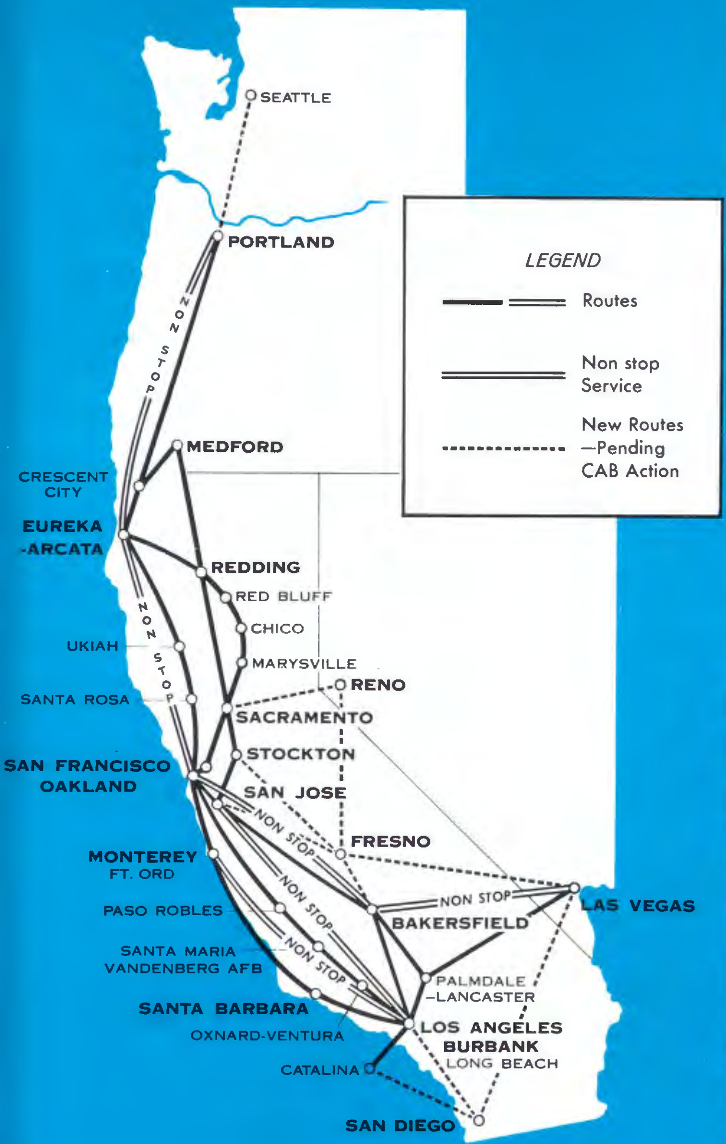
Portland and Catalina are now easily accessible with Pacific's new swift service.

For a more enjoyable vacation, arrive refreshed and relaxed—Above All Fly Pacific Air Lines!



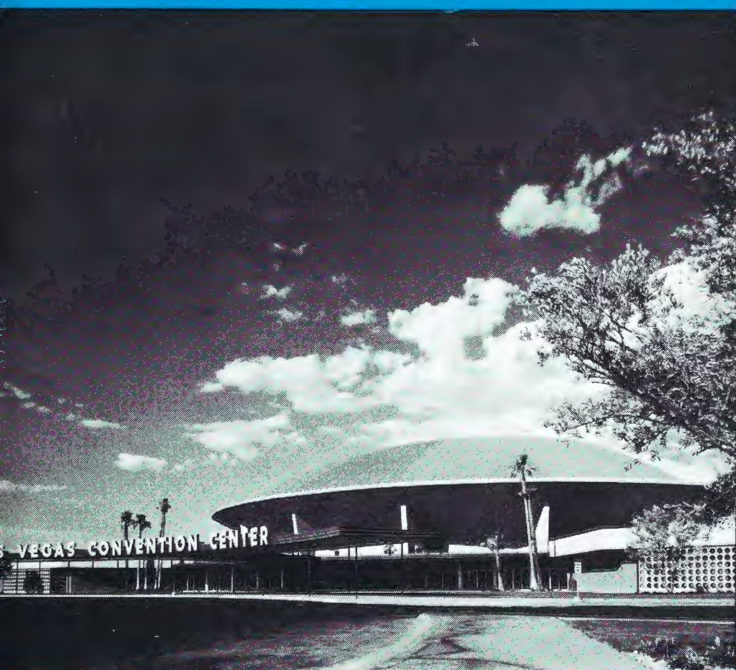
Las Vegas offers the vacationer the quietness and stillness of a desert night as well as excitement of the bright lights and the spinning wheel.

The relaxing atmosphere of Avalon has made Catalina Island a favorite of millions.



Portland, Oregon—Gateway to the Columbia River Basin and transportation cross-roads to the Pacific Northwest.

Monument to engineering, the San Francisco-Oakland Bay Bridge is one of the majestic attractions of this busy area.



The Nation's newest convention center with seating capacity of 9000.

The charm and serenity of Santa Barbara remain unchanged since the days of the Padres and the Conquistadores.

PACIFIC
AIR LINES

JETHAWK