



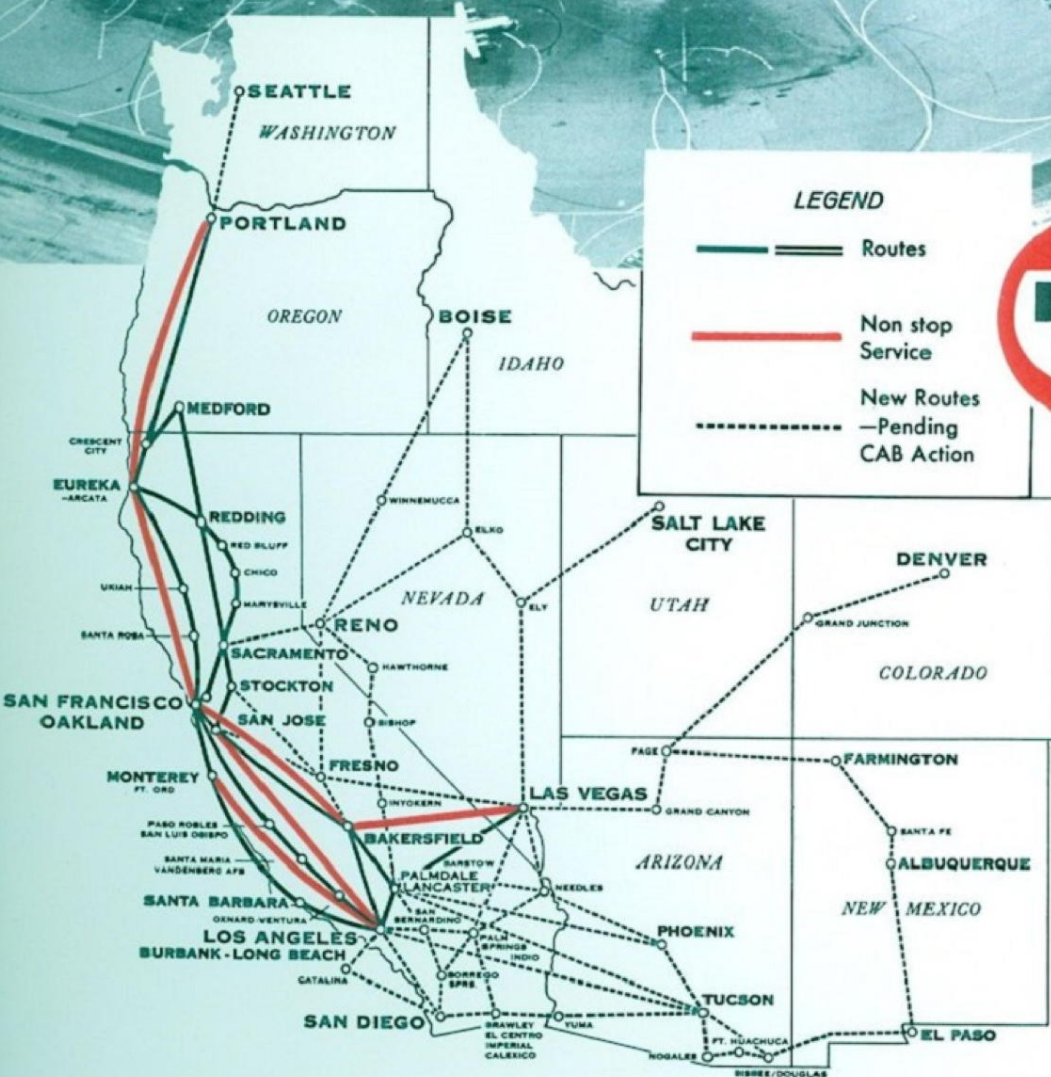
**PACIFIC
AIR LINES**

20TH ANNUAL REPORT

1959



Serving an area with the most rapidly expanding economy in the nation



Pacific Air Line's San Francisco base (top right) at the new International Airport serves the exploding industrial and population growth of the West.



President's Letter

TO OUR STOCKHOLDERS, EMPLOYEES AND PATRONS

It is gratifying to report that for the year ended December 31, 1959, your Company reached new highs in Miles Flown, Passengers Carried, Available Seat Miles, and Passenger Miles Traveled. Without exception, these records achieved in 1959 were the highest in the Company's history. Despite the fact that there were considerably more available seats for passengers, the load factor was higher than that of 1958. The table shown below will illustrate these gains:

	Miles Flown	Passengers Carried	Available Seat Miles	Passenger Miles	Load Factor
1959	6,010,324	421,813	170,226,042	93,635,632	55.0%
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

Revenues from the transportation of passengers, freight, and mail, were the highest in the Company's history. Although operating income was the largest ever achieved by PACIFIC AIR LINES, expenses and income taxes were heavy, reducing net income appreciably. Cash flow per share was the greatest ever achieved. The Company is vigorously endeavoring to lengthen and strengthen its routes and, also, to upgrade its fleet of aircraft.

These achievements would not have been possible without the continued counsel, guidance and assistance of the directors, officers, and employees. Needless to say, no efforts are being spared to develop more passenger, charter, and freight traffic.

I can safely state to you that the outlook for the Company is better than it has ever been, and that we of management are anticipating a larger and more profitable operation in the years ahead.

Respectfully,

John H. Connelly,
President

Revenue and Expense

Revenues from transporting passengers, freight, and mail in 1959 amounted to \$6,705,000, a 30% increase over the \$5,144,000 recorded in 1958. Also in 1959, despite the substantial increase in service offered to the public, Mail Pay, received from the Government, increased only 6% to \$2,507,000 from \$2,358,000 in the preceding year. Total revenues climbed to an all-time high of \$9,212,000, a 22% increase over the \$7,502,000 which was recorded in 1958.

Following is a summary of the income accounts for the past three years:

Revenues:	1959	1958	1957
From passenger, freight, mail, etc.	\$6,705,000	\$5,144,000	\$4,217,000
Mail Pay	2,507,000	2,358,000	2,057,000
Total	<u>9,212,000</u>	<u>7,502,000</u>	<u>6,274,000</u>
Operating expenses	8,952,000	7,264,000	6,045,000
Operating income	260,000	238,000	229,000
Other expense, net	208,000	82,000	123,000
	52,000	156,000	106,000
Estimated federal income tax.....	32,000	93,000	65,000
Net earnings	20,000	63,000	41,000
Special credit*	44,000*
	<u>\$ 64,000#</u>	<u>\$ 63,000</u>	<u>\$ 41,000</u>

* This item is the excess of insurance proceeds over carrying value of aircraft destroyed, net of income tax paid.

Does not include a \$12,000 credit arising from unredeemed passenger tickets.

As reported last year, a final Mail Rate had been established, effective October 1, 1958. This Mail Rate was based upon an assumed operation of Douglas DC-3 and Martin 202 aircraft which the Company was operating at that time.

During the second and third quarters of 1959, six Fairchild, jet powered F-27 aircraft were placed in revenue service, which increased the capital investment of the Company to approximately \$7,000,000.

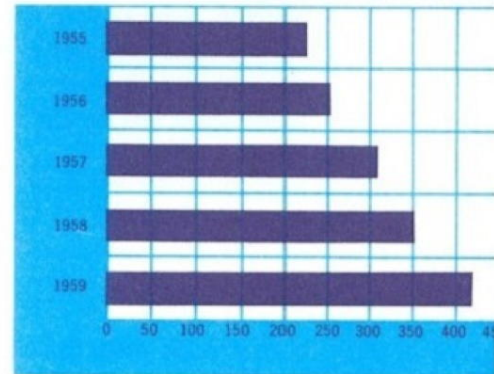
Mail Rates are presently established on the basis of operating breakeven-need plus a return of 9.5% on recognized investment, after income taxes.

The October 1, 1958, Mail Rate was insufficient to cover current breakeven-need plus the 9.5% return on the increased investment base. Therefore, a petition was filed with the Civil Aeronautics Board to establish a new, adequate rate to cover the current operation and investment.

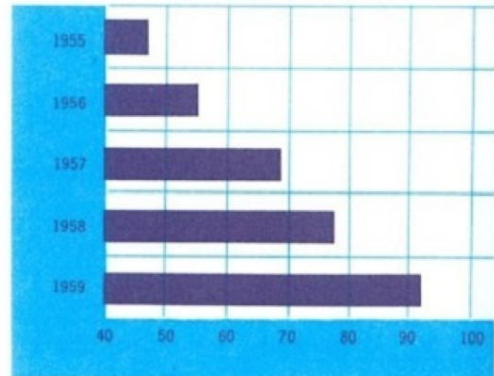
According to its present schedule, the Civil Aeronautics Board will establish a new final Mail Rate during the fourth quarter of 1960. This will be retroactive to November 1, 1959, the date upon which PACIFIC AIR LINES filed a petition for the then new rate.

The revenues shown above (see note B to the financial statements) include \$140,000 for November and December, which figure, subject to the Civil Aeronautics Board's review of the operating expenses for the period, is estimated to be only about two thirds of the total amount due for the two months.

PASSENGERS CARRIED
(Thousands)



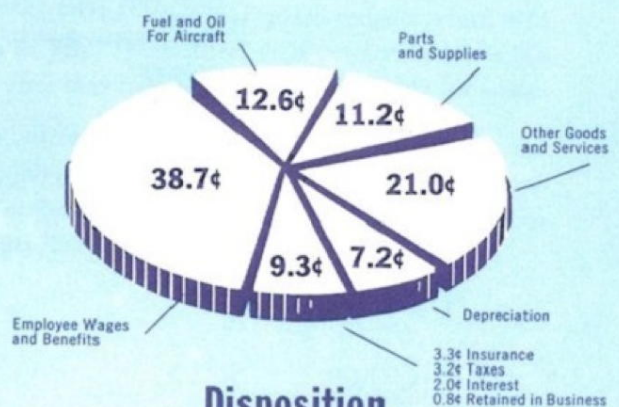
PASSENGER MILES
(Millions)



1959 REVENUE DOLLAR



Source



Disposition

Flight Equipment

The Company's fleet of aircraft now includes as its most modern units, six F-27 aircraft, the first three of which were placed in revenue service in April, 1959, and the remaining three in July of the same year.

This program of modernizing the Company's fleet of aircraft, to keep pace with the demands of adequate and efficient service, was further extended when negotiations were completed in 1959 to purchase eight pressurized Martin 404 aircraft in exchange for cash and five of the Company's seven non-pressurized Martin 202 aircraft.

Financing was arranged through the Bank of America for a total amount of \$686,000, and, in accordance with Public Law No. 85-307, a portion of this loan is guaranteed by the United States Government.

Six of the newly purchased pressurized and air conditioned aircraft have been received and placed in service. The balance of two planes will be delivered later this year.

Your Company's aircraft fleet will soon consist of 6 F-27, 44-passenger jet powered, pressurized aircraft; 8 Martin 404 pressurized aircraft; 2 Martin 202 non-pressurized aircraft; 7 Douglas DC-3 aircraft; 1 Lockheed Executive 6-place aircraft; and 1 PBV 28-place amphibian. The Lockheed, PBV, and one DC-3 are presently being offered for cash sale.

Route Developments

Route applications filed with the Civil Aeronautics Board by PACIFIC AIR LINES are designed to improve and strengthen the present system and provide a service required in the public interest.

Decision in the PACIFIC NORTHWEST CASE in 1959, resulted in extending service to Portland, Oregon, and this service was inaugurated on September 1, 1959. A petition has been filed with the Board requesting that the case be re-opened in respect



to the issue of service to Reno, Nevada. A decision should be rendered by the Board in the latter part of 1960.

Decision is expected this year in the PACIFIC SOUTHWEST CASE in which a substantial improvement in service is sought through non-stop authority between San Francisco-Los Angeles; San Francisco-Las Vegas; Burbank-Las Vegas; and Los Angeles-Las Vegas. Authority is also requested to serve Fresno, Modesto and Visalia, as well as San Diego, Palm Springs and Long Beach.

Final decision by the Civil Aeronautics Board on the petition for reconsideration in the SERVICE TO CATALINA CASE resulted in denial. Temporary service offered during the summer of 1959 was terminated on October 15, 1959.

Extensive route applications have been filed in the SOUTHERN ROCKY MOUNTAIN AREA LOCAL SERVICE CASE. Final decision in this case is not expected until 1961.

Personnel

The growth of the Company, as described in this annual report, could not have been accomplished without the continued enthusiastic support and hard work of all the people who make up PACIFIC AIR LINES.

Total employees now number 775 of whom 120 are pilots. Our personnel department staff has been expanded to handle all union contracts, wage administration, training, welfare, and the proper supervision of the Company's extensive operating manuals. The Company has, in addition to a pension program, a group life and health insurance program. The pilots are covered under two plans, the "A" plan which became effective in April, 1956, and a "B" plan with somewhat wider benefits which will become effective in July, 1960. There is a pension plan for all other employees after they have served in the Company for a stipulated period of years.

1959 was a year of expansion and growth, and your management is pleased to advise of the outstanding efforts put forth by the employees of your Company.

Balance Sheet

Assets

	<i>December 31</i>	
<i>Current Assets:</i>	1959	1958
Cash	\$ 577,074	\$ 61,930
Accounts receivable:		
United States Government — mail, pas- sengers and other (Note B).....	584,677	1,672,273
Traffic and agents.....	431,022	211,461
Miscellaneous, less allowance for possi- ble losses (1959 — \$3,678; 1958— \$8,306)	66,355	74,806
Employees	7,503	7,672
Inventories of materials and supplies, at approximate cost, not in excess of mar- ket	272,496	248,315
Prepaid expenses	244,179	41,064
	<u>2,183,306</u>	<u>2,317,521</u>
<i>Property and Equipment, at cost:</i>		
Flight equipment — pledged under notes payable	9,288,267	4,215,728
Ground and other equipment.....	850,554	725,778
	<u>10,138,821</u>	<u>4,941,506</u>
Less—Accumulated depreciation	3,549,040	2,750,206
	<u>6,589,781</u>	<u>2,191,300</u>
Construction in progress.....	14,831	156,296
Deposit on purchase of flight equipmen- t.....	9,694	385,786
	<u>6,614,306</u>	<u>2,733,382</u>
<i>Investments, at cost</i>	<u>4,321</u>	<u>4,321</u>
<i>Funds set aside for replacement of flight equipment</i>	<u>43,767</u>	
<i>Deferred Charges:</i>		
Extension and development expense.....	57,584	32,802
Introductory cost of new flight equipment, less amortization (Note C).....	94,070	
Other	11,769	
	<u>163,423</u>	<u>32,802</u>
	<u>\$ 9,009,123</u>	<u>\$5,088,026</u>



Liabilities

Current Liabilities:

	<i>December 31</i>	
	1959	1958
Notes payable—current instalments on long-term debt.....	\$ 663,000	\$ 349,415
Accounts payable	1,148,961	1,439,901
Taxes collected or withheld from others....	150,439	131,182
Accrued expenses	227,256	193,334
Transportation sold, not yet used or re-funded	44,894	30,390
Estimated federal income taxes.....	438,753	349,820
	<u>2,673,303</u>	<u>2,494,042</u>

Long-Term Debt (Note A):

5½% note payable to bank—secured by chattel mortgage on flight equipment....	599,200	735,387
5¼% notes payable to bank—secured by chattel mortgage on flight equipment..	3,837,100	
Conditional sales contract.....		6,274
	<u>4,436,300</u>	<u>741,661</u>

Provision For Federal Income Taxes of Future Years

	<u>44,142</u>	<u>72,775</u>
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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 (Note A)	1,273,349	1,197,519
	<u>1,855,378</u>	<u>1,779,548</u>

\$9,009,123

\$5,088,026

Statement of Earnings



	<i>Year ended December 31</i>	
	1959	1958
Operating revenues:		
Passenger	\$5,764,854	\$4,603,419
Mail	134,919	122,400
Charter and contract operations.....	655,128	289,475
Express, freight and excess baggage.....	124,644	113,321
Other	26,164	15,335
	<u>6,705,709</u>	<u>5,143,950</u>
Federal subsidy (Note B).....	2,506,588	2,357,763
	<u>9,212,297</u>	<u>7,501,713</u>
Operating expenses (Note C):		
Flying operations	2,789,462	2,372,282
Maintenance	2,039,088	1,759,628
Passenger service	426,630	287,117
Aircraft and traffic servicing.....	1,983,907	1,544,420
Promotion and sales.....	511,807	412,561
General and administrative.....	536,023	429,872
Depreciation and amortization.....	665,495	458,117
	<u>8,952,412</u>	<u>7,263,997</u>
Operating income	<u>259,885</u>	<u>237,716</u>
Other (income) and expenses:		
Interest (Note C)	183,982	61,798
Extension and development.....	17,558	14,377
Net loss on disposition of assets.....	7,083	10,129
Other, net	(412)	(4,754)
	<u>208,211</u>	<u>81,550</u>
	51,674	156,166
Estimated federal income taxes	<u>(31,611)</u>	<u>(93,000)</u>
Net earnings for the year (Note C).....	20,063	63,166
Special credits (net of federal income taxes thereon):		
Excess of insurance proceeds over carrying value of aircraft destroyed	43,767	
Amounts provided in prior years for unredeemed passenger tickets determined to be in excess of requirements.....	12,000	
Earnings retained for use in the business:		
Balance, beginning of year.....	1,197,519	1,134,353
Balance, end of year.....	<u>\$1,273,349</u>	<u>\$1,197,519</u>

Notes to Financial Statements

NOTE A:

Notes payable at December 31, 1959 comprised the following:

5½% bank loan, payable in monthly instalments of \$16,700 to December 15, 1963, secured by the Company's DC-3 and M-202 type flight equipment	\$ 799,600
5¼% bank loans, payable in monthly instalments of \$38,550 to February 15, 1969, secured by the Company's Fairchild F-27 aircraft and equipment	4,299,700
	<u>\$5,099,300</u>

The Civil Aeronautics Board, under agreement dated November 17 1958, guaranteed 90% of the principal amount and 100% of the interest on the 5¼% loans.

Under the terms of the bank 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) maintain current assets at least equal to current liabilities; for the purpose of this computation, current instalments under the 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:

Because of increased operating costs due to use of new type flight equipment, the Company has petitioned the Civil Aeronautics Board for an increase in mail pay, effective November 1, 1959. In the opinion of management the estimate of additional compensation for this period, determined in accordance with airline subsidy practices and procedures, is reasonable. However, in order to provide

for possible disallowances by the Civil Aeronautics Board, and in conformity with past practices, only 66 2/3% of the estimated additional compensation is included in the accompanying financial statements; this amount for the period November 1 through December 31, 1959 is \$140,000.

NOTE C:

Net income for 1959 is approximately \$55,000 greater than it would have been under former methods as a result of the following changes in accounting practice which were adopted during the year:

Deferral to future years of introductory costs of new flight equipment.....	\$45,000
Capitalization of interest charges on borrowed funds advanced to manufacturers	10,000
	<u>\$55,000</u>

NOTE D:

The Company has entered into a purchase agreement dated November 30, 1959, with another air line for the purchase of eight (8) Martin Model 404 aircraft for the aggregate amount of \$1,600,000, of which \$1,100,000 is to be paid in cash on various delivery dates of the aircraft throughout 1960. The balance of \$500,000 is to be liquidated by the delivery of five (5) of the Company's Martin Model 202 aircraft to the other air line. This agreement to purchase is contingent upon the prior approval and guaranty by the Civil Aeronautics Board of a proposed aircraft purchase loan between the Company and Bank of America.

NOTE E:

As at December 31, 1959 the estimated unfunded portion of past service costs under the retirement plan for pilots, payable over the next seven years, amounted to approximately \$134,000.

PRICE WATERHOUSE & CO.

120 MONTGOMERY STREET

SAN FRANCISCO 4

April 20 1960

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 1959 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 changes, which we approve, as described in Note C 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.

Board of Directors



BOARD OF DIRECTORS

Leland Hayward, Chairman

John H. Connelly
William Goetz
Floyd Hendrickson
R. E. Costello

T. R. Mitchell
Harry White
Walter Roche
C. A. Myhre

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*
R. E. Costello.....*Vice President-Traffic*
Max A. King.....*Vice President-Sales*
E. Roger Dahl.....*Treasurer*
Walter Roche.....*Secretary*
Floyd Hendrickson.....*Assistant Secretary*

AUDITORS

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

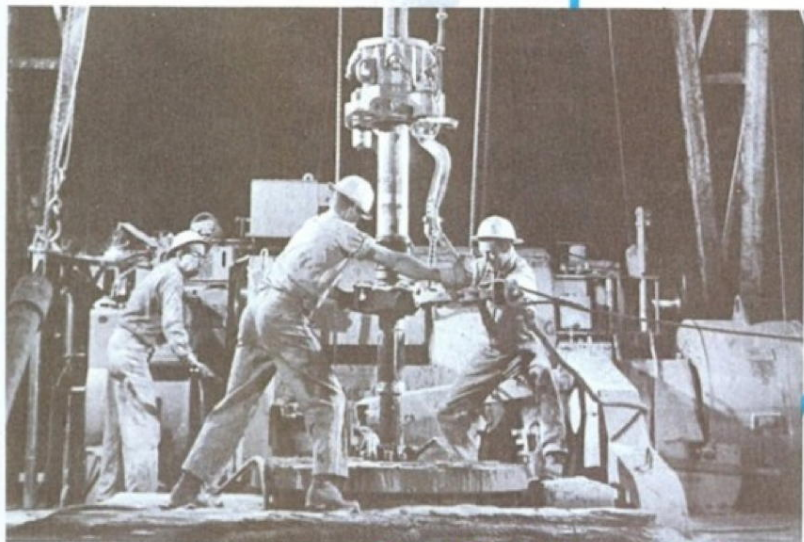
REGISTRAR

Bank of America
300 Montgomery Street
San Francisco

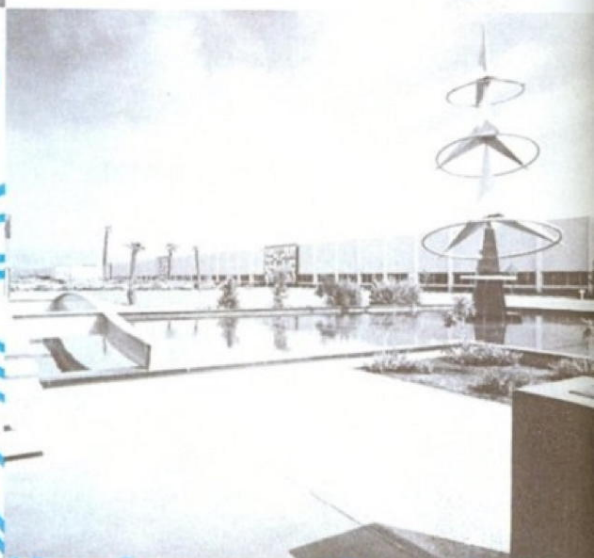
TRANSFER AGENT

Crocker-Anglo National Bank
1 Montgomery Street
San Francisco

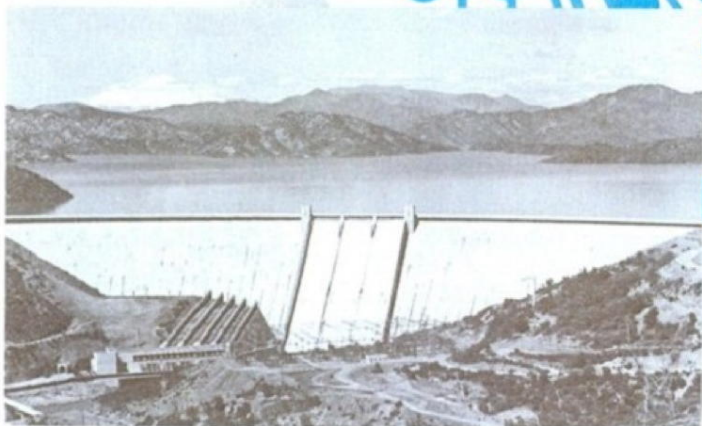
*Night drilling operation,
Bakersfield, California.*



*The architecturally distinctive IBM plant
at San Jose symbolizes the spectacular growth
of the electronics industry in the West.*



*In addition to
providing water
for agriculture and
power for industry,
Shasta Dam
has created a major
water sports area.*





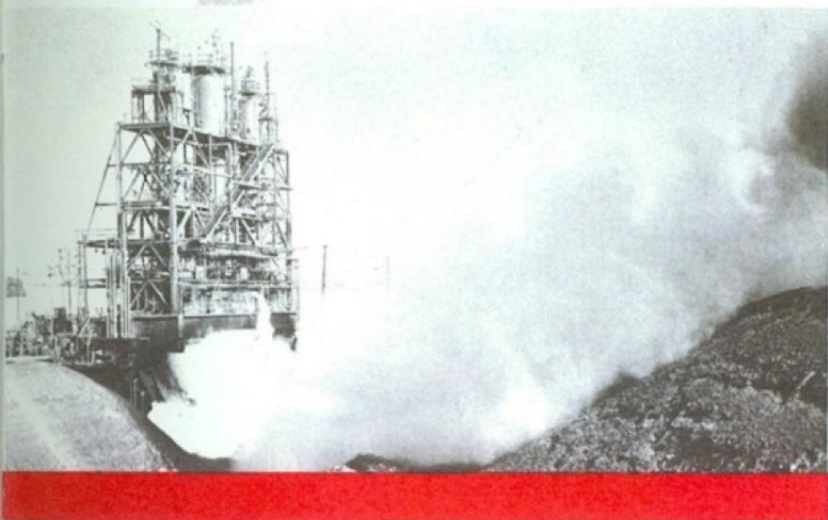
Skiing has become a major sport in Western snow country, attracts thousands yearly.

Serving an area with the most rapidly expanding economy in the nation

New industries—new techniques and materials to create more industries—seem to spring up daily in the Western states as people, and still more people, continue to pour in from across the nation. Pacific Air Lines is proud to serve this new West . . . and to grow along with it.



Shipping and lumber, two of the West's major industries.



Large liquid fuel rocket engines for the Air Force Titan ICBM undergo captive firing at the Sacramento, California test facility of the Aerojet Corp.



JETHAWK