



SAN FRANCISCO INTERNATIONAL AIRPORT



**PACIFIC AIR LINES**  
25<sup>th</sup> Annual Report

**1964**



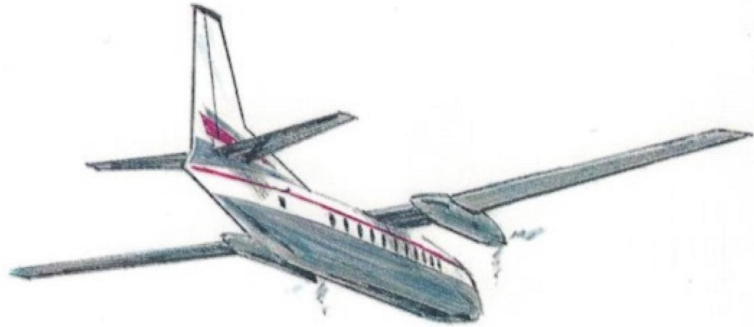


Annual report  
The years of service

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Nineteen hundred sixty-four annual report  
 marking twenty-five years of service

25

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## **DIRECTORS AND OFFICERS**

**MATTHEW E. MCCARTHY**, *Chairman of the Board and Chief Executive Officer, Member of the Executive Committee*

**DAVID R. GRACE**, *Director and Member of the Executive Committee*  
*General Partner, Sterling, Grace & Co., New York*

**RICHARD E. LANG**, *Director and Member of the Executive Committee*  
*Chairman of the Board of Lang & Co., Seattle*

**JOSEPH MARTIN, JR.**, *Director*  
*Partner in the Law Firm of Allan, Miller, Groezinger, Keesling & Martin*

**LLOYD W. MARTIN**, *Director*  
*President of Reed & Martin, Inc., Honolulu*

**IAN G. THOMSON**, *Director*  
*President of The Chartered Bank of London, San Francisco*

**MAX H. WYMAN**, *Director*  
*Partner—M. A. Wyman Lumber Co.*

**HARRY S. WHITE**, *Director and President*

**C. A. MYHRE**, *Director and Executive Vice President*

**R. E. COSTELLO**, *Vice President, Traffic and Sales*

**E. R. DAHL**, *Secretary-Treasurer*

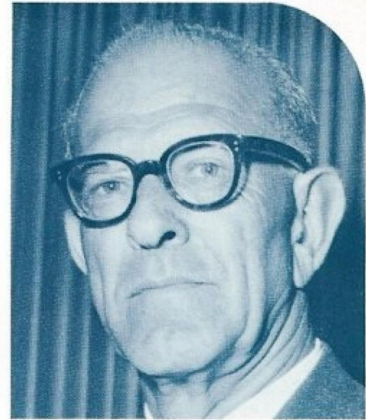




*David R. Grace*



*Matthew E. McCarthy*



*Richard E. Lang*



*Joseph Martin, Jr.*



*Harry S. White*



*Lloyd W. Martin*



*Ian G. Thomson*



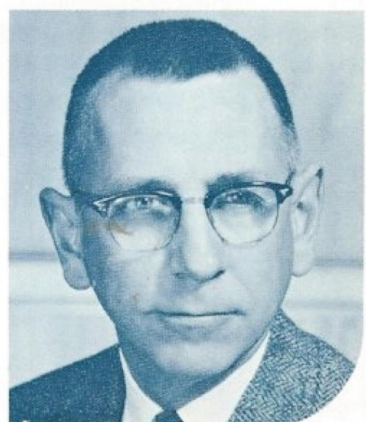
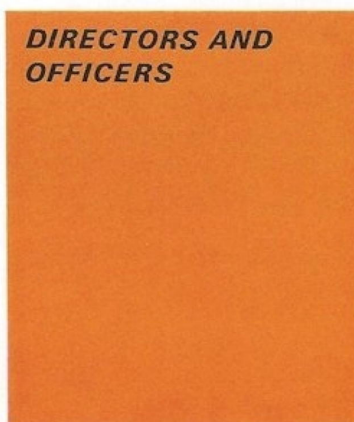
*C. A. Myhre*



*Max H. Wyman*



*R. E. Costello*



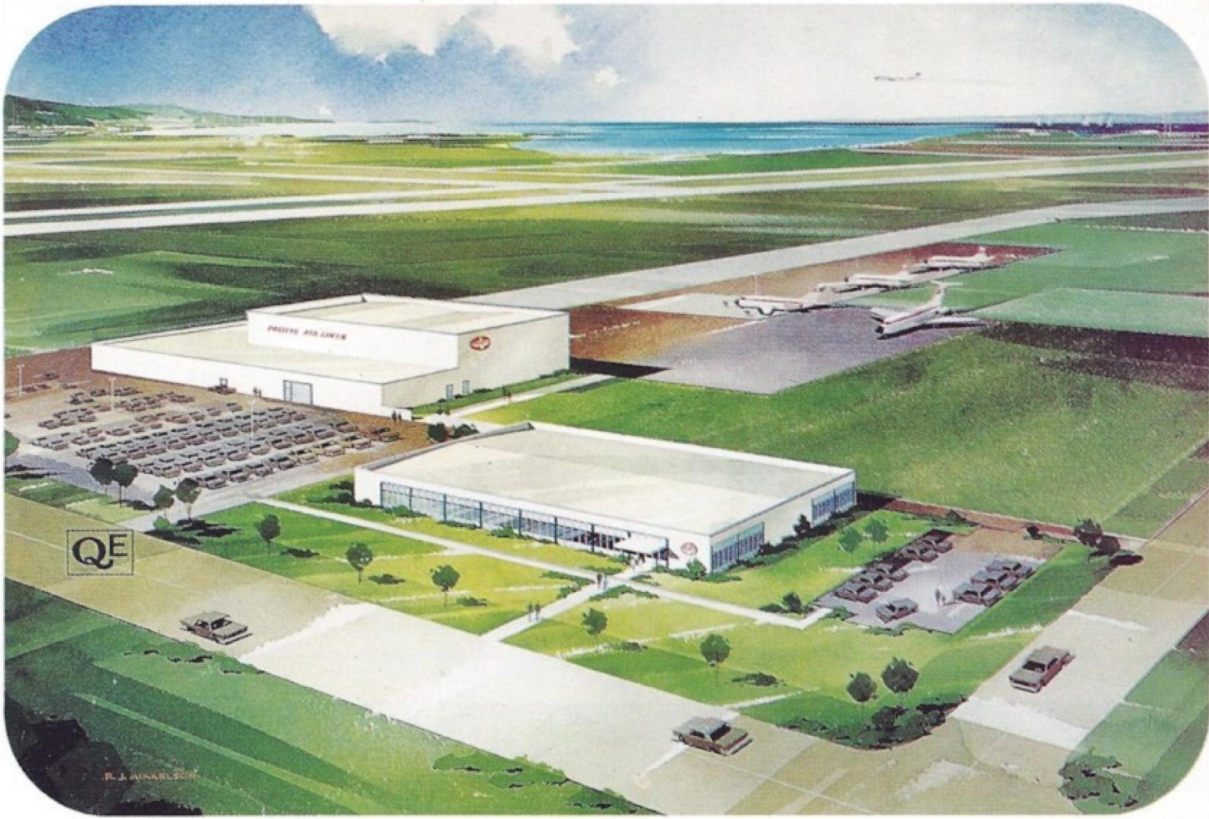
*E. R. Dahl*

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**TO OUR STOCKHOLDERS:** It is pleasant to report that Pacific Air Lines attained higher gross revenues and net earnings for the year 1964 than those attained in any prior year. Your Corporation in 1964 had net earnings of \$971,228.00 from net operating profits and net capital gains, equal to \$.99 a share. Net operating profit was \$583,504.00 or \$.60 per share, compared to net operating profit in 1963 of \$146,065.00 or \$.17 per share. In keeping with the advances in our national economy and with the general gains in the airline industry in 1964, your Corporation has shared proportionately in this growth. In 1965 Pacific Air Lines is confident that it will obtain its share of any revenue increase in the airline industry occasioned by national industrial gains and population growth, and in this connection, your Corporation's route structure is very favorably situated. To expand its operations, Pacific Air Lines in September, 1964 signed an agreement with United Air Lines wherein, subject to CAB approval, your Corporation shall service exclusively the cities of Bakersfield, Fresno, Merced, Modesto, Stockton and Visalia. It is believed that the developing National Airline Transportation Policy will aid your Corporation's position before the Civil Aeronautics Board in obtaining approval for this transfer. A study is under way covering the utilization of pure jet aircraft on our route system, consider-

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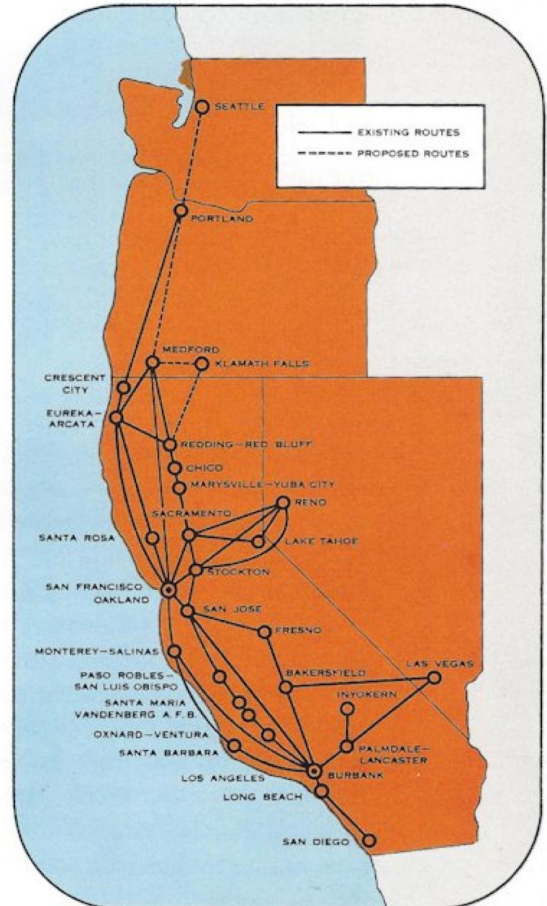


*Approved design of maintenance base and general offices to be erected at the San Francisco International Airport.*

*Architects and Engineers, Quinton Engineers, Ltd.*

ing present and future aircraft requirements. ✚ The San Francisco Public Utilities Commission has advised that Pacific Air Lines will have to vacate its present premises to make way for runway extensions. Lease negotiations with San Francisco Public Utilities Commission are in the final phase for space adequate for present requirements and probable future needs. It is believed that a newly designed office building and maintenance base with the latest equipment can accomplish substantial savings. All departments are being reviewed with the objective of increasing gross revenues and lowering costs. The installation of a computer to increase our operating efficiency is receiving high priority. ✚ Your Corporation's relations with the unions representing employees have continued on a peaceful, harmonious and cooperative basis. A collective bargaining agreement with the Air Line Pilots Association was concluded in 1964 for a three year period. In early 1965 a 30 month agreement was signed with the Air Line Stewards and Stewardesses Association. Collective bargaining agreements covering other employee groups are still in force. It is a great satisfaction to acknowledge the cooperation of stockholders, management, the staff and employees in attaining the splendid results shown by this Annual Report. ✚ In behalf of the Board of Directors

*Matthew E. McCarty* Chairman



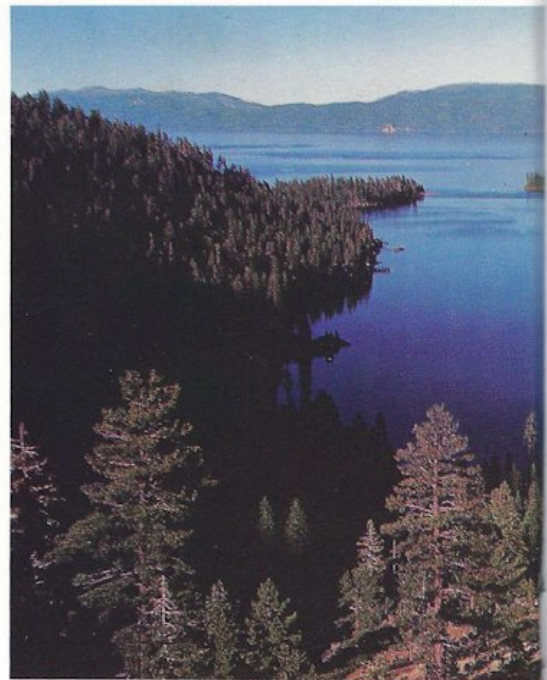


### COMPARATIVE FINANCIAL AND OPERATING STATISTICS

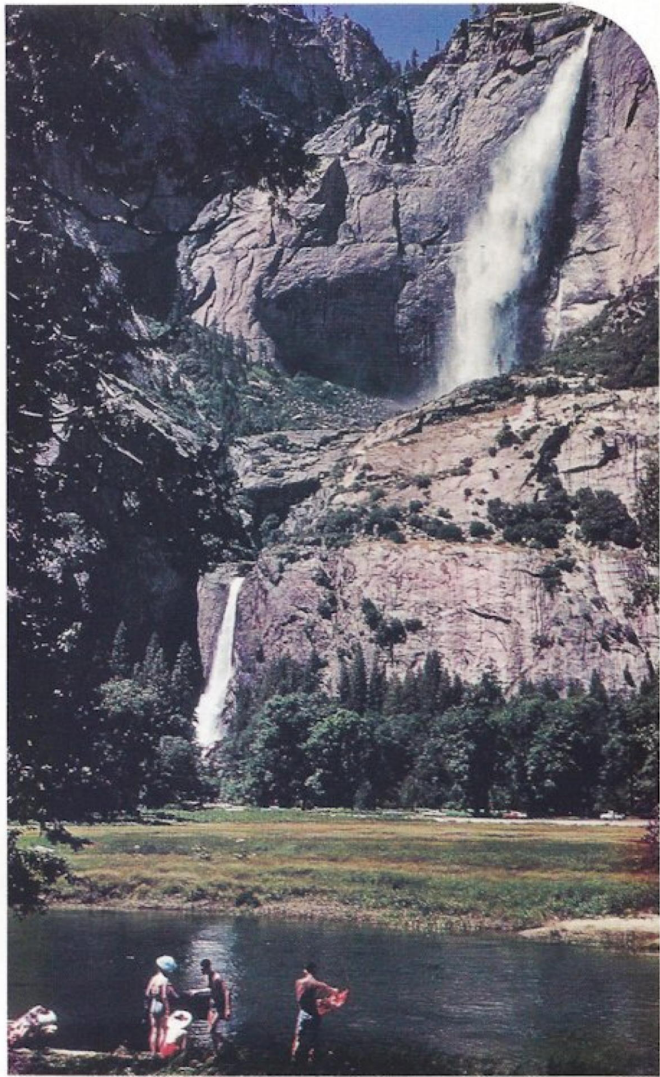
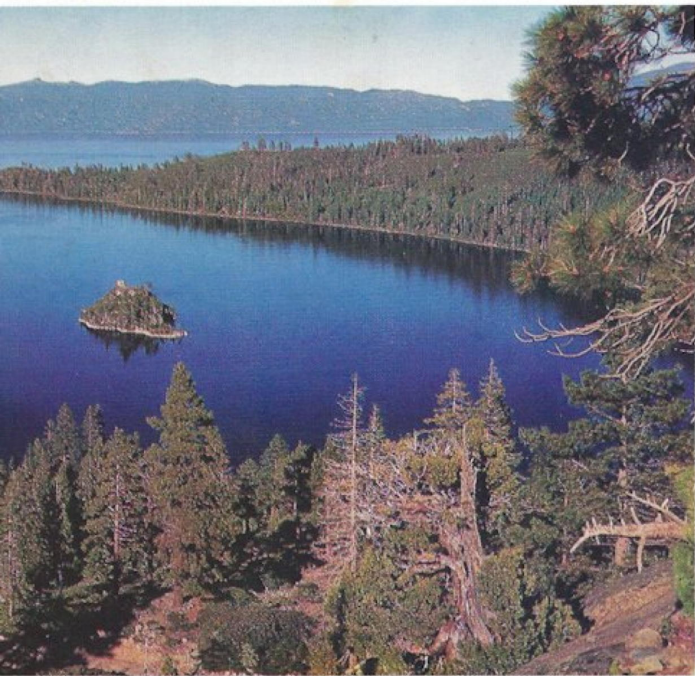
REVENUE AIRPLANE MILES FLOWN	1964	1963	1962	1961	1960
Scheduled service . . . . .	5,747,558	5,352,293	5,470,054	5,010,206	6,117,367
Charter and contract service . . . . .	19,236	27,048	12,782	287,071	535,792
Total revenue miles flown . . . . .	<u>5,766,794</u>	<u>5,379,341</u>	<u>5,482,836</u>	<u>5,297,277</u>	<u>6,653,159</u>
SCHEDULED SERVICES					
Available seat miles (000) . . . . .	239,802	225,620	227,681	203,092	235,646
Revenue passenger miles (000) . . . . .	128,386	115,532	112,727	98,119	103,374
Revenue passengers . . . . .	612,539	532,042	493,301	424,319	451,472
Average number of passengers per mile . . . . .	22.3	21.6	20.6	19.6	16.9
Average length of trip (miles) . . . . .	210	217	229	231	229
Passenger load factor . . . . .	53.5%	51.2%	49.5%	48.3%	43.9%
Passenger revenue per passenger mile . . . . .	7.0¢	6.6¢	6.6¢	6.5¢	6.0¢
Available ton miles . . . . .	23,515,463	22,155,128	22,305,567	19,945,837	22,655,560
Revenue ton miles:					
Passenger . . . . .	12,203,110	10,975,572	10,709,109	9,321,311	9,820,529
U. S. Mail . . . . .	304,402	275,637	223,346	201,510	196,837
Freight . . . . .	198,951	133,789	138,162	114,022	106,908
Express . . . . .	86,565	62,068	64,471	54,481	53,891
Excess baggage . . . . .	56,715	44,118	44,842	43,774	42,677
	<u>12,849,743</u>	<u>11,491,184</u>	<u>11,179,930</u>	<u>9,735,098</u>	<u>10,220,842</u>
Miles of route at end of year . . . . .	2,585	2,585	2,570	2,257	2,260
Number of airports served at end of year . . . . .	30	31	30	23	25
Number of aircraft operated at end of year . . . . .	18	16	18	21	23
Number of employees at end of year . . . . .	768	693	736	658	698
Number of common shares outstanding at end of year . . . . .	978,598	854,075	851,765	851,410	671,410
Book value per share at end of year . . . . .	\$4.49	\$3.33	\$3.36	\$3.16	\$2.46
Net earnings per share . . . . .	\$0.60*	\$0.17*	\$0.20	\$0.37	NIL

\*Excludes extraordinary gains or losses in 1963 and 1964.









**NUMBERED AMONG THE MOST SCENIC  
IN THE WORLD ARE THESE SPECTACULAR  
AREAS SERVED BY PACIFIC AIR LINES**

**EMERALD BAY, LAKE TAHOE**, called "The Lake of the Sky" by Mark Twain, typifies the breathtaking beauty of the High Sierra. Tahoe, at an elevation of 6,228 feet, is the highest of America's large lakes (Above).

**YOSEMITE FALLS**, mightiest of hundreds of snow-fed falls, cascades a total of 2,400 feet down granite cliffs to meadows and streams of the valley floor (Right).

**MISSION SANTA BARBARA**, founded in 1786, is one of the most famous and best preserved of the Spanish missions. Its museum contains many historic relics and priceless works of art (Above Left).

**ELDER STATESMEN** of Northern California's Redwood Empire, Sequoia Sempervirens tower taller than any other living thing. This scene is just north of the inspiring "Avenue of the Giants" (Below).

**LONE CYPRESS** marks the midway point between Monterey and Carmel on the SEVENTEEN-MILE DRIVE. Tumbling surf, rugged coastline and gnarled cypress form a showcase of natural wonder (Left).





**STATEMENT OF EARNINGS**

	<i>Year ended December 31</i>	
	<i>1964</i>	<i>1963</i>
Operating revenues:		
Passenger . . . . .	\$ 8,940,197	\$ 7,654,833
Mail . . . . .	233,271	223,218
Express, freight and excess baggage . . . . .	342,707	282,730
Other . . . . .	236,565	111,523
	<u>9,752,740</u>	<u>8,272,304</u>
Public service revenue . . . . .	3,694,150	3,749,779
	<u>13,446,890</u>	<u>12,022,083</u>
Operating expenses:		
Flying operations . . . . .	3,101,332	3,088,967
Maintenance . . . . .	2,660,339	2,559,038
Passenger service . . . . .	411,975	412,428
Aircraft and traffic servicing . . . . .	2,807,546	2,410,815
Promotion and sales . . . . .	1,369,331	1,230,415
General and administrative . . . . .	864,915	799,714
Depreciation . . . . .	902,654	761,286
Amortization of pre-operating and route development costs . . . . .	37,455	108,258
	<u>12,155,547</u>	<u>11,370,921</u>
Operating income . . . . .	<u>1,291,343</u>	<u>651,162</u>
Other expenses:		
Interest (less interest income, 1964 — \$29,873; 1963 — \$33,211) . . . . .	354,818	288,582
Loss on disposition of assets . . . . .	27,165	8,088
Other . . . . .	59,542	40,680
	<u>441,525</u>	<u>337,350</u>
Income before federal income taxes . . . . .	849,818	313,812
Estimated federal income taxes (including \$56,000 in 1964 and \$49,000 in 1963 deferred to future years) . . . . .	419,900	167,747
Income before investment tax credit . . . . .	429,918	146,065
Investment tax credit (Note 3) . . . . .	153,586	
Net income for the year . . . . .	<u>583,504</u>	<u>146,065</u>
Special items:		
Excess of insurance proceeds over carrying value of aircraft destroyed, net of income taxes of \$123,983 (Note 3) . . . . .	387,724	
Extraordinary losses incurred or anticipated on disposition of Martin aircraft, less applicable income tax credit of \$138,000 . . . . .		(171,934)
Earnings retained for use in the business:		
Balance, beginning of year . . . . .	1,534,568	1,560,437
Balance, end of year (Notes 1 and 2) . . . . .	<u>\$ 2,505,796</u>	<u>\$1,534,568</u>







**ASSETS**
**CURRENT ASSETS:**

	<i>December 31</i>	
	<i>1964</i>	<i>1963</i>
Cash (including time deposits, 1964— \$1,200,000; 1963 — \$1,000,000) . . . . .	\$ 2,198,215	\$ 1,691,296
Accounts receivable:		
United States Government:		
Mail, passenger and other . . . . .	563,883	570,358
Refundable federal income taxes . . . . .		51,000
Traffic and agents . . . . .	423,823	477,803
Miscellaneous, less allowance for doubtful accounts (1964 and 1963—\$8,000) . . . . .	66,231	86,754
Expendable parts and supplies, at approximate cost . . . . .	678,457	666,476
Prepaid expenses . . . . .	102,184	80,667
	<u>4,032,793</u>	<u>3,624,354</u>

**PROPERTY AND EQUIPMENT, at cost—pledged  
under notes payable (Note 1):**

Flight equipment . . . . .	11,722,732	9,218,170
Ground and other equipment . . . . .	1,145,726	1,122,366
	<u>12,868,458</u>	<u>10,340,536</u>
Less—Accumulated depreciation and amortization . . . . .	4,451,345	4,853,977
	<u>8,417,113</u>	<u>5,486,559</u>
Construction in progress . . . . .		89,110
	<u>8,417,113</u>	<u>5,575,669</u>

**OTHER ASSETS:**

Unamortized debt discount and expense . . . . .	127,007	179,387
Route extension and development expense, less amortization . . . . .	38,510	56,281
Pre-operating cost of new flight equipment, less amortization . . . . .	46,743	6,790
Other . . . . .	5,971	4,720
	<u>218,231</u>	<u>247,178</u>
	<u>\$12,668,137</u>	<u>\$ 9,447,201</u>



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**BALANCE SHEET**

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**LIABILITIES**

## CURRENT LIABILITIES:

	<i>December 31</i>	
	<i>1964</i>	<i>1963</i>
Notes payable—current instalments (Note 1) . . . . .	\$ 1,053,448	\$ 656,320
Accounts payable . . . . .	1,013,550	947,299
Taxes collected or withheld from others . . . . .	173,267	186,304
Accrued expenses . . . . .	352,443	273,473
Unearned transportation revenue . . . . .	202,492	176,924
Federal income taxes (Note 3) . . . . .	334,000	
	<u>3,129,200</u>	<u>2,240,320</u>

## LONG-TERM DEBT:

Notes payable to bank (Note 1) . . . . .	3,605,353	2,460,426
6½% convertible subordinated debentures, due July 1, 1976 (Note 2)	1,374,900	1,788,000
	<u>4,980,253</u>	<u>4,248,426</u>

## FEDERAL INCOME TAXES DEFERRED TO FUTURE YEARS

166,866	<u>110,518</u>
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## STOCKHOLDERS' EQUITY (Notes 1, 2 and 4):

Common stock:		
Authorized, 40,000,000 shares of 50¢ par value per share		
Outstanding, 1964—978,598 shares, 1963—854,075 shares . . .	489,299	427,037
Paid-in surplus . . . . .	1,396,723	886,332
Earnings retained for use in the business, per accompanying statement	2,505,796	1,534,568
	<u>4,391,818</u>	<u>2,847,937</u>

## COMMITMENTS AND CONTINGENT LIABILITIES (Note 6)

<u>\$12,668,137</u>	<u>\$9,447,201</u>
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## NOTES TO FINANCIAL STATEMENTS

### NOTE 1—Notes payable:

	<u>Due in 1965</u>	<u>Due after 1965</u>
5¼%, payable in monthly instalments of \$38,550 to April 1967 and thereafter in monthly instalments of \$5,550 to February 1969 . . . . .	\$ 462,600	\$ 754,690
5¾%, payable in monthly instalments of \$43,654 to March 1971 . . . . .	523,848	2,750,163
6%, payable in monthly instalments of \$5,583 to July 1967 . . . . .	67,000	100,500
	<u>\$1,053,448</u>	<u>\$3,605,353</u>

Substantially all of the Company's equipment is pledged as security under chattel mortgages for the loans.

The Civil Aeronautics Board, under agreements dated December 1, 1958 and May 9, 1960, guaranteed 90% of the principal amount and 100% of the interest on the 5¼% and the 6% loans.

Under the terms of the loan agreements, the Company has agreed that (1) it will not, without the prior 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) it will 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.

### NOTE 2—Debentures:

Under the terms of the indenture relating to the 6½% convertible subordinated debentures, annual sinking fund payments of \$90,000 each, commencing in 1966, are required. The debentures are convertible into common stock of the Company at conversion prices per share of \$6.00 on or before June 30, 1966 and \$8.00 after June 30, 1966.

The terms of the indenture restrict the payment of cash dividends and the purchase or redemption of common stock by the Company to the sum of \$100,000 plus 66⅔% of the earnings of the Company accumulated subsequent to December 31, 1960. (See Note 1 for restrictions on payment of dividends imposed by bank loan agreements.)

### NOTE 3—Investment tax credit:

Under the provisions of the Revenue Act of 1964, the investment tax credit no longer reduces the depreciable base of qualified property additions. As a consequence, the provision for federal income taxes for 1964 and the income taxes applicable to the special credit relating to the aircraft destroyed have been credited with \$153,586 and \$61,495, respectively, the sum of

which is the amount of allowable investment tax credits on acquisitions during the year and the immaterial amount of such unamortized credits of prior years. As a result, net income for 1964 and the special credit were approximately \$137,000 and \$61,000 greater, respectively, than they would have been had the previous method of accounting for investment tax credits been continued.

As of December 31, 1964 the Company had unused investment tax credit to carry forward of \$86,000.

### NOTE 4—Paid-in surplus:

Balance, December 31, 1963 . . . . .	\$ 886,332
Excess of conversion price over par value of 84,523 shares of common stock issued upon conversion of 6½% debentures (after deducting unamortized debenture expense) . . . . .	330,797
Excess of amount received over par value of 40,000 shares of common stock issued upon exercise of warrants (after deducting expenses of issuance) . . . . .	179,594
Balance, December 31, 1964 . . . . .	<u>\$1,396,723</u>

### NOTE 5—Pension plans:

The Company has several pension plans for pilots and other employees, all of which are contributory except for the fixed benefit plan for pilots. During 1964 earnings were charged with \$218,736 representing the Company's share of current and past service pension costs. As of December 31, 1964 unfunded past service costs under the plans amounted to \$500,000 and will be funded over future years at a rate which will accumulate sufficient funds to meet pension obligations to employees as they retire.

### NOTE 6—Commitments and contingent liabilities:

On December 31, 1964 the Company had long-term leases on land, terminal facilities and radio equipment with aggregate rental commitments of \$1,389,000 payable as follows: 1965—\$123,000; 1966—\$122,000; 1967—\$118,000; 1968 through 1977—\$615,000; and 1978 through 1990—\$411,000. In addition to the foregoing, the Company was occupying certain terminal facilities while negotiating a lease for a term of 30 years from April 1962 at a minimum annual fixed rental of approximately \$30,000.

On May 7, 1964 one of the Company's Fairchild F-27 turbo-prop aircraft was lost in an air crash. In the opinion of Company officials, any liability that may result from claims for passenger fatality as a result of the crash should be adequately covered by insurance.



PRICE WATERHOUSE & CO.  
120 MONTGOMERY STREET  
SAN FRANCISCO 94104

March 12, 1965

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

In our opinion, the accompanying balance sheet and related statement of earnings present fairly the financial position of Pacific Air Lines, Inc. at December 31, 1964 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 accounting for the investment tax credit as described in Note 3. 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.*

**The Annual Meeting** of shareholders will be held at the Mountain Shadows Hotel, Scottsdale, Arizona, on June 7, 1965, at 10:00 a.m.

**Stock Transfer Agents**

Crocker-Citizens National Bank  
1 Montgomery Street,  
San Francisco, California  
Bankers Trust Company  
New York 17, New York

**Stock Registrars**

Bank of America  
300 Montgomery Street,  
San Francisco, California  
The Chase Manhattan Bank  
New York 15, New York

**Debenture Trustee**

Bank of America  
300 Montgomery Street,  
San Francisco, California

**Debenture Paying Agents**

Bank of America  
300 Montgomery Street,  
San Francisco, California  
Bankers Trust Company  
New York 17, New York





*The magnificent, new Pavilion of the Music Center in Los Angeles, seating 3,250, is designed to accommodate opera, symphony and theatre.*



